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As confidentially submitted to the Securities and Exchange Commission on May 21, 2013

Registration Statement No. 333-

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1 to
Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Applied Optoelectronics, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	3674	76-0533927
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

**13115 Jess Pirtle Blvd.
Sugar Land, TX 77478
(281) 295-1800**

(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

**Chih-Hsiang (Thompson) Lin
President and Chief Executive Officer
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Sugar Land, TX 77478
(281) 295-1800**

(Name, Address Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

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**Approximate date of commencement of proposed
sale to the public:**

**As soon as practicable after this Registration
Statement becomes effective.**

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o

Accelerated filer o

Non-accelerated filer
(Do not check if a
smaller reporting company)

Smaller reporting company o

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and we are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, Dated May 21, 2013

PRELIMINARY PROSPECTUS

shares



Common stock

This is our initial public offering of common stock. We are offering _____ shares and the selling stockholders identified in this prospectus are offering _____ shares. We will not receive any of the proceeds from the sale of the shares being sold by the selling stockholders. Prior to this offering, no public market has existed for our common stock. We currently estimate that the initial public offering price will be between \$ _____ and \$ _____ per share. We will apply to list our common stock on the NASDAQ Global Market under the symbol "AAOI."

Investing in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 13.

	Per share	Total
Initial public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds to us, before expenses	\$	\$
Proceeds to selling stockholders, before expenses	\$	\$

We and the selling stockholders have granted the underwriters an option for a period of 30 days to purchase up to _____ additional shares of common stock to cover over-allotments.

We are an "emerging growth company" as defined under the federal securities laws and, as such, have elected to comply with certain reduced public company reporting requirements.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to purchasers on or about _____, 2013.

RAYMOND JAMES

PIPER JAFFRAY

COWEN AND COMPANY

ROTH CAPITAL PARTNERS

The date of this prospectus is _____, 2013

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You should rely only on the information contained in this prospectus and any free writing prospectus prepared by or on behalf of us in connection with this offering. We have not, the selling stockholders have not and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, the selling stockholders are not and the underwriters are not, making an offer to sell these securities in any jurisdiction where an offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus only. Our business, financial condition, results of operations and prospects may have changed since that date.

Until _____, 2013 (25 days after the commencement of this offering), all dealers that buy, sell or trade shares of our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This delivery requirement is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

No action is being taken in any jurisdiction outside the United States of America, or U.S., to permit a public offering of the common stock or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in jurisdictions

outside the U.S. are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus applicable to that jurisdiction.

"Applied Optoelectronics, Inc.," "AOI" and our logo are registered trademarks of Applied Optoelectronics, Inc. This prospectus contains additional trade names, trademarks and service marks of ours and of other companies.

Unless the context otherwise requires, we use the terms "AOI," "we," "us" and "our" in this prospectus to refer to Applied Optoelectronics, Inc. and its subsidiaries.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus and does not contain all of the information that you should consider in making your investment decision. Before investing in our common stock, you should carefully read this entire prospectus, including our consolidated financial statements and the related notes thereto and the information set forth under the sections "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," in each case appearing elsewhere in this prospectus.

Overview

We are a leading, vertically integrated provider of fiber-optic networking solutions, primarily for three networking end-markets: cable television, or CATV, fiber-to-the-home, or FTTH, and internet data centers. We design and manufacture a range of optical communications solutions at varying levels of integration, from components, subassemblies and modules to complete turn-key equipment. We are primarily focused on the higher-performance segments within all three of our target markets, which increasingly demand faster connectivity and innovation. Based upon data prepared by research firm Ovum, Inc., or Ovum, we estimate these markets represented an annual revenue opportunity of \$2.2 billion in 2012.

The three end markets we target are all driven by significant bandwidth demand fueled by the growth of network-connected devices, video traffic, cloud computing and online social networking. According to Cisco Systems' 2012 Visual Networking Index, global network traffic is expected to grow at a compound annual growth rate, or CAGR, of 29% from 2011 to 2016. To address this increased bandwidth demand, CATV and telecommunications service providers are competing directly against each other by providing bundles of voice, video and data services to their subscribers and investing to enhance the capacity, reliability and capability of their networks. The trend of rising bandwidth consumption also impacts the internet data center market, as reflected in the shift to higher speed server connections. According to a 2012 forecast by Crehan Research, 10 gigabit ethernet port shipments were 13.5 million in 2012 and are projected to grow to 42.9 million in 2015, representing a 46.9% CAGR. As a result of these trends, fiber-optic networking technology is becoming essential in all three of our target markets, as it is often the only economic way to deliver the desired bandwidth.

The CATV market is our largest and most established market, for which we supply a broad array of products including lasers, transmitters and turn-key equipment. In 2012, we were the leading provider of optical components and the second largest provider of subsystems to the CATV industry, according to Ovum. Sales of headend, node and distribution equipment have contributed significantly to our growth in recent years as a result of our ability to meet the needs of CATV equipment vendors who have begun to outsource both the design and manufacture of this equipment. While equipment vendors have relied upon third parties to assemble portions of their products, within the past four years certain of our customers have accelerated the outsourcing of both the design and manufacturing of both head-end equipment and node equipment to third parties. The shift is due in part to the sophisticated engineering expertise needed to perform this work. We believe that our extensive high-speed optical, mixed-signal semiconductor and mechanical engineering capabilities position us well to benefit from these industry dynamics.

Our vertically integrated manufacturing model provides us several advantages, including rapid product development, fast response times to customer requests and control over product quality and manufacturing costs. We design, manufacture and integrate our own analog and

digital lasers using a proprietary Molecular Beam Epitaxy, or MBE, fabrication process, which we believe is unique in our industry. The lasers we manufacture are proven to be extremely reliable over time and highly tolerant of changes in temperature and humidity, making them exceptionally well-suited to the CATV and FTTH markets where networking equipment is often installed outdoors.

In 2012, our products were used by the five largest CATV original equipment manufacturers, or OEMs, consisting of Arris Group Inc., Aurora Networks, Inc., Cisco Systems, Inc., Harmonic Inc. and Motorola Mobility Holdings, Inc. Our other key customers included Genexis B.V. in the FTTH market and Microsoft Corporation in the internet data center market. In 2010, 2011 and 2012, Cisco Systems accounted for 18.9%, 26.8% and 33.2%, respectively, of our revenue and Biogenomics Corp., a distributor, accounted for 13.8%, 11.7% and 11.2%, respectively, of our revenue. Our revenue in 2012 was \$63.4 million, our gross margin was 29.8%. We have grown our revenue at a CAGR of 36.4% since 2009. In the years ended December 31, 2010, 2011 and 2012, and in the three-month periods ended March 31, 2012 and 2013, we incurred losses of \$3.4 million, \$5.3 million, \$0.9 million, \$0.5 million and \$0.9 million, respectively, and our accumulated deficit at December 31, 2012 and March 31, 2013 was \$81.9 million and \$82.9 million, respectively.

Industry Background

Our three target markets of CATV, FTTH and internet data centers share a common trend of a significant growth in bandwidth consumption, and the corresponding need for network infrastructure improvement to support it.

The prevailing themes in our target markets include:

- **Trends in the CATV Market.** In recent years, CATV service providers have invested extensively to support high speed, two-way communications, and we expect that they will continue to do so, particularly in countries with less developed CATV networks. According to Infonetics, CATV service providers spent approximately \$41 billion from 2008 through 2012 on upgrades and extensions to their networking infrastructure, including \$25 billion spent in North America. In China, nearly half of the 90 million cable television subscribers are served by relatively low capacity, one-way cable networks today. According to Infonetics, China has implemented a \$30 billion government stimulus program to support the construction of critical networking infrastructure and promote the delivery of enhanced voice, video and data services between 2009 and 2015.

Consolidation among CATV equipment companies has continued in recent years, putting pressure on the largest companies to streamline their operations, improve profitability and focus their resources. In response, many of these CATV equipment companies have begun to outsource not only the manufacturing of equipment, but more important to us, they have begun to outsource the system design function as well. This decision by a major CATV equipment company to outsource design and manufacturing to a third party is made carefully, and once an outsourced design partner is selected CATV equipment companies are typically very reluctant to change vendors.

- **Trends in the FTTH Market.** The FTTH market generally refers to the Passive Optical Networks, or PONs, that telecommunications service providers are deploying. The most commonly deployed PON technology is Gigabit PON, or GPON, which delivers up to 2.5 gigabits per second of data, but due to the splitting of the bandwidth among multiple

users, the actual bandwidth delivered to an individual subscriber is far less than 2.5 gigabits per second. One approach that does support true 1 gigabit per second service to the home is wavelength division multiplexing PON, or WDM-PON, a technology that enables the transmission of multiple wavelengths of data over a single fiber-optic strand.

- **Trends in the Internet Data Center Market.** To support the substantial increase in bandwidth consumption, internet data center operators are increasing the scale of their internet data centers and accelerating data transmission rates. As a result, there is an ongoing transition from the use of copper cable to optical fiber as a transport medium. In recent years, a number of leading Internet companies such as Amazon.com Inc., Facebook, Inc. Google, Inc. and Microsoft Corporation have begun to adopt more open internet data center architectures, using a mix of systems and components from a variety of vendors, and in some cases designing their own equipment. For these companies, compatibility of new networking equipment with legacy infrastructure is not as important, and as a consequence, these companies are more willing to work with non-traditional equipment vendors, which creates an open and growing opportunity for optical device vendors.

We experience certain challenges within our target markets, including continuous pressure to innovate and deliver highly integrated solutions that perform reliably in harsh, demanding environments and to produce high-quality devices in large volumes.

Our Solutions

By addressing the challenges in our target markets, we provide the following benefits to our customers:

- **Enable customers to deliver innovative products.** We leverage our deep expertise in high-speed optical, mixed-signal semiconductor and mechanical engineering and our proprietary MBE laser fabrication process to deliver technologically advanced solutions to our customers.
- **Enhance efficiency and cost effectiveness of our customers' supply chain.** We design and sell products at the level of integration desired by a customer, from components to turn-key equipment, providing our customers a dependable, cost-effective and simplified supply chain.
- **Deliver high quality, reliable products in high volume.** As a vertically integrated supplier, we are able to monitor and maintain quality control throughout the production process, using our internally produced components where possible for our final products. With manufacturing facilities in the U.S., Taiwan and China, we can support high volume production and timely delivery for our customers around the world.
- **Provide sophisticated design solutions to our customers.** We believe our in-house expertise in both analog and digital optical engineering enables us to design comprehensive solutions that meet many of the different network architectures and protocols used by our customers.

Our Strengths

Our key competitive strengths include the following:

- **Industry-leading position in the CATV market.** We are the leading provider of optical components and the second largest provider of subsystems to the CATV market, according to Ovum.
- **Proprietary technological expertise and track record of innovation.** We continue to develop innovative solutions by leveraging our technological expertise, including our proprietary MBE laser fabrication process. We have achieved 38 design wins since 2010, which collectively account for a significant portion of our revenue today.
- **Highly customized products.** Most of our products have some level of customization, making it more difficult for our customers to switch rapidly to another supplier. We believe this element of customization contributes to longer product lifecycles and more stable product pricing.
- **Proven system design capabilities.** We have deep expertise and proven design capabilities in high-speed optical, mixed-signal semiconductor and mechanical engineering, which we believe position us to take advantage of the continuing shift to outsourced design and manufacturing among CATV equipment vendors.
- **Vertically integrated, geographically distributed manufacturing model.** Our vertically integrated design and manufacturing process encompasses various steps from laser design and fabrication to complete optical system design and assembly. Furthermore, we have geographically distributed our manufacturing by strategically locating our operations in the U.S., China and Taiwan to reduce development time and production costs, to better support our customers and to help protect our intellectual property.

Our Strategy

We seek to be the leading global provider of optical components, modules and equipment for each of our three target markets, CATV, FTTH and internet data centers. Our strategy includes the following key elements:

- **Extend our leadership in CATV networking.** We intend to maintain our position as the leading producer of optical components used in CATV networks, and to capture an increasing share of the CATV equipment market as the major equipment vendors continue to outsource the design and manufacturing of such products.
- **Continue to penetrate FTTH and internet data center markets.** We believe our WDM-PON technology is a cost-effective solution for delivering substantially greater bandwidth to a residence. In the internet data center, we target internet data center operators who have adopted an open system architecture—one in which the optical connectivity solutions can be provided by a different vendor than the vendor which provides their servers and switches.
- **Continue to invest in our capabilities and infrastructure.** We intend to continue to invest in new products, new technology and our production infrastructure and facilities to maintain and strengthen our competitive position.

- **Selectively pursue other opportunities that leverage our existing expertise.** Our expertise in designing and manufacturing outdoor equipment for the CATV industry positions us well to pursue applications that are also characterized by having varying and demanding environments, including wireless and wireline telecom infrastructure, industrial robotics, aerospace and defense, and oil and gas exploration.
- **Pursue complementary acquisition and strategic alliance opportunities.** We evaluate and selectively pursue acquisition opportunities or strategic alliances that we believe will enhance or complement our current product offerings, augment our technology roadmap, or diversify our revenue base.

Risk Factors

Our business is subject to numerous risks and uncertainties, such as those highlighted in the "Risk Factors" section immediately following this prospectus summary, including:

- We are dependent on our key customers for a significant portion of our revenue and the loss of, or a significant reduction in orders from, any of our key customers would adversely impact our revenue and results of operations;
- If our customers do not qualify our products for use on a timely basis, our results of operations may suffer;
- Customer demand is difficult to forecast accurately and, as a result, we may be unable to match production with customer demand;
- We are subject to the cyclical nature of the markets in which we compete and any future downturn will likely reduce demand for our products and revenue;
- If the CATV, FTTH and internet data center markets do not continue to develop as we expect, or if there is any downturn in these markets, our business would be materially adversely affected;
- If we encounter manufacturing problems, we may lose sales and damage our customer relationships;
- We must continually develop successful new products and enhance existing products, and if we fail to do so or if our release of new or enhanced products is delayed, our business may be harmed;
- Given the high fixed costs associated with our vertically integrated business, a reduction in demand for our products could materially adversely impact our gross profits and our results of operations;
- We face intense competition which could negatively impact our results of operations and market share; and
- We have substantial manufacturing assets in China, and in 2012 we derived approximately 29% of our revenue from sales in China.

Corporate Information

We were incorporated in the State of Texas in 1997. In March 2013, Applied Optoelectronics, Inc., a Texas corporation, converted into a Delaware corporation. Our principal executive offices are located at 13115 Jess Pirtle Blvd., Sugar Land, TX 77478, and our telephone number is (281) 295-1800. Our website address is www.ao-inc.com. Information contained on our website is not incorporated by reference into this prospectus, and you should not consider information contained on our website as part of this prospectus or in deciding whether to purchase shares of our common stock.

We have registered the trademarks APPLIED OPTOELECTRONICS, INC., AOI and its respective logo with the U.S. Patent and Trademark Office. These marks are also registered in, or have applications for registration pending in, various foreign trademark offices. Other trademarks and trade names appearing in this prospectus are the property of their respective owners.

THE OFFERING

Common stock offered by us	shares
Common stock offered by selling stockholders	shares
Over-allotment option	shares
Total common stock to be outstanding after this offering	shares

Use of proceeds

We estimate that the net proceeds of the sale of our common stock in this offering will be approximately \$ million, based on an assumed initial public offering price of \$ per share, which is the midpoint of the range listed on the cover page of this prospectus. Our management will have broad discretion in the application of our net proceeds from this offering, and investors will be relying on management's judgment regarding the application of these net proceeds. We may also use a portion of our net proceeds to repay outstanding indebtedness, which currently has interest rates ranging from 4.15% to 7.54% per annum and maturity dates ranging from May 2013 to November 2014, but we currently have no commitments or specific plans to repay any particular indebtedness in advance of its maturity date. We intend to use the remaining net proceeds from this offering for working capital and other general corporate purposes. See "Use of Proceeds." We will not receive any of the proceeds from the sale of shares of common stock offered by the selling stockholders.

Proposed symbol on the NASDAQ Global Market AAOI

The number of shares of our common stock to be outstanding after this offering is based on 268,920,162 shares of our common stock outstanding as of March 31, 2013, assuming conversion of all outstanding shares of preferred stock into common stock. This number of shares does not include:

- 22,219,328 shares of common stock subject to outstanding options as of March 31, 2013, with a weighted average exercise price of \$0.2213 per share;
- 300,000 shares of common stock issuable upon the exercise of outstanding warrants, with a weighted average exercise price of \$0.20 per share;

- 1,730,000 shares of Series F preferred stock issuable upon the exercise of outstanding warrants, with a weighted average exercise price of \$0.21387 per share;
- 382,442 shares of Series G preferred stock issuable upon the exercise of outstanding warrants, with a weighted average exercise price of \$0.469261 per share; and
- 24,000,000 shares of common stock available for future sale or issuance under our stock option plans.

Unless otherwise indicated, this prospectus reflects and assumes the following:

- the automatic conversion of all of our outstanding shares of preferred stock into 260,800,071 shares of our common stock upon the closing of this offering;
- the filing of our amended and restated certificate of incorporation and the adoption of our amended and restated bylaws immediately prior to the closing of this offering; and
- no exercise of the underwriters' over-allotment option.

SUMMARY CONSOLIDATED FINANCIAL DATA

The following tables summarize the consolidated financial and operating data for the periods indicated. This summary consolidated financial data should be read together with our consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this prospectus. The consolidated statements of operations data for the years ended December 31, 2010, 2011 and 2012 are derived from our consolidated financial statements appearing elsewhere in this prospectus. The consolidated statements of operations data for the three months ended March 31, 2012 and 2013 and the consolidated balance sheet data as of March 31, 2013 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus. Our historical results are not necessarily indicative of our future results. You should read the summary financial data presented below in conjunction with our consolidated financial statements and related notes and the sections of this prospectus titled "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Years ended December 31,			Three months ended March 31,	
	2010	2011	2012	2012	2013
	(unaudited)				
	(in thousands, except percentages, share and per share data)				
Consolidated statements of operations data:					
Revenue	\$ 40,489	\$ 47,840	\$ 63,421	\$ 12,506	\$ 14,317
Cost of goods sold (1)	27,539	34,468	44,492	8,393	9,732
Gross profit	\$ 12,950	\$ 13,372	\$ 18,929	\$ 4,113	\$ 4,585
Gross margin	32.0%	28.0%	29.8%	32.9%	32.0%
Operating expenses:					
Research and development (1)	5,176	6,451	7,603	1,575	2,004
Sales and marketing (1)	1,993	2,412	3,135	809	907
General and administrative (1)	8,383	8,243	8,012	1,965	2,374
Asset impairment charges	492	—	—	—	—
Total operating expenses	\$ 16,043	\$ 17,106	\$ 18,750	\$ 4,349	\$ 5,285
Income (loss) from operations	(3,093)	(3,734)	179	(236)	(700)
Interest and other income (expense), net	(287)	(1,594)	(1,124)	(287)	(294)
Income (loss) before income taxes	\$ (3,380)	\$ (5,328)	\$ (945)	\$ (523)	\$ (994)
Benefit from (provision for) income taxes	—	—	—	—	—
Net income (loss)	\$ (3,380)	\$ (5,328)	\$ (945)	\$ (523)	\$ (994)
Net income (loss) attributable to common stockholders	\$ (3,380)	\$ (5,328)	\$ (945)	\$ (523)	\$ (994)
Net income (loss) per share attributable to common stockholders:					
Basic and diluted	\$ (0.44)	\$ (0.67)	\$ (0.12)	\$ (0.07)	\$ (0.12)
Weighted average shares used to compute net income (loss) per share attributable to common stockholders:					
Basic and diluted	7,767,035	7,909,736	7,967,272	7,955,050	7,988,523
Pro forma net income (loss) per share attributable to common stockholders (2):					
Basic and diluted			\$ (0.00)		\$ (0.00)
Weighted average shares used to compute pro forma net income (loss) per share attributable to common stockholders (2):					
Basic and diluted			251,406,466		268,957,053

	Years ended December 31,			Three months ended March 31,	
	2010	2011	2012	2012	2013
	(in thousands, except percentages, share and per share data)				
Additional Financial Data:					
Non-GAAP gross profit (3)	\$ 13,011	\$ 13,405	\$ 18,936	\$ 4,115	\$ 4,597
Non-GAAP income (loss) from operations (3)	(1,922)	(3,000)	441	(203)	(555)
Non-GAAP net income (loss) (3)	(1,780)	(5,027)	(503)	(443)	(686)
Adjusted EBITDA (3)	2,881	(638)	3,734	656	321

- (1) These expenses include stock-based compensation expense. Stock-based compensation expense is accounted for at fair value, using the Black-Scholes option-pricing model. Stock-based compensation expense is recognized over the vesting period of the stock options and was included in cost of goods sold and operating expenses as follows:

	Years ended December 31,			Three months ended March 31,	
	2010	2011	2012	2012	2013
	(in thousands)				
Cost of goods sold	\$ 61	\$ 35	\$ 7	\$ 2	\$ 12
Research and development	60	50	8	2	11
Sales and marketing	80	58	9	2	10
General and administrative	579	420	137	12	78
Total stock-based compensation expense	\$ 780	\$ 563	\$ 161	18	111

- (2) The pro forma basic and diluted net loss per share attributable to our common stockholders calculations assume the conversion of all outstanding shares of preferred stock into shares of common stock using the as-if-converted method as though the conversion had occurred at the beginning of the period presented and the resulting reclassification of the preferred stock warrant liability to additional paid-in capital.
- (3) We prepare Adjusted EBITDA and our other non-GAAP measures to eliminate the impact of items that we do not consider indicative of our overall operating performance. To arrive at our non-GAAP gross profit, we exclude stock-based compensation expense from our GAAP gross profit. To arrive at our non-GAAP income (loss) from operations, we exclude all amortization of intangible assets, stock-based compensation expense and non-recurring consulting fees, if any, from our GAAP net income (loss) from operations. To arrive at Adjusted EBITDA, we exclude these same items and, additionally, exclude asset impairment charges, loss (gain) from disposal of idle assets, unrealized exchange loss (gain), interest (income) expense, on a net basis, provision for (benefit from) income taxes and depreciation expense, from our GAAP net income (loss).

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 stock-based compensation expense, depreciation and amortization, income tax expense and other income, net, is appropriate because treatment of these items may vary for reasons unrelated to our overall operating performance;
- We use non-GAAP measures in conjunction with our GAAP financial measures for planning purposes, including the preparation of our annual operating budget, as a measure of operating performance and the effectiveness of our business strategies and in communications with our board of directors concerning our financial performance;
- We believe that non-GAAP measures provide better comparability with our past financial performance, facilitates better period-to-period comparisons of operational results and also facilitates comparisons with our peer companies, many of which also use similar non-GAAP financial measures to supplement their GAAP reporting; and
- We anticipate that, after consummating this offering, our investor presentations and those of securities analyst will include non-GAAP measures to evaluate our overall operating performance.

Adjusted EBITDA and other non-GAAP measures should not be considered as an alternative to gross profit, income (loss) from operations, net income (loss) or any other measure of financial performance calculated and presented in accordance with GAAP. Our Adjusted EBITDA and other non-GAAP measures may not be comparable to similarly titled measures of other organizations because other organizations may not calculate Adjusted EBITDA or such other non-GAAP measures in the same manner. You are encouraged to evaluate these adjustments and the reason we consider them appropriate.

The following table reflects the reconciliation of U.S. GAAP financial measures to non-GAAP financial measures:

	Years ended December 31,			Three months ended March 31,	
	2010	2011	2012	2012	2013
	(in thousands)				
Gross profit	\$ 12,950	\$ 13,372	\$ 18,929	\$ 4,113	\$ 4,585
Non-GAAP adjustment:					
Stock-based compensation expense	61	35	7	2	12
Non-GAAP gross profit	<u>\$ 13,011</u>	<u>\$ 13,405</u>	<u>\$ 18,936</u>	<u>\$ 4,115</u>	<u>\$ 4,597</u>
Income (loss) from operations	\$ (3,093)	\$ (3,734)	\$ 179	\$ (236)	\$ (700)
Non-GAAP adjustments:					
Amortization of intangible assets	41	46	60	15	17
Stock-based compensation expense	780	563	161	18	111
Non-recurring consultant fee	350	125	41	—	17
Non-GAAP income (loss) from operations	<u>\$ (1,922)</u>	<u>\$ (3,000)</u>	<u>\$ 441</u>	<u>\$ (203)</u>	<u>\$ (555)</u>
Net income (loss)	\$ (3,380)	\$ (5,328)	\$ (945)	\$ (523)	\$ (994)
Non-GAAP adjustments:					
Amortization of intangible assets	41	46	60	15	17
Stock-based compensation expense	780	563	161	18	111
Non-recurring consultant fee	350	125	41	—	17
Loss (gain) from disposal of idle assets	23	(80)	(37)	(36)	—
Unrealized exchange loss (gain)	406	(352)	217	83	163
Non-GAAP net income (loss)	<u>\$ (1,780)</u>	<u>\$ (5,027)</u>	<u>\$ (503)</u>	<u>\$ (443)</u>	<u>\$ (686)</u>
Net income (loss)	\$ (3,380)	\$ (5,328)	\$ (945)	\$ (523)	\$ (994)
Non-GAAP adjustments:					
Amortization of intangible assets	41	46	60	15	17
Stock-based compensation expense	780	563	161	18	111
Asset impairment charges	492	—	—	—	—
Depreciation expense	3,299	3,066	2,882	725	721
Non-recurring consultant fee	350	125	41	—	17
Loss (gain) from disposal of idle assets	23	(80)	(37)	(36)	—
Unrealized exchange loss (gain)	406	(352)	217	83	163
Interest (income) expense, net	872	1,323	1,355	374	286
Provision for (benefit from) income taxes	—	—	—	—	—
Adjusted EBITDA	<u>\$ 2,881</u>	<u>\$ (638)</u>	<u>\$ 3,734</u>	<u>\$ 656</u>	<u>\$ 321</u>

	March 31, 2013		
	Actual	Pro forma (4)	Pro forma as adjusted (5)
(in thousands)			
Consolidated Balance Sheet Data:			
Total cash (1)	\$ 9,343	\$	\$
Working capital (2)	13,270		
Total assets	61,057		
Total debt (3)	22,064		
Redeemable convertible preferred stock and convertible preferred stock	105,481		
Common stock and additional paid-in capital	5,672		
Total stockholders' equity (deficit)	(82,911)		

(1) Total cash is defined as cash, cash equivalents and restricted cash.

(2) Working capital is defined as total current assets less total current liabilities.

(3) Total debt is defined as short-term loans, notes payable and total long-term debt.

(4) On a pro forma basis to give effect to the automatic conversion of all of our outstanding shares of preferred stock into 260,800,071 shares of common stock using the as-if-converted method as though the conversion had occurred at the beginning of the period presented and the resulting reclassification of the preferred stock warrant liability to additional paid-in capital.

(5) On a pro forma as adjusted basis to reflect the pro forma adjustments described in note 4 above and the sale by us of _____ shares of common stock in this offering, at an assumed initial public offering price of \$ _____ per share, the midpoint of the price range on the front cover of this prospectus, after deducting underwriting discounts and commissions and estimated offering expenses.

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following risk factors and all other information contained in this prospectus before purchasing our common stock. If any of the following risks actually occur, we may be unable to conduct our business as currently planned and our financial condition and results of operations could be seriously harmed. In addition, the trading price of our common stock could decline due to the occurrence of any of these risks, and you may lose all or part of your investment.

Risks Inherent in Our Business

We are dependent on our key customers for a significant portion of our revenue and the loss of, or a significant reduction in orders from, any of our key customers would adversely impact our revenue and results of operations.

We generate much of our revenue from a limited number of customers. In 2010, 2011 and 2012, our top ten customers represented 80.5%, 76.6% and 77.7% of our revenue, respectively. In 2012, Cisco Systems, Inc. represented 33.2% of our revenue and Biogenomics Corp., a distributor, represented 11.2% of our total revenue. As a result, the loss of, or a significant reduction in orders from any of our key customers would materially and adversely affect our revenue and results of operations. We typically do not have long-term contracts with our customers and instead rely on recurring purchase orders. If our key customers do not continue to purchase our existing products or fail to purchase additional products from us, our revenue would decline and our results of operations would be adversely affected.

Adverse events affecting our key customers could also negatively affect our ability to retain their business and obtain new purchase orders, which could adversely affect our revenue and results of operations. For example, in recent years, there has been consolidation among various network equipment manufacturers and this trend is expected to continue. We are unable to predict the impact that industry consolidation would have on our existing or potential customers. For instance, upon the closing of Arris Group Inc.'s acquisition of Motorola Mobility Holdings, Inc., which is expected to occur in the middle of this year, changes in strategy or management may affect purchasing decisions and other strategic objectives involving our products that were pursued prior to that acquisition. We may not be able to offset any potential decline in revenue arising from the consolidation of our existing customers with revenue from new customers or additional revenue from the merged company.

If our customers do not qualify our products for use on a timely basis, our results of operations may suffer.

Prior to the sale of new products, our customers typically require us to obtain their approval and qualify our products for use in their applications. Additionally, new customers often audit our manufacturing facilities and perform other evaluations during this process. The qualification process involves product sampling and reliability testing and collaboration with our product management and engineering teams in the design and manufacturing stages. If we are unable to accurately predict the amount of time required to qualify our products with customers, or are unable to qualify our products with certain customers at all, then our ability to generate revenue could be delayed or our revenue would be lower than expected and we may not be able to recover the costs associated with the qualification process or with our product development efforts, which would have an adverse effect on our results of operations.

In addition, due to rapid technological changes in our markets, a customer may cancel or modify a design project before we have qualified our product or begun volume manufacturing of a qualified product. It is unlikely that we would be able to recover the expenses for cancelled or unutilized custom design projects. It is difficult to predict with any certainty whether our customers will delay or terminate product qualification or the frequency with which customers will cancel or modify their projects, but any such delay, cancellation or modification would have a negative effect on our results of operations.

Our ability to successfully qualify and scale capacity for new technologies and products is important to our ability to grow our business and market presence. If we are unable to qualify and sell any of our new products in volume, on time, or at all, our results of operations may be adversely affected.

Customer demand is difficult to forecast accurately and, as a result, we may be unable to match production with customer demand.

We make planning and spending decisions, including determining the levels of business that we will seek and accept, production schedules, component procurement commitments, personnel needs and other resource requirements, based on our estimates of product demand and customer requirements. Our products are typically purchased pursuant to individual purchase orders. While our customers may provide us with their demand forecasts, they are typically not contractually committed to buy any quantity of products beyond firm purchase orders. Furthermore, many of our customers may increase, decrease, cancel or delay purchase orders already in place without significant penalty. The short-term nature of commitments by our customers and the possibility of unexpected changes in demand for their products reduce our ability to accurately estimate future customer requirements. On occasion, customers may require rapid increases in production, which can strain our resources, cause our manufacturing to be negatively impacted by materials shortages, necessitate more onerous procurement commitments and reduce our gross margin. We may not have sufficient capacity at any given time to meet the volume demands of our customers, or one or more of our suppliers may not have sufficient capacity at any given time to meet our volume demands. If any of our major customers decrease, stop or delay purchasing our products for any reason, we will likely have excess manufacturing capacity or inventory and our business and results of operations would be harmed.

We are subject to the cyclical nature of the markets in which we compete and any future downturn will likely reduce demand for our products and revenue.

In each of our target markets, including the CATV market, our sales depend on the aggregate capital expenditures of service providers as they build out and upgrade their network infrastructure. These markets are highly cyclical and characterized by constant and rapid technological change, price erosion, evolving standards and wide fluctuations in product supply and demand. In the past, these markets have experienced significant downturns, often connected with, or in anticipation of, the maturation of product cycles. These downturns have been characterized by diminished product demand, production overcapacity, high inventory levels and accelerated erosion of average selling prices. Our historical results of operations have been subject to these cyclical fluctuations, and we may experience substantial period-to-period fluctuations in our future results of operations. Any future downturn in any of the markets in which we compete could significantly reduce the demand for our products and therefore may result in a significant reduction in our revenue. Our revenue and results of operations may be materially and adversely affected in the future due to changes in demand from individual customers or cyclical changes in any of the markets utilizing our products. We may not be able

to accurately predict these cyclical fluctuations and the impact of these fluctuations may have on our revenue and operating results.

If the CATV market does not continue to develop as we expect, or if there is any downturn in this market, our business would be adversely affected.

Historically, we have generated much of our revenue from the CATV market. In 2010, 2011 and 2012, the CATV market represented 73.3%, 78.3% and 78.6% of our revenue, respectively. In the CATV market, we are relying on expected increasing demand for bandwidth-intensive services and applications such as on-demand television programs, high-definition television channels, or HDTV, social media, peer-to-peer file sharing and online video creation and viewing from network service providers. Without network and bandwidth growth, the need for our products will not increase and may decline, adversely affecting our financial condition and results of operations. Although demand for broadband access is increasing, network and bandwidth growth may be limited by several factors, including an uncertain regulatory environment, high infrastructure costs to purchase and install equipment and uncertainty as to which competing content delivery solution, such as telecommunications, wireless or satellite, will gain the most widespread acceptance. If the trend of outsourcing for the design and manufacture of CATV equipment does not continue, or continues at a slower pace than currently expected, our customers' demand for our design and manufacturing services may not grow as quickly as expected. If expectations for the growth of the CATV market are not realized, our financial condition or results of operations will be adversely affected. In addition, if the CATV market is adversely impacted, whether due to competitive pressure from telecommunication service providers, regulatory changes, or otherwise, our business would be adversely affected. We may not be able to offset any potential decline in revenue from the CATV market with revenue from new customers in other markets.

We have limited operating history in the FTTH and internet data center markets, and our business could be harmed if these markets do not develop as we expect.

We have only recently begun offering products to the FTTH and internet data center markets. Our business in these markets is dependent on the deployment of our optical components, modules and subassemblies. In the FTTH market, we are relying on increasing demand for bandwidth-intensive services and telecommunications service providers' acceptance and deployment of WDM-PON as a technology supporting 1 gigabit per second service to the home. In the internet data center market, we are relying on the emergence of new internet data center providers and their adoption of open internet data center architectures that use a mix of systems and components from a variety of vendors, including non-traditional equipment vendors. Without network and bandwidth growth and adoption of our solutions by operators in these markets, we will not be able to sell our products in these markets in high volume or at our targeted margins, which would adversely affect our financial condition and results of operations. For example, WDM-PON technology may not be adopted by equipment and service providers in the FTTH market as rapidly as we expect or in the volumes we need to achieve acceptable margins, and internet data centers may elect to use larger vendors that require internet data center operators to purchase the optical modules for their systems from such larger vendors. Network and bandwidth growth may be limited by several factors, including an uncertain regulatory environment, high infrastructure costs to purchase and install equipment and uncertainty as to which competing content delivery solution, such as CATV, will gain the most widespread acceptance. In addition, as we enter new markets or expand our product offerings in existing markets, our margins may be adversely affected due to competition in those markets and commoditization of competing products. If our expectations for the growth of these markets are not realized, our financial condition or results of operations will be adversely affected.

If we encounter manufacturing problems, we may lose sales and damage our customer relationships.

We may experience delays, disruptions or quality control problems in our manufacturing operations. These and other factors may cause less than acceptable yields at our wafer fabrication facility. Manufacturing yields depend on a number of factors, including the quality of available raw materials, the degradation or change in equipment calibration and the rate and timing of the introduction of new products. Changes in manufacturing processes required as a result of changes in product specifications, changing customer needs and the introduction of new product lines may significantly reduce our manufacturing yields, resulting in low or negative margins on those products. In addition, we use an MBE fabrication process to make our lasers, rather than Metal Organic Chemical Vapor Deposition, or MOCVD, the technique most commonly used in optical manufacturing by communications optics vendors, and our MBE fabrication process relies on custom-manufactured equipment. If our MBE fabrication facility in Sugar Land, Texas were to be damaged or destroyed for any reason, our manufacturing process would be severely disrupted. Any such manufacturing problems would likely delay product shipments to our customers, which would negatively affect our sales, competitive position and reputation. We may also experience delays in production, typically in February, during the Chinese New Year holiday when our facilities in China and Taiwan are closed.

We must continually develop successful new products and enhance existing products, and if we fail to do so or if our release of new or enhanced products is delayed, our business may be harmed.

The markets for our products are characterized by frequent new product introductions, changes in customer requirements and evolving industry standards, all with an underlying pressure to reduce cost and meet stringent reliability and qualification requirements. Our future performance will depend on our successful development, introduction and market acceptance of new and enhanced products that address these challenges. If we are unable to make our new or enhanced products commercially available on a timely basis, we may lose existing and potential customers and our financial results would suffer.

In addition, due to the costs and length of research, development and manufacturing process cycles, we may not recognize revenue from new products until long after such expenditures, if at all, and our margins may decrease if our costs are higher than expected, adversely affecting our financial condition and results of operation.

Although the length of our product development cycle varies widely by product and customer, it may take 18 months or longer before we receive our first order. As a result, we may incur significant expenses long before customers accept and purchase our products.

Product development delays may result from numerous factors, including:

- modification of product specifications and customer requirements;
- unanticipated engineering complexities;
- difficulties in reallocating engineering resources and overcoming resource limitations; and
- rapidly changing technology or competitive product requirements.

The introduction of new products by us or our competitors could result in a slowdown in demand for our existing products and could result in a write-down in the value of our inventory. We have in the past experienced a slowdown in demand for existing products and delays in new product development, and such delays will likely occur in the future. To the extent we experience product development delays for any reason or we fail to qualify our products and obtain their approval for use, which we refer to as a design win, our competitive position would be adversely affected and our ability to grow our revenue would be impaired.

Furthermore, our ability to enter a market with new products in a timely manner can be critical to our success because it is difficult to displace an existing supplier for a particular type of product once a customer has chosen a supplier, even if a later-to-market product provides better performance or cost efficiency.

The development of new, technologically advanced products is a complex and uncertain process requiring frequent innovation, highly-skilled engineering and development personnel and significant capital, as well as the accurate anticipation of technological and market trends. We cannot assure you that we will be able to identify, develop, manufacture, market or support new or enhanced products successfully or on a timely basis. Further, we cannot assure you that our new products will gain market acceptance or that we will be able to respond effectively to product introductions by competitors, technological changes or emerging industry standards. We also may not be able to develop the underlying core technologies necessary to create new products and enhancements, license these technologies from third parties, or remain competitive in our markets.

Increasing costs and shifts in product mix may adversely impact our gross margins.

Our gross margins on individual products and among products fluctuate over each product's life cycle. Our overall gross margins have fluctuated from period to period as a result of shifts in product mix, the introduction of new products, decreases in average selling prices and our ability to reduce product costs, and these fluctuations are expected to continue in the future. We may not be able to accurately predict our product mix from period to period, and as a result we may not be able to forecast accurately our overall gross margins. The rate of increase in our costs and expenses may exceed the rate of increase in our revenue, either of which would materially and adversely affect our business, our results of operations and our financial condition.

Given the high fixed costs associated with our vertically integrated business, a reduction in demand for our products will likely adversely impact our gross profits and our results of operations.

We have a high fixed cost base due to our vertically integrated business model, including the fact that 510 of our employees as of March 31, 2013 were employed in manufacturing engineering and manufacturing operations. We may not be able to adjust these fixed costs quickly to adapt to rapidly changing market conditions. Our gross profit and gross margin are greatly affected by our sales volume and volatility on a quarterly basis and the corresponding absorption of fixed manufacturing overhead expenses. In addition, because we are a vertically integrated manufacturer, insufficient demand for our products may subject us to the risk of high inventory carrying costs and increased inventory obsolescence. Given our vertical integration, the rate at which we turn inventory has historically been low when compared to our cost of sales. We do not expect this to change significantly in the future and believe that we will have to maintain a relatively high level of inventory compared to our cost of sales. As a result, we continue to expect to have a significant amount of working capital invested in inventory. We

may be required to write down inventory costs in the future and our high inventory costs may have an adverse effect on our gross profits and our results of operations.

We have a history of losses which may continue in the future.

We have a history of losses and we may incur additional losses in future periods. In the years ended December 31, 2010, 2011 and 2012 and in the three months ended March 31, 2012 and March 31, 2013, we experienced net losses of \$3.4 million, \$5.3 million, \$0.9 million, \$0.5 million and \$0.9 million, respectively. As of December 31, 2012 and March 31, 2013, our accumulated deficit was \$81.9 million and \$82.9 million, respectively. These losses were due to expenditures made to expand our business, including expenditures for hiring additional research and development and sales and marketing personnel, and expenditures to expand and maintain our manufacturing facilities and research and development operations. We expect to continue to make significant expenditures related to our business, including expenditures for hiring additional research and development and sales and marketing personnel, and expenditures to maintain and expand our manufacturing facilities and research and development operations. In addition, as a public company, we will incur significant additional time demands and legal, accounting and other expenses that we did not incur as a private company. Our management and other personnel will need to devote a substantial amount of time to complying with the applicable rules and requirements of being a public company.

Our financial results may vary significantly from quarter-to-quarter due to a number of factors, which may lead to volatility in our stock price.

Our quarterly revenue and operating results have varied in the past and will likely continue to vary significantly from quarter to quarter. This variability may lead to volatility in our stock price as research analysts and investors respond to these quarterly fluctuations. These fluctuations are due to numerous factors, including:

- the timing, size and mix of sales of our products;
- fluctuations in demand for our products, including the increase, decrease, rescheduling or cancellation of significant customer orders;
- our ability to design, manufacture and deliver products to our customers in a timely and cost-effective manner and that meet customer requirements;
- new product introductions and enhancements by us or our competitors;
- the gain or loss of key customers;
- the rate at which our present and potential customers and end users adopt our technologies;
- changes in our pricing and sales policies or the pricing and sales policies of our competitors;
- quality control or yield problems in our manufacturing operations;
- length and variability of the sales cycles of our products;
- unanticipated increases in costs or expenses;

- the loss of key employees;
- different capital expenditure and budget cycles for our customers, affecting the timing of their spending for our products;
- political stability in the areas of the world in which we operate;
- fluctuations in foreign currency exchange rates;
- changes in accounting rules;
- the evolving and unpredictable nature of the markets for products incorporating our solutions; and
- general economic conditions and changes in such conditions specific to our target markets.

The foregoing factors are difficult to forecast, and these, as well as other factors, could materially adversely affect our quarterly and annual operating results. In addition, a significant amount of our operating expenses is relatively fixed in nature due to our internal manufacturing, research and development, sales and general administrative efforts. Any failure to adjust spending quickly enough to compensate for a revenue shortfall could magnify the adverse impact of such revenue shortfall on our results of operations. For these reasons, you should not rely on quarter-to-quarter comparisons of our results of operations as an indicator of future performance. Moreover, our operating results may not meet our announced guidance or the expectations of research analysts or investors, in which case the price of our common stock could decrease significantly. There can be no assurance that we will be able to successfully address these risks.

We face intense competition which could negatively impact our results of operations and market share.

The markets into which we sell our products are highly competitive. Our competitors range from large, international companies offering a wide range of products to smaller companies specializing in niche markets. Current and potential competitors may have substantially greater name recognition, financial, marketing, research and manufacturing resources than we do, and there can be no assurance that our current and future competitors will not be more successful than us in specific product lines or markets. Certain of our competitors may also have better-established relationships with our current or potential customers. Some of our competitors have more resources to develop or acquire new products and technologies and create market awareness for their products and technologies. In addition, some of our competitors have the financial resources to offer competitive products at below-market pricing levels that could prevent us from competing effectively and result in a loss of sales or market share or cause us to lower prices for our products. In recent years, there has been consolidation in our industry and we expect such consolidation to continue. Consolidation involving our competitors could result in even more intense competition. Network equipment manufacturers, who are our customers, and network service providers may decide to manufacture the optical subsystems incorporated into their network systems in-house instead of outsourcing such products to companies such as us. We also encounter potential customers that, because of existing relationships with our competitors, are committed to the products offered by our competitors.

We depend on key personnel to develop and maintain our technology and manage our business in a rapidly changing market.

The continued services of our executive officers and other key engineering, sales, marketing, manufacturing and support personnel is essential to our success. For example, our ability to achieve new design wins depends upon the experience and expertise of our engineers. Any of our key employees, including our Chief Executive Officer, Chief Financial Officer, Chief Strategy Officer, Senior Vice President of Network Equipment Module Business Unit and Asia General Manager, may resign at any time. We do not have key person life insurance policies covering any of our employees. In addition, our current loan agreement with East West Bank requires their prior written approval in connection with certain changes to our executive officers. To implement our business plan, we also intend to hire additional employees, particularly in the areas of engineering and manufacturing. Our ability to continue to attract and retain highly skilled employees is a critical factor in our success. Competition for highly skilled personnel is intense. We may not be successful in attracting, assimilating or retaining qualified personnel to satisfy our current or future needs. Our ability to develop, manufacture and sell our products, and thus our financial condition and results of operations, would be adversely affected if we are unable to retain existing personnel or hire additional qualified personnel.

We depend on a limited number of suppliers and any supply interruption could have an adverse effect on our business.

We depend on a limited number of suppliers for certain raw materials and components used in our products. Some of these suppliers could disrupt our business if they stop, decrease or delay shipments or if the materials or components they ship have quality or reliability issues. Some of the raw materials and components we use in our products are available only from a sole source or have been qualified only from a single supplier. Furthermore, other than our current suppliers, there are a limited number of entities from whom we could obtain certain materials and components. We may also face shortages if we experience increased demand for materials or components beyond what our qualified suppliers can deliver. Our inability to obtain sufficient quantities of critical materials or components could adversely affect our ability to meet demand for our products, adversely affecting our financial condition and results of operation.

We typically have not entered into long-term agreements with our suppliers and, therefore, our suppliers could stop supplying materials and components to us at any time or fail to supply adequate quantities of materials or components to us on a timely basis. It is difficult, costly, time consuming and, on short notice, sometimes impossible for us to identify and qualify new suppliers. Our customers generally restrict our ability to change the components in our products. For more critical components, any changes may require repeating the entire qualification process. Our reliance on a limited number of suppliers or a single qualified vendor may result in delivery and quality problems, and reduced control over product pricing, reliability and performance.

Our products could contain defects that may cause us to incur significant costs or result in a loss of customers.

Our products are complex and undergo quality testing as well as formal qualification by our customers. Our customers' testing procedures are limited to evaluating our products under likely and foreseeable failure scenarios and over varying amounts of time. For various reasons, such as the occurrence of performance problems that are unforeseeable in testing or that are detected only when products age or are operated under peak stress conditions, our products may fail to perform as expected long after customer acceptance. Failures could result from faulty

components or design, problems in manufacturing or other unforeseen reasons. As a result, we could incur significant costs to repair or replace defective products under warranty, particularly when such failures occur in installed systems. Our products are typically embedded in, or deployed in conjunction with, our customers' products, which incorporate a variety of components, modules and subsystems and may be expected to interoperate with modules produced by third parties. As a result, not all defects are immediately detectable and when problems occur, it may be difficult to identify the source of the problem. While we have not experienced material failures in the past, we will continue to face this risk going forward because our products are widely deployed in many demanding environments and applications worldwide. In addition, we may in certain circumstances honor warranty claims after the warranty has expired or for problems not covered by warranty to maintain customer relationships. Any significant product failure could result in litigation, damages, repair costs and lost future sales of the affected product and other products, divert the attention of our engineering personnel from our product development efforts and cause significant customer relations problems, all of which would harm our business. Although we carry product liability insurance, this insurance may not adequately cover our costs arising from defects in our products or otherwise.

We face a variety of risks associated with our international sales and operations.

We currently derive, and expect to continue to derive, a significant portion of our revenue from international sales. In 2010, 2011 and 2012, 60.8%, 66.9% and 75.0% of our revenue was derived from sales that occurred outside of the U.S., respectively. In addition, a significant portion of our manufacturing operations is based in Ningbo, China and Taipei, Taiwan. Our international revenue and operations are subject to a number of material risks, including:

- difficulties in staffing, managing and supporting operations in more than one country;
- difficulties in enforcing agreements and collecting receivables through foreign legal systems;
- fewer legal protections for intellectual property in foreign jurisdictions;
- foreign and U.S. taxation issues and international trade barriers;
- difficulties in obtaining any necessary governmental authorizations for the export of our products to certain foreign jurisdictions;
- fluctuations in foreign economies;
- fluctuations in the value of foreign currencies and interest rates;
- trade and travel restrictions;
- domestic and international economic or political changes, hostilities and other disruptions in regions where we currently operate or may operate in the future;
- difficulties and increased expenses in complying with a variety of U.S. and foreign laws, regulations and trade standards, including the Foreign Corrupt Practices Act; and
- different and changing legal and regulatory requirements in the jurisdictions in which we currently operate or may operate in the future.

Negative developments in any of these factors in China or Taiwan or other countries could result in a reduction in demand for our products, the cancellation or delay of orders already placed, difficulties in producing and delivering our products, threats to our intellectual property, difficulty in collecting receivables, and a higher cost of doing business. Although we maintain certain compliance programs throughout the company, violations of U.S. and foreign laws and regulations may result in criminal or civil sanctions, including material monetary fines, penalties and other costs against us or our employees, and may have a material adverse effect on our business.

Our business operations conducted in China and Taiwan are important to our success. A substantial portion of our property, plant and equipment is located in China and Taiwan. We expect to make further investments in China and Taiwan in the future. Therefore, our business, financial condition, results of operations and prospects are subject to economic, political, legal, and social events and developments in China and Taiwan. China does not recognize the sovereignty of Taiwan. Although significant economic and cultural relations have been established during recent years between China and Taiwan, relations have often been strained and the government of China has previously threatened to use military force to gain control over Taiwan. Factors affecting military, political or economic conditions in China and Taiwan could have a material adverse effect on our financial condition and results of operations, as well as the market price and the liquidity of our common shares.

In some instances, we rely on third parties to assist in selling our products, and the failure of those parties to perform as expected could reduce our future revenue.

Although we primarily sell our products through direct sales, we also sell our products to some of our customers through third party sales representatives and distributors. Many of such third parties also market and sell products from our competitors. Our third party sales representatives and distributors may terminate their relationships with us at any time, or with short notice. Our future performance will also depend, in part, on our ability to attract additional third party sales representatives and distributors that will be able to market and support our products effectively, especially in markets in which we have not previously distributed our products. If our current third party sales representatives and distributors fail to perform as expected, our revenue and results of operations could be harmed.

Failure to manage our growth effectively may adversely affect our financial condition and results of operations.

Successful implementation of our business plan in our target markets requires effective planning and management. We plan to continue to expand the scope of our operations. We currently operate facilities in Sugar Land, Texas, Ningbo, China and Taipei, Taiwan. We currently manufacture our lasers using a proprietary process and customized equipment located only in our Sugar Land, Texas facility, and it will be costly to duplicate that facility to scale our laser manufacturing capacity or to mitigate the risks associated with operating a single facility. The challenges of managing our geographically dispersed operations have increased and will continue to increase the demand on our management systems and resources. Moreover, we are continuing to improve our financial and managerial controls, reporting systems and procedures. Any failure to manage our expansion and the resulting demands on our management systems and resources effectively may adversely affect our financial condition and results of operations.

Our loan agreements contain restrictive covenants that may adversely affect our ability to conduct our business.

We have lending arrangements with several financial institutions, including loan agreements with East West Bank in the U.S., and our China subsidiary has a line of credit arrangement. Our loan agreements governing our long-term debt obligations in the U.S. contain certain financial and operating covenants that limit our management's discretion with respect to certain business matters. Among other things, these covenants require us to maintain certain financial ratios and restrict our ability to incur additional debt, create liens or other encumbrances, change the nature of our business, pay dividends, sell or otherwise dispose of assets and merge or consolidate with other entities. These restrictions may limit our flexibility in responding to business opportunities, competitive developments and adverse economic or industry conditions. Any failure by us or our subsidiaries to comply with these agreements could harm our business, financial condition and operating results. In addition, our obligations under our U.S. loan agreements with East West Bank are secured by substantially all of our U.S. assets, including our intellectual property assets, our Sugar Land facility and our equity interests in our subsidiaries, which limits our ability to provide collateral for additional financing. A breach of any of covenants under our loan agreements, or a failure to pay interest or indebtedness when due under any of our credit facilities, could result in a variety of adverse consequences, including the acceleration of our indebtedness.

We may not be able to obtain additional capital when desired, on favorable terms or at all.

We anticipate that the net proceeds we receive from this offering, together with our current cash, cash provided by operating activities and funds available through our bank loans and credit facilities, will be sufficient to meet our current and anticipated needs for general corporate purposes for the next 12 to 24 months. We operate in a market, however, that makes our prospects difficult to evaluate and, to remain competitive, we will be required to make continued investments in capital equipment, facilities and technological improvements. We expect that substantial capital will be required to expand our manufacturing capacity and fund working capital for anticipated growth. If we do not generate sufficient cash flow from operations or otherwise have the capital resources to meet our future capital needs, we may need additional financing to implement our business strategy, which includes:

- expansion of research and development;
- expansion of manufacturing capabilities;
- hiring of additional technical, sales and other personnel; and
- acquisitions of complementary businesses.

If we raise additional funds through the issuance of our common stock or convertible securities, the ownership interests of our stockholders could be significantly diluted. These newly issued securities may have rights, preferences or privileges senior to those of existing stockholders acquiring shares of our common stock in this offering. Additional financing may not, however, be available on terms favorable to us, or at all, if and when needed, and our ability to fund our operations, take advantage of unanticipated opportunities, develop or enhance our infrastructure or respond to competitive pressures could be significantly limited. If we cannot raise required capital when needed, we may be unable to meet the demands of existing and prospective customers, adversely affecting our sales and market opportunities and consequently our business, financial condition and results of operations.

Future acquisitions may adversely affect our financial condition and results of operations.

As part of our business strategy, we may pursue acquisitions of companies that we believe could enhance or complement our current product portfolio, augment our technology roadmap or diversify our revenue base. Acquisitions involve numerous risks, any of which could harm our business, including:

- difficulties integrating the acquired business;
- unanticipated costs, capital expenditures or liabilities or changes related to research in progress and product development;
- diversion of financial and management resources from our existing business;
- difficulties integrating the business relationships with suppliers and customers of the acquired business with our existing business relationships;
- risks associated with entering markets in which we have little or no prior experience; and
- potential loss of key employees, particularly those of the acquired organizations.

Acquisitions may also result in the recording of goodwill and other intangible assets subject to potential impairment in the future, adversely affecting our operating results. We may not achieve the anticipated benefits of an acquisition if we fail to evaluate it properly, and we may incur costs in excess of what we anticipate. A failure to evaluate and execute an acquisition appropriately or otherwise adequately address these risks may adversely affect our financial condition and results of operations.

Our future results of operations may be subject to volatility as a result of exposure to fluctuations in currency exchange rates.

We have significant foreign currency exposure, and are affected by fluctuations among the U.S. dollar, the Chinese renminbi, or RMB, and the New Taiwan, or NT, dollar because a substantial portion of our business is conducted in China and Taiwan. Our sales, raw materials, components and capital expenditures are denominated in U.S. dollars, RMB and NT dollars in varying amounts.

Foreign currency fluctuations may adversely affect our revenue and our costs and expenses, and hence our results of operations. The value of the NT dollar or the RMB against the U.S. dollar and other currencies may fluctuate and be affected by, among other things, changes in political and economic conditions. The RMB currency is no longer being pegged solely to the value of the U.S. dollar. While the international reaction to the RMB revaluation has generally been positive, there remains significant international pressure on the Chinese government to adopt an even more flexible currency policy, which may result in a further and more significant appreciation of the RMB against the U.S. dollar. In the long term, the RMB may appreciate or depreciate significantly in value against the U.S. dollar, depending upon the fluctuation of the basket of currencies against which it is currently valued, or it may be permitted to enter into a full float, which may also result in a significant appreciation or depreciation of the RMB against the U.S. dollar. In addition, our currency exchange variations may be magnified by Chinese exchange control regulations that restrict our ability to convert RMB into foreign currency.

Our sales in Europe are denominated in U.S. dollars, and fluctuations in the Euro or our customers' other local currencies relative to the U.S. dollar may impact our customers and affect our financial performance. If our customers' local currencies weaken against the U.S. dollar, we may need to lower our prices to remain competitive in our international markets which could have a material adverse effect on our margins. If our customers' local currencies strengthen against the U.S. dollar and if the local sales prices cannot be raised due to competitive pressures, we will experience a deterioration of our margins.

To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedging transactions may be limited and we may not be able to successfully hedge our exposure.

Natural disasters or other catastrophic events could harm our operations.

Our operations in the U.S., China and Taiwan could be subject to significant risk of natural disasters, including earthquakes, hurricanes, typhoons, flooding and tornadoes, as well as other catastrophic events, such as epidemics, terrorist attacks or wars. For example, our corporate headquarters and wafer fabrication facility in Sugar Land, Texas, is located near Gulf of Mexico, an area that is susceptible to hurricanes. We use a proprietary MBE laser manufacturing process that requires customized equipment, and this process is currently conducted and located solely at our wafer fabrication facility in Sugar Land, Texas, such that a natural disaster, terrorist attack or other catastrophic event that affects that facility would materially harm our operations. In addition, our manufacturing facility in Taipei, Taiwan, is susceptible to typhoons, and our manufacturing facility in Ningbo, China, has from time to time, suffered electrical outages. Any disruption in our manufacturing facilities arising from these and other natural disasters or other catastrophic events could cause significant delays in the production or shipment of our products until we are able to shift production to different facilities or arrange for third parties to manufacture our products. We may not be able to obtain alternate capacity on favorable terms or at all. Our property insurance coverage with respect to natural disaster is limited and is subject to deductible and coverage limits. Such coverage may not be adequate or continue to be available at commercially reasonable rates and terms. The occurrence of any of these circumstances may adversely affect our financial condition and results of operation.

If we fail to protect, or incur significant costs in defending, our intellectual property and other proprietary rights, our business and results of operations could be materially harmed.

Our success depends on our ability to protect our intellectual property and other proprietary rights. We rely on a combination of patent, trademark, copyright, trade secret and unfair competition laws, as well as license agreements and other contractual provisions, to establish and protect our intellectual property and other proprietary rights. We have applied for patent registrations in the U.S. and in other foreign countries, some of which have been issued. In addition, we have registered certain trademarks in the U.S. We cannot guarantee that our pending applications will be approved by the applicable governmental authorities. Moreover, our existing and future patents and trademarks may not be sufficiently broad to protect our proprietary rights or may be held invalid or unenforceable in court. A failure to obtain patents or trademark registrations or a successful challenge to our registrations in the U.S. or other foreign countries may limit our ability to protect the intellectual property rights that these applications and registrations intended to cover.

Policing unauthorized use of our technology is difficult and we cannot be certain that the steps we have taken will prevent the misappropriation, unauthorized use or other infringement of our intellectual property rights. Further, we may not be able to effectively protect our

intellectual property rights from misappropriation or other infringement in foreign countries where we have not applied for patent protections, and where effective patent, trademark, trade secret and other intellectual property laws may be unavailable, or may not protect our proprietary rights as fully as U.S. law. We may seek to secure comparable intellectual property protections in other countries. However, the level of protection afforded by patent and other laws in other countries may not be comparable to that afforded in the U.S.

We also attempt to protect our intellectual property, including our trade secrets and know-how, through the use of trade secret and other intellectual property laws, and contractual provisions. We enter into confidentiality and invention assignment agreements with our employees and independent consultants. We also use non-disclosure agreements with other third parties who may have access to our proprietary technologies and information. Such measures, however, provide only limited protection, and there can be no assurance that our confidentiality and non-disclosure agreements will not be breached, especially after our employees end their employment, and that our trade secrets will not otherwise become known by competitors or that we will have adequate remedies in the event of unauthorized use or disclosure of proprietary information. Unauthorized third parties may try to copy or reverse engineer our products or portions of our products, otherwise obtain and use our intellectual property, or may independently develop similar or equivalent trade secrets or know-how. If we fail to protect our intellectual property and other proprietary rights, or if such intellectual property and proprietary rights are infringed or misappropriated, our business, results of operations or financial condition could be materially harmed.

In the future, we may need to take legal actions to prevent third parties from infringing upon or misappropriating our intellectual property or from otherwise gaining access to our technology. Protecting and enforcing our intellectual property rights and determining their validity and scope could result in significant litigation costs and require significant time and attention from our technical and management personnel, which could significantly harm our business. We may not prevail in such proceedings, and an adverse outcome may adversely impact our competitive advantage or otherwise harm our financial condition and our business.

We may be involved in intellectual property disputes in the future, which could divert management's attention, cause us to incur significant costs and prevent us from selling or using the challenged technology.

Participants in the markets in which we sell our products have experienced frequent litigation regarding patent and other intellectual property rights. There can be no assurance that third parties will not assert infringement claims against us. We cannot be certain that our products would not be found infringing the intellectual property rights of others. Regardless of their merit, responding to such claims can be time consuming, divert management's attention and resources and may cause us to incur significant expenses. Intellectual property claims against us could force us to do one or more of the following:

- obtain from a third party claiming infringement a license to the relevant technology, which may not be available on reasonable terms, or at all;
- stop manufacturing, selling, incorporating or using our products that use the challenged intellectual property;
- pay substantial monetary damages; or
- expend significant resources to redesign the products that use the technology and to develop non-infringing technology.

Any of these actions could result in a substantial reduction in our revenue and could result in losses over an extended period of time.

In any potential intellectual property dispute, our customers could also become the target of litigation. Because we often indemnify our customers for intellectual property claims made against them with respect to our products, any claims against our customers could trigger indemnification claims against us. These obligations could result in substantial expenses such as legal expenses, damages for past infringement or royalties for future use. Any indemnity claim could also adversely affect our relationships with our customers and result in substantial costs to us.

If we fail to obtain the right to use the intellectual property rights of others that are necessary to operate our business, and to protect their intellectual property, our business and results of operations will be adversely affected.

From time to time we may choose to or be required to license technology or intellectual property from third parties in connection with the development of our products. We cannot assure you that third party licenses will be available to us on commercially reasonable terms, if at all. Generally, a license, if granted, would include payments of up-front fees, ongoing royalties or both. These payments or other terms could have a significant adverse impact on our results of operations. Our inability to obtain a necessary third party license required for our product offerings or to develop new products and product enhancements could require us to substitute technology of lower quality or performance standards, or of greater cost, either of which could adversely affect our business. If we are not able to obtain licenses from third parties, if necessary, then we may also be subject to litigation to defend against infringement claims from these third parties. Our competitors may be able to obtain licenses or cross-license their technology on better terms than we can, which could put us at a competitive disadvantage.

If we fail to maintain effective internal control over financial reporting in the future, the accuracy and timing of our financial reporting may be adversely affected.

Preparing our consolidated financial statements involves a number of complex manual and automated processes, which are dependent upon individual data input or review and require significant management judgment. One or more of these elements may result in errors that may not be detected and could result in a material misstatement of our consolidated financial statements. In connection with the audit of our financial statements for the period ended December 31, 2012, we identified a material weakness related to the inappropriate recording of certain inventory returned for re-work in China as a reduction in cost of sales. This error arose as a result of the configuration of our ERP system, which lacked an automated control within the system to prevent overrides. In addition, the monitoring controls were not operating with sufficient precision to enable the errors to be detected and corrected by management in a timely manner. We believe we have remediated this material weakness by updating our ERP system with respect to the monitoring of returned inventory, providing additional training to certain personnel and adding management oversight. Also, in connection with the audit of our financial statements for the period ended December 31, 2012, three significant deficiencies were identified related to the reclassification of transactions within current liabilities between accounts payable and accrued liabilities, the cut-off of certain expenses for the December 31, 2012 closing related to our Asian operations, and the allocation of standard costing applied among cost of goods sold and inventory at our China subsidiary for the period ended December 31, 2012. We believe we have remediated these three significant deficiencies by providing additional staff training, developing additional procedures, enhancing our end of period closing processes, and providing for the allocation of standard cost of goods sold and inventory for the U.S., Taiwan and China locations.

We have not performed an evaluation of our internal control over financial reporting, such as would be required by Section 404 of the Sarbanes-Oxley Act, nor have we engaged our independent registered public accounting firm to perform an audit of our internal control over financial reporting. In addition, for so long as we qualify as an "emerging growth company" under the JOBS Act, which may be up to five years following this offering, we will not have to provide an auditor's attestation report on our internal controls in future annual reports on Form 10-K as otherwise required by Section 404(b) of the Sarbanes-Oxley Act. During the course of any evaluation, documentation or attestation, we or our independent registered public accounting firm may identify weaknesses and deficiencies that we may not otherwise identify in a timely manner or at all as a result of the deferred implementation of this additional level of review.

Despite the internal controls we have implemented, there can be no assurance that we will be able to avoid accounting errors or material weaknesses in future periods. If we are unable to implement and maintain effective internal control over financial reporting, our ability to accurately and timely report our financial results could be adversely impacted. This could result in late filings of our annual and quarterly reports under the Securities Exchange Act of 1934, or the Exchange Act, restatements of our consolidated financial statements, a decline in our stock price, suspension or delisting of our common stock by NASDAQ, or other material adverse effects on our business, reputation, results of operations or financial condition.

Our ability to use our net operating losses and certain other tax attributes may be limited.

As of December 31, 2012, we had U.S. accumulated net operating losses, or NOLs, of approximately \$66.7 million for U.S. federal income tax purposes. We also had research and development credit carry-forwards totaling \$1.5 million as of December 31, 2012, which begin to expire in 2024. Under Section 382 of the Internal Revenue Code of 1986, as amended, if a corporation undergoes an "ownership change," the corporation's ability to use its pre-change NOLs, capital loss carry-forwards and other pre-change tax attributes to offset its post-change income may be limited. An ownership change is generally defined as a greater than 50% change in equity ownership by value over a 3-year period. We believe we have experienced ownership changes and may experience additional ownership changes in the future as a result of shifts in our stock ownership, including as a result of our contemplated issuance of shares of common stock pursuant to this offering. If we trigger ownership changes, our ability to use any NOLs and capital loss carry-forwards existing at that time could be limited going forward. We continue to update our analysis to determine if ownership changes occurred in connection with our prior equity financings and, if so, what limitations resulted.

Changes in our effective tax rate may adversely affect our results of operation and our business.

We are subject to income taxes in the U.S. and other foreign jurisdictions, including China. We base our tax position on the anticipated nature and conduct of our business and our understanding of the tax laws of the countries in which we have assets or conduct activities. Our tax position may be reviewed or challenged by tax authorities. Moreover, the tax laws currently in effect may change, and such changes may have retroactive effect. We have inter-company arrangements in place providing for administrative and financing services and transfer pricing, which involve a significant degree of judgment and are often subject to close review by tax authorities. The tax authorities may challenge our positions related to these agreements. If the tax authorities successfully challenge our positions, our effective tax rate may increase, adversely affecting our results of operation and our business.

Our manufacturing operations are subject to environmental regulation that could limit our growth or impose substantial costs, adversely affecting our financial condition and results of operations.

Our properties, operations and products are subject to the environmental laws and regulations of the jurisdictions in which we operate and sell products. These laws and regulations govern, among other things, air emissions, wastewater discharges, the management and disposal of hazardous materials, the contamination of soil and groundwater, employee health and safety and the content, performance, packaging and disposal of products. Our failure to comply with current and future environmental laws and regulations, or the identification of contamination for which we are liable, could subject us to substantial costs, including fines, clean-up costs, third-party property damages or personal injury claims, and make significant investments to upgrade our facilities or curtailour operations. Liability under environmental, health and safety laws can be joint and several and without regard to fault or negligence. For example, pursuant to environmental laws and regulations, including but not limited to the Comprehensive Environmental Response Compensation and Liability Act, or CERCLA, we may be liable for the full amount of any remediation-related costs at properties we currently own or formerly owned, such as our currently owned Sugar Land, Texas facility, or at properties at which we operated, as well as at properties we will own or operate in the future, and properties to which we have sent hazardous substances, whether or not we caused the contamination. Identification of presently unidentified environmental conditions, more vigorous enforcement by a governmental authority, enactment of more stringent legal requirements or other unanticipated events could give rise to adverse publicity, restrict our operations, affect the design or marketability of our products or otherwise cause us to incur material environmental costs, adversely affecting our financial condition and results of operations.

Failure to comply with the U.S. Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences.

As a public company, we will be subject to the U.S. Foreign Corrupt Practices Act which generally prohibits U.S. companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. In addition, we are required to maintain records that accurately and fairly represent our transactions and have an adequate system of internal accounting controls. Foreign companies, including some that may compete with us, may not be subject to these prohibitions, and therefore may have a competitive advantage over us. If we are not successful in implementing and maintaining adequate preventative measures, we may be responsible for acts of our employees or other agents engaging in such conduct. We could suffer severe penalties and other consequences that may have a material adverse effect on our financial condition and results of operations.

We are subject to governmental export and import controls that could subject us to liability or impair our ability to compete in international markets.

We are subject to export and import control laws, trade regulations and other trade requirements that limit which products we sell and where and to whom we sell our products. In addition, various countries regulate the import of certain technologies and have enacted laws that could limit our ability to distribute our products. Failure to comply with these and similar laws on a timely basis, or at all, or any limitation on our ability to export or sell our products would adversely affect our business, financial condition and results of operations. Changes in our products or any change in export or import regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, or change in the countries, persons or technologies targeted by such regulations, could result in delayed or decreased sales of our

products to existing or potential customers. In such event, our business and results of operations could be adversely affected.

Rapidly changing standards and regulations could make our products obsolete, which would cause our revenue and results of operations to suffer.

We design our products to conform to regulations established by governments and to standards set by industry standards bodies worldwide, such as The American National Standards Institute, the European Telecommunications Standards Institute, the International Telecommunications Union and the Institute of Electrical and Electronics Engineers, Inc. Various industry organizations are currently considering whether and to what extent to create standards applicable to our products. Because certain of our products are designed to conform to current specific industry standards, if competing or new standards emerge that are preferred by our customers, we would have to make significant expenditures to develop new products. If our customers adopt new or competing industry standards with which our products are not compatible, or the industry groups adopt standards or governments issue regulations with which our products are not compatible, our existing products would become less desirable to our customers and our revenue and results of operations would suffer.

Customer demands and new regulations related to conflict-free minerals may adversely affect us.

The Dodd-Frank Wall Street Reform and Consumer Protection Act imposes new disclosure requirements regarding the use of "conflict" minerals mined from the Democratic Republic of Congo and adjoining countries in products, whether or not these products are manufactured by third parties. These new requirements could affect the pricing, sourcing and availability of minerals used in the manufacture of our products. Certain of our customers are requiring additional information from us regarding the origin of our raw materials, and complying with these customer requirements may cause us to incur additional costs, such as costs related to determining the origin of any minerals used in our products. Our supply chain is complex and we may be unable to verify the origins for all metals used in our products. We may also encounter challenges with our customers and stockholders if we are unable to certify that our products are conflict free.

Risks Related to Our Operations in China

Adverse changes in economic and political policies in China, or Chinese laws or regulations could have a material adverse effect on business conditions and the overall economic growth of China, which could adversely affect our business.

The Chinese economy differs from the economies of most developed countries in many respects, including the level of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. Despite reforms, the government continues to exercise significant control over China's economic growth by way of the allocation of resources, control over foreign currency-denominated obligations and monetary policy and provision of preferential treatment to particular industries or companies.

In addition, the laws, regulations and legal requirements in China, including the laws that apply to foreign-invested enterprises, or FIEs, are subject to frequent changes. The interpretation and enforcement of such laws is uncertain. Protections of intellectual property rights and confidentiality in China may not be as effective as in the U.S. or other countries or regions with

more developed legal systems. Any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. Any adverse changes to these laws, regulations and legal requirements or their interpretation or enforcement could have a material adverse effect on our business.

Furthermore, while China's economy has experienced rapid growth in the past 20 years, growth has been uneven across different regions, among various economic sectors and over time. China has also in the past and may in the future experience economic downturns due to, for example, government austerity measures, changes in government policies relating to capital spending, limitations placed on the ability of commercial banks to make loans, reduced levels of exports and international trade, inflation, lack of financial liquidity, stock market volatility and global economic conditions. Any of these developments could contribute to a decline in business and consumer spending in addition to other adverse market conditions, which could adversely affect our business.

The termination and expiration or unavailability of our preferential tax treatments in China may have a material adverse effect on our operating results.

Prior to January 1, 2008, entities established in China were generally subject to a 30% state and 3% local enterprise income tax rate. In accordance with the China Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises, effective through December 31, 2007, our China subsidiary enjoyed preferential income tax rates. Effective January 1, 2008, the China Enterprise Income Tax Law, or the EIT law, imposes a single uniform income tax rate of 25% on all Chinese enterprises, including FIEs, and eliminates or modifies most of the tax exemptions, reductions and preferential treatment available under the previous tax laws and regulations. As a result, our China subsidiary may be subject to the uniform income tax rate of 25% unless we are able to qualify for preferential status. Currently, we have qualified for a preferential 15% tax rate that is available for new and high technology enterprises. The preferential rate applies to calendar years 2012, 2013 and 2014. We have not yet realized benefits from this reduction in tax rate because we have not yet generated taxable income in China. Any future increase in the enterprise income tax rate applicable to us or the expiration or other limitation of preferential tax rates available to us could increase our tax liabilities and reduce our net income.

China regulation of loans and direct investment by offshore holding companies to China entities may delay or prevent us from using the proceeds we receive from this offering to make loans or additional capital contributions to our China subsidiary.

In utilizing the proceeds we receive from this offering, we may make loans or additional capital contributions to our China subsidiary. Any loans to our China subsidiary are subject to China regulations and approvals. For example, any loans to our China subsidiary to finance their activities cannot exceed statutory limits, must be registered with State Administration of Foreign Exchange, or SAFE, or its local counterpart, and must be approved by the relevant government authorities. Any capital contributions to our China subsidiary must be approved by the Ministry of Commerce or its local counterpart. In addition, under Circular 142, our China subsidiary, as a FIE, may not be able to convert our capital contributions to them into RMB for equity investments or acquisitions in China.

We cannot assure you that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to our future loans or capital contributions to our China subsidiary. If we fail to receive such registrations or approvals, our ability to use the proceeds of this offering and to capitalize our China subsidiary may be negatively affected, which could materially and adversely affect our liquidity and ability to fund and expand our business.

Our China subsidiary is subject to Chinese labor laws and regulations and Chinese labor laws may increase our operating costs in China.

The China Labor Contract Law, together with its implementing rules, provides increased rights to Chinese employees. Previously, an employer had discretionary power in deciding the probation period, not to exceed six months. Additionally, the employment contract could only be terminated for cause. Under these rules, the probation period varies depending on contract terms and the employment contract can only be terminated during the probation period for cause upon three days' notice. Additionally, an employer may not be able to terminate a contract during the probation period on the grounds of a material change of circumstances or a mass layoff. The new law also has specific provisions on conditions when an employer has to sign an employment contract with open-ended terms. If an employer fails to enter into an open-ended contract in certain circumstances, the employer must pay the employee twice their monthly wage beginning from the time the employer should have executed an open-ended contract. Additionally an employer must pay severance for nearly all terminations, including when an employer decides not to renew a fixed-term contract. These laws may increase our costs and reduce our flexibility.

The turnover of direct labor in manufacturing industries in China is high, which could adversely affect our production, shipments and results of operations.

Employee turnover of direct labor in the manufacturing sector in China is high and retention of such personnel is a challenge to companies located in or with operations in China. Although direct labor costs do not represent a high proportion of our overall manufacturing costs, direct labor is required for the manufacture of our products. If our direct labor turnover rates are higher than we expect, or we otherwise fail to adequately manage our direct labor turnover rates, then our results of operations could be adversely affected.

An increase in our labor costs in China may adversely affect our business and our profitability.

A significant portion of our workforce is located in China. Labor costs in China have been increasing recently due to labor unrest, strikes and changes in employment laws. If labor costs in China continue to increase, our costs will increase. If we are not able to pass these increases on to our customers, our business, profitability and results of operations may be adversely affected.

We may have difficulty establishing and maintaining adequate management and financial controls over our China operations.

Businesses in China have historically not adopted a western style of management and financial reporting concepts and practices, which includes strong corporate governance, internal controls and computer, financial and other control systems. Moreover, familiarity with U.S. GAAP principles and reporting procedures is less common in China. As a consequence, we may have difficulty finding accounting personnel experienced with U.S. GAAP, and we may have difficulty training and integrating our China-based accounting staff with our U.S.-based

finance organization. As a result of these factors, we may experience difficulty in establishing management and financial controls over our China operations. These difficulties include collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet U.S. public-company reporting requirements. We may, in turn, experience difficulties in implementing and maintaining adequate internal controls as required under Section 404 of the Sarbanes-Oxley Act.

Risks Related to This Offering and Our Common Stock

There is no existing market for our common stock and we do not know if one will develop to provide our stockholders liquidity for the shares they hold or purchase in this offering.

There has not been a public trading market for shares of our common stock prior to this offering. An active trading market may not develop or be sustained after this offering. The initial public offering price for the shares of common stock sold in this offering will be determined by negotiations between us, the selling stockholders and representatives of the underwriters. This price may not be indicative of the price at which our common stock will trade after this offering.

Our principal stockholders, executive officers and directors own a significant percentage of our stock and will continue to have significant control of our management and affairs after the offering, and they can take actions that may be against your best interests.

Following the completion of this offering, our executive officers and directors, and entities that are affiliated with them, will beneficially own an aggregate of approximately % of our outstanding common stock, on an as-converted basis, based on an assumed initial offering price of \$ per share, the midpoint of the price range set forth on the front cover of this prospectus. As a result, these stockholders, acting together, may have significant influence over our management and affairs and matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as mergers, consolidations or the sale of substantially all of our assets. Consequently, this concentration of ownership may have the effect of delaying or preventing a change in control, including a merger, consolidation or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if such a change in control would benefit our other stockholders.

Our stock price could decline due to the large number of outstanding shares of our common stock eligible for future sale.

Sales of substantial amounts of our common stock in the public market following this offering, or the perception that these sales could occur, could cause the market price of our common stock to decline. These sales could also make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate.

Upon completion of this offering, we will have an aggregate of shares of common stock outstanding, assuming no exercise of the underwriters' over-allotment option and no exercise of outstanding options or warrants, other than those warrants to purchase shares of common stock that expire upon the completion of this offering. The

shares sold pursuant to this offering will be immediately tradable without restriction. Of the remaining shares:

- shares will be eligible for sale immediately upon completion of this offering; and
- shares will be eligible for sale upon the expiration of lock-up agreements, subject in some cases to volume and other restrictions of Rule 144 and Rule 701 under the Securities Act of 1933, as amended, or the Securities Act.

The lock-up agreements expire 180 days after the date of this prospectus, subject to potential extension in the event we release earning results or material news or a material event relating to us occurs near the end of the lock-up period and in the event that we cease to be an emerging growth company. Raymond James & Associates, Inc. and Piper Jaffray & Co., as representatives of the underwriters, may, in their sole discretion and at any time without notice, release all or any portion of the securities subject to lock-up agreements. After the completion of this offering, we intend to register approximately _____ shares of our common stock that have been issued or reserved for future issuance under our stock incentive plans.

Because our initial public offering price is substantially higher than the pro forma as adjusted net tangible book value per share of our outstanding common stock, new investors will incur immediate and substantial dilution.

The initial public offering price is substantially higher than the pro forma as adjusted net tangible book value per share of our common stock based on the expected total value of our total assets, less our goodwill and other intangible assets, less our total liabilities immediately following this offering. Therefore, if you purchase shares of our common stock in this offering, you will experience immediate and substantial dilution of \$ _____ per share in the price you pay for our common stock compared to the pro forma as adjusted net tangible book value as of March 31, 2013. Furthermore, investors purchasing our common stock in this offering will own only _____ % of our shares outstanding even though they will have contributed _____ % of the total consideration received by us in connection with our sales of common stock. To the extent outstanding options to purchase common stock are exercised, there will be further dilution. For a further description of the dilution that you will experience immediately after this offering, see the section titled "Dilution."

We currently do not intend to pay dividends on our common stock and, consequently, your only opportunity to achieve a return on your investment is if the price of our common stock appreciates.

We currently do not plan to declare or pay dividends on shares of our common stock in the foreseeable future. In addition, the terms of our loan and security agreement with East West Bank restrict our ability to pay dividends. See "Dividend Policy" for more information. Consequently, your only opportunity to achieve a return on the shares you purchase in this offering will be if the market price of our common stock appreciates and you sell your shares at a profit. There is no guarantee that the price of our common stock in the market after this offering will ever exceed the price that you pay.

Our charter documents, stock incentive plans and Delaware law could prevent a takeover that stockholders consider favorable and could also reduce the market price of our stock.

Our amended and restated certificate of incorporation and our amended and restated bylaws to be effective immediately prior to closing of this offering and our stock incentive plans contain provisions that could delay or prevent a change in control of our company. These provisions could also make it more difficult for stockholders to elect directors and take other corporate actions. These provisions include:

- providing for a classified board of directors with staggered, three-year terms;
- not providing for cumulative voting in the election of directors;
- authorizing our board of directors to issue, without stockholder approval, preferred stock rights senior to those of common stock;
- prohibiting stockholder action by written consent;
- limiting the persons who may call special meetings of stockholders;
- requiring advance notification of stockholder nominations and proposals; and
- change of control provisions in our stock incentive plans, and the individual stock option agreements, which provide that a change of control may accelerate the vesting of the stock options issued under such plans.

In addition, the provisions of Section 203 of the Delaware General Corporate Law will govern us upon completion of this offering. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding common stock, from engaging in certain business combinations without the approval of substantially all of our stockholders for a certain period of time.

These and other provisions in our amended and restated certificate of incorporation, our amended and restated bylaws and under Delaware law could discourage potential takeover attempts, reduce the price that investors might be willing to pay for shares of our common stock in the future and result in the market price being lower than it would be without these provisions. See "Description of Capital stock—Preferred stock" and "Description of Capital stock—Anti-takeover effects of Delaware law."

Our current loan agreement could make a takeover that stockholders consider favorable more difficult and could also reduce the price an acquiror would be willing to pay of our stock.

Our current loan agreement with East West Bank contains a provision that prevents us from terminating or replacing our Chief Executive Officer, Chief Financial Officer or other executive level officer without the prior approval from East West Bank. This provision in our loan agreement could also discourage potential takeover attempts or, reduce the price that an acquiror might be willing to pay to acquire the Company in the future.

Some provisions of our named executive officers' agreements regarding change of control or separation of service contain obligations for us to make separation payments to them upon their termination.

Certain provisions contained in our employment agreements with our named executive officers regarding change of control or separation of service may obligate us to make lump sum severance payments and related payments upon the termination of their employment with us, other than such executive officer's resignation without good reason or our termination of their employment as a result of their disability or for cause. In the event we are required to make these separation payments, it could have a material adverse effect on our results of operations for the fiscal period in which such payments are made. For a further description of the separation benefits that we may be obligated to pay upon such termination of these executives, see the section titled "Management-Agreements with Executive Officers."

Our stock price may be volatile and you may be unable to sell your shares at or above the offering price.

The market price of our common stock could be subject to wide fluctuations in response to, among other things, the risk factors described in this section of this prospectus, and other factors beyond our control, such as fluctuations in the valuation of companies perceived by investors to be comparable to us.

Furthermore, the stock markets have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions, such as recessions, interest rate changes or international currency fluctuations, may negatively affect the market price of our common stock.

In the past, many companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may become the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business.

As an "emerging growth company" within the meaning of the Securities Act, we will utilize certain modified disclosure requirements, and we cannot be certain if these reduced requirements will make our common stock less attractive to investors.

We are an emerging growth company within the meaning of the rules under the Securities Act. We have in this prospectus utilized, and we plan in future filings with the SEC to continue to utilize, the modified disclosure requirements available to emerging growth companies, including reduced disclosure about our executive compensation and omission of compensation discussion and analysis, and an exemption from the requirement of holding a nonbinding advisory vote on executive compensation and an exemption from the requirement that outside auditors attest as to our internal control over financial reporting. As a result, our stockholders may not have access to certain information they may deem important.

In addition, Section 107 of the JOBS Act also provides that an emerging growth company can utilize the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. Thus, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply

to private companies. We have elected to utilize this extended transition period. Our financial statements may therefore not be comparable to those of companies that comply with such new or revised accounting standards as they become applicable to public companies.

We cannot predict if investors will find our common stock less attractive because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile. We could remain an "emerging growth company" for up to five years, or until the earliest of (i) the last day of the first fiscal year in which our annual gross revenue exceed \$1 billion, (ii) the date that we become a "large accelerated filer" as defined in Rule 12b-2 under the Exchange Act, which would occur if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the last business day of our most recently completed second fiscal quarter or (iii) the date on which we have issued more than \$1 billion in non-convertible debt during the preceding three-year period.

If research analysts do not publish research about our business or if they issue unfavorable commentary or downgrade our common stock, our stock price and trading volume could decline.

The trading market for our common stock will depend on the research and reports that research analysts publish about us and our business. The price of our common stock could decline if one or more research analysts downgrade our common stock or if those analysts issue other unfavorable commentary or cease publishing reports about us or our business. If one or more of the research analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price or trading volume to decline.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

This prospectus contains forward-looking statements. All statements other than statements of historical facts contained in this prospectus are forward-looking statements, including statements regarding our future financial position, sources of revenue, business strategy and plans, prospective products, product approvals or products under development, costs, timing and likelihood of success, gross margins, and objectives of management for future operations. In particular, many of the statements under the headings "Prospectus summary," "Risk Factors," "Management's discussion and analysis of financial condition and results of operations" and "Business" constitute forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue," the negative of these terms, or by other similar expressions that convey uncertainty of future events or outcomes to identify these forward-looking statements. These statements are only predictions, involving known and unknown risks, uncertainties and other 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. We discuss many of these factors, risks and uncertainties in greater detail under the heading "Risk Factors" and elsewhere in this prospectus. These factors expressly qualify all oral and written forward-looking statements attributable to us or persons acting on our behalf.

You should not rely on forward-looking statements as predictions of future events. 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. Actual results may differ materially from those suggested by the forward-looking statements for various reasons, including those discussed under "Risk Factors" in this prospectus. Except as required by law, we assume no obligation to update forward-looking statements for any reason after the date of this prospectus to conform these statements to actual results or to changes in our expectations.

This prospectus contains market data and certain other statistical information based on independent industry publications, governmental publications, reports by market research firms or other independent sources, including those generated by Akamai, Cisco, Crehan Research Inc., Infonetics and Ovum, Inc., as well as our internal research. Some data is also based on our internal estimates. Industry publications, surveys and market research reports generally state that the information contained in them has been obtained from sources believed by the sources' authors to be reliable, but we have not independently verified any of the data from third party sources nor have we investigated the underlying economic assumptions on which such data are based. We commissioned certain Ovum research referenced in the sections "Prospectus Summary" and "Business" in this prospectus and contributed to its preparation. This information involves a number of assumptions and limitations. The markets in which we operate are subject to a high degree of uncertainty and risk due to a variety of factors, including those described in the section of this prospectus titled "Risk Factors."

USE OF PROCEEDS

We estimate that the net proceeds of the sale by us of our common stock in this offering will be approximately \$ million, based on an assumed initial public offering price of \$ per share, which is the midpoint of the range listed on the cover page of this prospectus, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. A \$1.00 increase or decrease in the assumed initial public offering price of \$ per share would increase or decrease the net proceeds to us from the offering by \$ million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the underwriting discounts and commissions and offering expenses payable by us. We may also issue up to shares of common stock in the offering in the over-allotment option. If we sell shares upon exercise of the over-allotment option, we may receive up to an additional \$ million of net proceeds in the offering. We will not receive any proceeds from the sale of shares by the selling stockholders.

We intend to use the net proceeds from this offering for working capital and other general corporate purposes, including the development of new products, sales and marketing activities, capital expenditures and the costs of operating as a public company. We may also use a portion of our net proceeds to repay outstanding indebtedness, which currently has interest rates ranging from 4.15% to 7.54% and maturity dates ranging from May 2013 to November 2014, but we currently have no commitments or specific plans to repay any particular indebtedness in advance of its maturity date. We may also use a portion of net proceeds to expand our current business through strategic alliances with, or acquisitions of, other businesses, products or technologies. We currently have no agreements or commitments for any such specific alliances or acquisitions. Pending any use above, we plan to invest the net proceeds in investment-grade, short-term, interest-bearing securities.

Management will have significant flexibility in applying the net proceeds of the offering. The amount and timing of our actual spending for these purposes may vary significantly from our plans and will depend on a number of factors, including our future revenues, cash generated by operations and other factors described under the heading "Risk Factors." We may find it necessary or advisable to use portions of the proceeds for other purposes.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our capital stock, and we do not anticipate paying any cash dividends on our common stock for the foreseeable future. We currently intend to retain all available funds and future earnings for use in the operation and expansion of our business. Any future determination to pay cash dividends will be at the discretion of our board of directors and will depend upon our financial condition, results of operations, terms of financing arrangements, applicable Delaware law, capital requirements and such other factors as our board of directors deems relevant. In addition, the terms of our loan agreements governing our long-term debt obligations prohibit us from paying dividends.

CAPITALIZATION

The following table sets forth our consolidated cash and cash equivalents and capitalization as of March 31, 2013 on:

- an actual basis;
- a pro forma basis to reflect the conversion of all outstanding shares of our preferred stock into an aggregate of 260,800,071 shares of common stock; and
- a pro forma as adjusted basis to reflect the pro forma adjustments described above and the sale by us of _____ shares of common stock in this offering, at an assumed initial public offering price of \$ _____ per share, the midpoint of the price range set forth on the front cover of this prospectus, after deducting underwriting discounts and commissions and estimated offering expenses.

The information below is illustrative only and our capitalization following the completion of this offering will be adjusted based on the actual initial public offering price and other terms of this offering determined at pricing. The terms of our preferred stock provide that our preferred stock will automatically convert into shares of our common stock upon the closing of our first underwritten public offering under an effective registration statement covering the offering and sale of our common stock for the account of the Company on a firm commitment basis for proceeds of at least \$30 million (for which this offering will qualify). You should read the information in this table together with "Management's Discussion and Analysis of Financial

Condition and Results of Operations" and our consolidated financial statements and the accompanying notes appearing elsewhere in this prospectus.

(in thousands, except share data)	As of March 31, 2013		
	Actual	Pro forma	Pro forma as adjusted (7)
Total debt	\$ 22,064	\$	\$
Stockholders' equity (deficit)			
Redeemable Series A preferred stock, \$0.001 par value, 4,900,000 shares authorized and 4,805,871 shares outstanding, actual; and no shares issued or outstanding pro forma or pro forma as adjusted (1)	\$ 7,105	\$ —	\$ —
Series C preferred stock, \$0.001 par value, 17,500,000 shares authorized and 17,470,093 shares outstanding, actual; and no shares issued or outstanding pro forma or pro forma as adjusted (2)	21,802	—	—
Series D preferred stock, \$0.001 par value, 11,800,000 shares authorized and 11,413,984 shares outstanding, actual; and no shares issued or outstanding pro forma or pro forma as adjusted (3)	14,185	—	—
Series E preferred stock, \$0.001 par value, 11,000,000 shares authorized and 10,338,654 shares outstanding, actual; and no shares issued or outstanding pro forma or pro forma as adjusted (4)	28,055	—	—
Series F preferred stock, \$0.001 par value, 82,000,000 shares authorized and 79,518,352 shares outstanding, actual; and no shares issued or outstanding pro forma or pro forma as adjusted (5)	19,392	—	—
Series G preferred stock, \$0.001 par value, 45,000,000 shares authorized and 42,857,108 shares outstanding, actual; and no shares issued or outstanding pro forma or pro forma as adjusted (6)	14,942	—	—
Common stock, \$0.001 par value: 300,000,000 shares authorized; 7,977,592 shares outstanding, actual; 268,920,162 shares issued and outstanding, pro forma; and shares issued and outstanding pro forma as adjusted	1,103	106,584	
Additional paid-in capital	4,569	4,569	
Accumulated other comprehensive income	2,079	2,079	
Accumulated deficit	(82,911)	(82,911)	
Total stockholders' equity (deficit)	\$ 30,321	\$ 30,321	\$
Total capitalization	\$ 52,385	\$ 52,385	\$

- (1) The 4,805,871 shares of our redeemable Series A preferred stock outstanding on an actual basis will convert into 15,249,353 shares of common stock upon the closing of this offering.
- (2) The 17,470,093 shares of our Series C preferred stock outstanding on an actual basis will convert into 40,366,820 shares of common stock upon the closing of this offering.
- (3) The 11,413,984 shares of our Series D preferred stock outstanding on an actual basis will convert into 28,944,936 shares of common stock upon the closing of this offering.
- (4) The 10,338,654 shares of our Series E preferred stock outstanding on an actual basis will convert into 37,411,163 shares of common stock upon the closing of this offering.

- (5) The 79,974,352 shares of our Series F preferred stock outstanding on an actual basis will convert into 95,970,689 shares of common stock upon the closing of this offering.
- (6) The 42,857,108 shares of our Series G preferred stock outstanding on an actual basis will convert into 42,857,108 shares of common stock upon the closing of this offering.
- (7) A \$1.00 increase (decrease) in the assumed initial public offering price of \$ per share, which is the midpoint of the range listed on the cover page of this prospectus, would increase (decrease) each of pro forma as adjusted additional paid-in capital, total stockholders' equity (deficit) and total capitalization by approximately \$.

The number of shares of our common stock to be outstanding after this offering is based on 268,920,162 shares of our common stock outstanding as of March 31, 2013. This number of shares does not include:

- 22,219,328 shares of common stock subject to outstanding options as of March 31, 2013, with a weighted average exercise price of \$0.2213 per share;
- 300,000 shares of common stock issuable upon the exercise of outstanding warrants, with a weighted average exercise price of \$0.20 per share;
- 1,730,000 shares of Series F preferred stock issuable upon the exercise of outstanding warrants, with a weighted average exercise price of \$0.21387 per share, which are convertible to 2,076,033 shares of common stock;
- 382,442 shares of Series G preferred stock issuable upon the exercise of outstanding warrants, with a weighted average exercise price of \$0.469261 per share, which are convertible to 382,442 shares of common stock; and
- 24,000,000 shares of common stock available for future sale or issuance under our stock option plans.

DILUTION

If you invest in our common stock, your interest will be diluted to the extent of the difference between the initial public offering price per share of our common stock and the pro forma net tangible book value per share of our common stock after this offering. We calculate pro forma net tangible book value per share by dividing the net tangible book value, tangible assets less total liabilities, by the number of outstanding shares of common stock after giving effect to the assumed conversion of all of our convertible preferred stock. Our pro forma net tangible book value at March 31, 2013, was \$30.3 million, or \$0.11 per share.

After giving effect to the sale of the _____ shares of common stock by us at the assumed initial public offering price of \$ _____ per share, which is the midpoint of the range listed on the cover page of this prospectus, and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma as adjusted net tangible book value at March 31, 2013, would be \$ _____, or \$ _____ per share. This represents an immediate increase in the pro forma net tangible book value of \$ _____ per share to existing stockholders and an immediate dilution of \$ _____ per share to new investors purchasing shares at the initial public offering price of \$ _____ per share. The following table illustrates this per share dilution:

Assumed initial public offering price per share	\$	
Actual net tangible book value per share at March 31, 2013	\$	3.73
Dilution per share to existing investors from conversion of preferred stock	\$	3.62
Pro forma net tangible book value per share at March 31, 2013	\$	0.11
Increase per share attributable to new investors	\$	
Pro forma as adjusted net tangible book value per share after this offering	\$	
Dilution per share to new investors in this offering	\$	

If the underwriters' over-allotment option were exercised in full, the pro forma as adjusted net tangible book value per share after the offering would be \$ _____ per share, the increase in net tangible book value per share attributable to new investors would be \$ _____ per share and the dilution per share to new investors in this offering would be \$ _____ per share, in each case assuming an initial public offering price of \$ _____ per share.

The following table shows on a pro forma as adjusted basis at March 31, 2013 and after giving effect to this offering the differences between existing stockholders and new investors with respect to the number of shares of common stock purchased from us, the total consideration paid to us and the average price paid per share by existing stockholders and by new investors purchasing common stock in this offering before deducting underwriting discounts and commissions. The calculation below is based on an assumed initial public offering price of \$ _____ per share:

	Shares purchased		Total consideration		Average price per share
	Number	Percent	Amount	Percent	
Existing stockholders	268,920,162	%	\$	%	\$
New investors		%	\$	%	\$
Total		%	\$	%	\$

If the underwriters' over-allotment option is exercised in full, the number of shares held by new investors would increase to , or approximately % of the total number of shares of our common stock outstanding after completion of this offering.

The number of shares of our common stock to be outstanding after this offering is based on 268,920,162 shares of our common stock outstanding as of March 31, 2013. This number of shares does not include:

- 22,219,328 shares of common stock subject to outstanding options as of March 31, 2013, with a weighted average exercise price of \$0.2213 per share;
- 300,000 shares of common stock issuable upon the exercise of outstanding warrants, with a weighted average exercise price of \$0.20 per share;
- 1,730,000 shares of Series F preferred stock issuable upon the exercise of outstanding warrants, with a weighted average exercise price of \$0.21387 per share, which are convertible to 2,076,033 shares of common stock;
- 382,442 shares of Series G preferred stock issuable upon the exercise of outstanding warrants, with a weighted average exercise price of \$0.469261 per share, which are convertible to 382,442 shares of common stock; and
- 24,000,000 shares of common stock available for future sale or issuance under our stock option plans.

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data in this section is not intended to replace our consolidated financial statements and the related notes. You should read this summary consolidated financial data together with the sections titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements and related notes, all included elsewhere in this prospectus. We derived the consolidated statements of operations data for the years ended December 31, 2010, 2011 and 2012 and the consolidated balance sheet data as of December 31, 2011 and 2012 from our consolidated financial statements appearing elsewhere in this prospectus. The consolidated statements of operations data for the three months ended March 31, 2012 and 2013 and the consolidated balance sheet data as of March 31, 2013 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus. Our historical results are not necessarily indicative of the results to be expected in the future and results of interim periods are not necessarily indicative of results for the entire year.

	Years ended December 31,					Three months ended March 31,	
	2008	2009	2010	2011	2012	2012	2013
	(in thousands, except share and per share data)						
Consolidated Statements of Operations Data:							
Revenue	\$ 31,224	\$ 24,969	\$ 40,489	\$ 47,840	\$ 63,421	\$ 12,506	\$ 14,317
Cost of goods sold (1)	25,562	21,525	27,539	34,468	44,492	8,393	9,732
Gross profit	\$ 5,662	\$ 3,444	\$ 12,950	\$ 13,372	\$ 18,929	\$ 4,113	\$ 4,585
Operating expenses:							
Research and development (1)	7,117	5,707	5,176	6,451	7,603	1,575	2,004
Sales and marketing (1)	2,907	2,018	1,993	2,412	3,135	809	907
General and administrative (1)	10,171	7,298	8,382	8,243	8,012	1,965	2,374
Asset impairment charges	3,651	—	492	—	—	—	—
Total operating expenses	\$ 23,846	\$ 15,023	\$ 16,043	\$ 17,106	\$ 18,750	\$ 4,349	\$ 5,285
Income (loss) from operations	(18,184)	(11,580)	(3,093)	(3,734)	179	(236)	(700)
Interest and other income (expense), net:							
Interest income	12	7	34	15	26	2	20
Interest expense	(983)	(1,038)	(906)	(1,338)	(1,381)	(376)	(306)
Other income (expense), net	(187)	68	585	(271)	231	87	(8)
Total interest and other income (expense), net	\$ (1,159)	\$ (964)	\$ (287)	\$ (1,594)	\$ (1,124)	\$ (287)	\$ (294)
Income (loss) before income taxes	(19,342)	(12,543)	(3,380)	(5,328)	(945)	(523)	(994)
Benefit from (provision for) income taxes	(54)	38	—	—	—	—	—
Net income (loss) attributable to common stockholders	\$ (19,397)	\$ (12,505)	\$ (3,380)	\$ (5,328)	\$ (945)	\$ (523)	\$ (994)
Accretion of redeemable convertible preferred stock and convertible preferred stock	—	—	—	—	—	—	—
Net income (loss) attributable to common stockholders	\$ (19,397)	\$ (12,505)	\$ (3,380)	\$ (5,328)	\$ (945)	\$ (523)	\$ (994)
Net income (loss) per share attributable to common stockholders:							
Basic and diluted	\$ (2.25)	\$ (1.61)	\$ (0.44)	\$ (0.67)	\$ (0.12)	\$ (0.07)	\$ (0.12)
Weighted average shares used to compute net income (loss) per share attributable to common stockholders:							
Basic and diluted	7,620,283	7,752,429	7,767,035	7,909,736	7,967,272	7,955,050	7,988,523

- (1) These expenses include stock-based compensation expense. Stock-based compensation expense is accounted for at fair value, using the Black-Scholes option-pricing model. Stock-based compensation expense is recognized over the vesting period of the stock options and was included in cost of goods sold and operating expenses as follows:

	Years ended December 31,					Three months ended March 31,	
	2008	2009	2010	2011	2012	2012	2013
	(in thousands)						
Cost of goods sold	\$ 110	\$ 102	\$ 61	\$ 35	\$ 7	\$ 2	\$ 12
Research and development	143	98	60	50	8	2	11
Sales and marketing	112	119	80	58	9	2	10
General and administrative	668	594	579	420	137	12	78
Total stock-based compensation expense	\$ 1,033	\$ 913	\$ 780	\$ 563	\$ 161	\$ 18	\$ 111

	Years ended December 31,					Three months ended March 31,	
	2008	2009	2010	2011	2012	2012	2013
	(in thousands)						
Consolidated balance sheet data:							
Total cash (1)	\$ 1,395	\$ 2,867	\$ 4,643	\$ 2,074	\$ 11,226		9,343
Working capital (2)	(875)	7,511	(2,322)	(1,911)	13,669		13,270
Total assets	47,405	45,560	52,934	53,723	65,748		61,057
Total debt (3)	23,417	14,300	23,071	22,597	24,584		22,064
Redeemable convertible preferred stock and convertible preferred stock	71,145	90,423	90,423	94,373	105,367		105,481
Common stock and additional paid-in-capital	3,025	3,939	4,723	5,303	5,542		5,672
Total deficit	(59,758)	(72,263)	(75,643)	(80,972)	(81,917)		(82,911)

- (1) Total cash is defined as cash, cash equivalents and restricted cash.
- (2) Working capital is defined as total current assets less total current liabilities.
- (3) Total debt is defined as short-term loans, notes payable and total long-term debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the accompanying notes appearing elsewhere in this prospectus. This discussion and other parts of this prospectus contain forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. 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 in "Risk Factors."

Overview

We are a leading, vertically integrated provider of fiber-optic networking solutions. We target three networking end-markets: CATV, FTTH and internet data centers. We design and manufacture a range of optical communications solutions at varying levels of integration, from components, subassemblies and modules to complete turn-key equipment. We are primarily focused on the higher-performance segments within the CATV, FTTH and internet data center markets which increasingly demand faster connectivity and innovation. Our vertically integrated manufacturing model provides us several advantages, including rapid product development, fast response times to customer requests and control over product quality and manufacturing costs.

The three end markets we target are all driven by significant bandwidth demand fueled by the growth of network-connected devices, video traffic, cloud computing and online social networking. Within the CATV market, we benefit from a number of ongoing trends including the global build-out of CATV infrastructure, the move to higher bandwidth networks among CATV service providers and the outsourcing of system design among CATV networking equipment companies. In the FTTH market, we benefit from continuing PON deployments and system upgrades among telecommunication service providers. Within the internet data center market, we benefit from the increasing use of higher-capacity optical networking technology as a replacement for copper cables, particularly as speeds reach 10 gigabits per second and above, as well as the movement to open internet data center architectures and the increasing use of in-house equipment design among leading internet companies.

We sell our solutions to leading original equipment manufacturers, or OEMs, in the CATV and FTTH markets as well as internet data center operators. In 2012, our products were used by the five largest CATV equipment OEMs consisting of Arris Group Inc., Aurora Networks, Inc., Cisco Systems, Inc., Harmonic Inc. and Motorola Mobility Holdings, Inc. Our other key customers included Genexis B.V. in the FTTH market and Microsoft Corporation in the internet data center market. In 2012, 78.6% of our revenue was attributable to sales of our solutions into the CATV market, 8.3% of our revenue was attributable to sales of our solutions into the internet data center market, 5.8% of our revenue was attributable to sales of our solutions into the FTTH market and the remaining 7.2% was attributable to other markets (including telecom networking).

Our sales model focuses on direct engagement and close coordination with our customers to determine product design, qualifications, performance and price. Our strategy is to use our direct sales force to sell to key accounts and to expand our use of distributors for increased coverage in certain international markets and certain domestic market segments. We have direct sales personnel that cover the U.S., Taiwan and China focusing primarily on major OEM customers and internet data center operators. Throughout our sales cycle, we work closely with our customers to qualify our solutions into their product lines. As a result, we strive to build

strategic and long-lasting customer relationships and deliver solutions that are customized to our customers' requirements.

Our business depends on winning competitive bid selection processes, known as design wins, to develop components, systems and equipment for use in our customers' products. These selection processes are typically lengthy, and as a result, our sales cycles will vary based on the level of customization required, market served, whether the design win is with an existing or new customer and whether our solution being designed in our customers' product is our first generation or subsequent generation product. We do not have any long-term purchase commitments (in excess of one year) with any of our customers, all of whom purchase our products on a purchase order basis. Once one of our solutions is incorporated into a customer's design, however, we believe that our solution is likely to continue to be purchased for that design throughout that product's life cycle because of the time and expense associated with redesigning the product or substituting an alternative solution.

We believe we have an attractive financial profile, with strong revenue performance and control over our manufacturing costs through our vertically integrated manufacturing model. While we have incurred substantial losses since our inception, and as of December 31, 2012 had an accumulated deficit of \$81.9 million, we achieved profitability (net income on a GAAP basis) in the fourth quarter of 2012. We have grown our revenue at a 36.4% CAGR between 2009 and 2012, including 32.6% growth year-over-year from 2011 to 2012.

Factors Affecting Our Performance

Increasing Consumer Demand for Bandwidth. Bandwidth demand in all of our target markets is driving service provider investment in new equipment and in turn generating demand for our products. Increasingly, optical networking technologies are being incorporated into networking equipment, replacing legacy copper-based networking technologies. This shift to optical networking solutions benefits us as a provider of those solutions.

Design Wins. Our long-term revenue prospects are based both on the growth in revenue from existing design wins and our ability to generate new design wins with new and existing customers. We use customer demand forecasts and internal sales forecasts when evaluating the expected time to market and associated revenue potential from each design project undertaken. Our design win cycle, or the time from initial concept to volume production, is often 18 to 24 months, with the design win process typically being more extensive when a product incorporates innovative technology that is not yet broadly deployed. Once a design has been awarded and begins to ship in volume, we typically realize revenue from the product from four to up to ten years; however, not all design wins lead to the revenue levels anticipated by us.

Pricing, Product Cost and Margins. Our solution pricing varies depending upon the end market, the complexity of the product and the level of competition. Our product costs also vary with complexity as well as the degree to which we can utilize components designed and manufactured ourselves. We tend to realize higher gross margins on products that incorporate a higher percentage of our own components. We often initially experience lower gross margins on new products, as our pricing is based upon anticipated volume-driven cost reductions over the life of the design win. Thus, if we are unable to realize our expected cost reductions, we may experience declining gross margins on such products.

Our product pricing is established when the product is initially introduced to the market, and thereafter through periodic negotiations with customers. We generally do not agree to periodic automatic price reductions. Furthermore, due to the dynamics in the CATV market and

the value of our outsourced design services to our customers, we believe we face less downward price pressure than many of our competitors. We sell a wide variety of products among our three target markets and our gross margin is heavily dependent in any quarter on the product mix achieved during that period.

Decreasing Customer Concentration within End Markets. Historically, our revenue has been significantly concentrated within the CATV market and among a few customers within this market. Over the past two years, we have developed new products from design wins within the FTTH and internet data center markets. Furthermore, we have developed additional original design manufacturer, or ODM, relationships with customers in each of our target markets which should enable us to diversify our revenue. Although we expect the CATV market to remain our largest market for the next several years, we anticipate that sales in the FTTH and internet data center markets will continue to account for a more significant percentage of our total revenue into the future. We believe that our entry into the FTTH and internet data center markets with new customers and with new products will continue to facilitate revenue growth and customer diversification.

Product Development. We invest heavily to develop new and innovative products. The majority of our research and development expense is allocated to product development, usually with a specific customer and customer platform in mind. We believe our close coordination with our customers regarding their future product requirements enhances the efficiency of our research and development expenditures.

Discussion of Financial Performance

Revenue

We generate revenue through the sale of our products to equipment providers for the CATV, FTTH and internet data center markets. We derive a significant portion of our revenue from our top ten customers, and we anticipate that we will continue to do so for the foreseeable future. We also anticipate that our revenue derived from the FTTH and internet data center markets may increase as a percentage of our revenue as we further penetrate and extend our products into these markets. In 2010, 2011 and 2012, our top ten customers represented 80.5% 76.6% and 77.7% of our revenue, respectively. Our largest customer Cisco Systems, Inc. represented 18.9%, 26.8% and 33.2% of our revenue in 2010, 2011 and 2012, respectively. Biogenomics Corp., a distributor, accounted for 13.8%, 11.7% and 11.2%, of our revenue in 2010, 2011 and 2012, respectively. In 2010, Aurora Networks, Inc. accounted for 10.8% of our revenue and Electroline Systems accounted for 10.2% of our revenue. No other customer represented more than 10.0% of our revenue in 2010, 2011 or 2012.

Revenue is recognized when the product is shipped and title has transferred to the customer. We bear all costs and risks of loss or damage to the goods up to that point. On most orders, our terms of sale provide that title passes to the customer upon placement by us with a common carrier (upon shipment). A majority of our annual sales are denominated in U.S. dollars, but some sales from our Taiwan location and China-based subsidiary are denominated in NT dollars and RMB, respectively. For the year ended December 31, 2012, 18.1% of our total revenue was derived from our China-based subsidiary, with \$11.4 million denominated in RMB, and an immaterial amount sold directly by our Taiwan location. We expect a similar portion of our sales to be denominated in foreign currencies in 2013.

During 2012 compared to 2011, our average sales price across our product lines declined less than 8.0%, which is less of a decline than experienced by many of our competitors.

Revenue from period to period is driven by the volume of shipments and may be impacted by pricing pressures, among other factors.

Cost of goods sold and gross margin

Our cost of goods sold consists of material costs, direct labor, allocated overhead and periodic cost variances, including reserves for excess and obsolete inventory, with each representing approximately 69.5%, 9.3%, 16.1%, and 5.1% of our total cost of goods sold, respectively, in 2012.

Our cost of goods sold is impacted by variances arising from changes in yields and production volume. We typically experience lower yields and higher associated costs on new products. In general, our cost of goods sold for a particular product declines over time as a result of increasing efficiencies in the manufacturing processes, or supply cost declines, as well as yield improvements and testing enhancements.

We manufacture our products in all three of our facilities in the U.S., Taiwan and China. Generally, laser chips and optical components are manufactured in our U.S. facility, optical components and subassemblies are manufactured in our Taiwan facility, and equipment is manufactured in our China facility. Because of our vertical integration model, we utilize our own products in our semi-finished and finished goods that we sell between and among our respective manufacturing operations. We base those internal sales upon established transfer pricing methodologies. However, we eliminate all of those internal sales, and cost of goods sold transactions, to arrive at total revenue and cost of goods sold on a consolidated basis.

We have a global set of suppliers to help balance considerations related to product availability, quality and cost. Components of our cost of goods sold are denominated in U.S. or NT dollars or RMB, depending upon the manufacturing location.

Gross profit as a percentage of total revenue, or gross margin, has been and is expected to continue to be affected by a variety of factors, including the introduction of new products, production volumes, the mix of products sold, changes in the cost and volumes of materials purchased from our suppliers, changes in labor costs, changes in overhead costs, reserves for excess and obsolete inventories and changes in the average selling prices of our products. Although our overall gross margins over the past three years have been between 28.0% and 32.0%, our gross margins vary more broadly on a product-by-product basis. Our newer and more advanced products typically have higher average selling prices and higher gross margins; however, until the product volumes scale, the gross margin from newer and advanced products may initially be lower. Our strategy is to improve our gross margins through vertical integration such as utilization of our own laser chips and optical sub-components in our solutions. We expect that our gross margins are likely to continue to fluctuate from quarter to quarter because of the variety of products we sell and the relative product mix within a quarter.

Operating expenses

Our operating expenses consist of research and development, sales and marketing, and general and administrative expenses. Personnel costs are the most significant component of operating expenses and include salaries, benefits, bonuses and stock-based compensation. With regard to sales and marketing expense, personnel costs also include sales commissions.

Research and development. Research and development, or R&D, expense consists primarily of personnel costs, including stock-based compensation for R&D personnel, and R&D work orders

(that include material, direct labor and allocated overhead), as well as allocated development costs, such as engineering services, software and hardware tools, depreciation of capital equipment and facility costs. We record all research and development expense as incurred. Customers rely upon us to assist them with the development of new products and modification of existing products because of our extensive optical design and manufacturing expertise. We work closely with our customers in the critical design phase of product development, and are often reimbursed for those development efforts. By virtue of our overseas R&D operations and by focusing on customer-specific projects, our research and development expenses have tended to represent a lower percentage of revenue compared to some of our competitors. In the future, we expect research and development expense to increase on a dollar basis, but continue to decline as a percentage of revenue, to the extent our revenue increases over time.

Sales and marketing. Sales and marketing expense consists primarily of personnel costs, including stock-based compensation for our sales and marketing personnel, as well as travel and trade show expense, sales commissions and the allocation of overall corporate services and facility costs. We sell our products to customers who either incorporate our products into their offering or resell our products to end customers. Because we sell to a limited number of well-established customers, we employ a limited number of sales professionals who are able to cover large markets. We compensate our sales staff through base salary and commissions, with base salary being the largest component of overall compensation. Total sales commissions to employees amounted to less than one percent of our revenue in 2012. Additionally, we pay commissions to third parties on certain product lines and identified customers, which also amounted to less than one percent of our revenue in 2012. As such, our sales and marketing expense does not directly increase with revenue. In the future, we expect sales and marketing expense to increase on a dollar basis as we incrementally increase our overall sales activities, but expect our sales and marketing expense to decline as a percentage of revenue, to the extent our revenue increases over time.

General and administrative. General and administrative expense consists primarily of personnel costs, including stock-based compensation, primarily for our finance, human resources and information technology personnel and certain executive officers, as well as professional services costs related to accounting, tax, banking, legal and information technology services, depreciation of capital equipment and facility costs. We expect general and administrative expense to increase in the short term, as we develop the infrastructure necessary to operate as a public company, including increased audit and legal fees, costs to comply with the Sarbanes-Oxley Act and the rules and regulations applicable to companies listed on a national stock exchange, as well as investor relations expense and higher insurance premiums. In the future, we expect general and administrative expense to increase on a dollar basis but continue to decline as a percentage of revenue, to the extent our revenue increases over time.

Other income (expense)

Interest income consists of income earned on our cash, cash equivalents and short-term investments. Interest expense consists of amounts paid for interest on our short-term and long-term debt borrowings.

Other income (expense), net is primarily made up of foreign currency transaction gains and losses. The functional currency of our China subsidiary is the RMB and the foreign currency transaction gains and losses of our China subsidiary primarily result from their transactions in U.S. dollars. The functional currency of our Taiwan location is the NT dollar and the foreign currency transaction gains and losses of our Taiwan location primarily result from their transactions in U.S. dollars.

Income taxes

We conduct our business globally. However, our operating income is subject to varying rates of tax in the U.S., Taiwan and China. Consequently, our effective tax rate is dependent upon the geographic distribution of our earnings or losses and the tax laws and regulations in each geographical region. We expect that our income taxes will vary in relation to our profitability and the geographic distribution of our profits. Our effective U.S. federal income tax rate was 0% in the past three years as we have incurred operating losses. At December 31, 2012, our U.S. accumulated net operating loss, or NOL, was \$66.7 million. As we earn profits in the U.S., we expect to reduce our cash tax obligations by the utilization of NOL carry-forwards. Our NOL benefits expire over the twelve-year period from 2020 to 2032. Under Section 382 of the Internal Revenue Code of 1986, as amended, if a corporation undergoes an "ownership change," the corporation's ability to use its pre-change NOLs, capital loss carry-forwards and other pre-change tax attributes to offset its post-change income may be limited going forward. We believe we have experienced ownership changes in the past as a result of our stock financings. As a result, our ability to use any NOLs and capital loss carry-forwards existing at the time of the change in ownership would limit those loss carry-forwards. We continue to update our analysis to determine the extent of the limitations.

In China, our wholly owned China subsidiary has enjoyed preferential tax concessions as a "high-tech enterprise." Pursuant to China's State Council's Regulations on Encouraging Investment in and Development, our China subsidiary is entitled to full exemption from China's Foreign Enterprise Income Tax, or FEIT, for the first two years and a 50% reduction for the next three years, commencing from the first profit making year after offsetting all tax losses carried forward from the previous five years. In March 2007, China enacted the PRC Enterprise Income Tax Law, or EIT Law, under which, effective January 1, 2008, China adopted a uniform income tax rate of 25% for all enterprises (including foreign invested enterprises) and cancelled several tax incentives enjoyed previously by foreign invested enterprises. For foreign invested enterprises like our China subsidiary that were established before the promulgation of the EIT Law, a five-year transition period is provided during which reduced income tax rates will apply but gradually be phased out. The Chinese government has not yet announced implementation measures for the transitional policy concerning such preferential tax rates, so we are unable at this time to estimate the financial impact of the new tax law. We expect that our income tax liability from China profits will vary based upon the implementation of that tax policy and the utilization of our NOL carry-forwards. At December 31, 2012, our accumulated NOLs for our China subsidiary were \$9.0 million, which expire over a four year period from 2013 to 2016. As we earn profits in China, we expect to reduce our cash tax obligations by the utilization of NOL carry-forwards. The NOL benefits are available to reduce our tax obligations in future periods.

Results of Operations

The following table set forth our results of operations for the periods presented and as a percentage of our revenue for those periods. The period-to-period comparison of our financial results is not necessarily indicative of our financial results to be achieved in future periods.

	Years ended December 31,			Three months ended March 31,	
	2010	2011	2012	2012	2013
(in thousands, except percentages)					
Consolidated Statements of Operations Data:					
Revenue	\$ 40,489	\$ 47,840	\$ 63,421	\$ 12,506	\$ 14,317
Cost of goods sold (1)	27,539	34,468	44,492	8,393	9,732
Gross profit	\$ 12,950	\$ 13,372	\$ 18,929	\$ 4,113	\$ 4,585
Gross margin	32.0%	28.0%	29.8%	32.9%	32.0%
Operating expenses:					
Research and development (1)	5,176	6,451	7,603	1,575	2,004
Sales and marketing (1)	1,993	2,412	3,135	809	907
General and administrative (1)	8,341	8,197	7,952	1,950	2,357
Amortization of intangible assets	41	46	60	15	17
Asset impairment charges	492	—	—	—	—
Total operating expenses	\$ 16,043	\$ 17,106	\$ 18,750	\$ 4,349	\$ 5,285
Income (loss) from operations	\$ (3,093)	(3,734)	179	(236)	(700)
Interest and other income (expense), net	(287)	(1,594)	(1,124)	(287)	(294)
Income (loss) before income taxes	\$ (3,380)	\$ (5,328)	\$ (945)	\$ (523)	\$ (994)
Benefit from (provision for) income taxes	—	—	—	—	—
Net income (loss)	\$ (3,380)	\$ (5,328)	\$ (945)	\$ (523)	\$ (994)
Additional Financial Data:					
Non-GAAP gross profit (2)	\$ 13,011	\$ 13,405	\$ 18,936	\$ 4,115	\$ 4,597
Non-GAAP income (loss) from operations (2)	(1,923)	(3,000)	441	(203)	(555)
Non-GAAP net income (loss) (2)	(1,780)	(5,027)	(503)	(443)	(686)
Adjusted EBITDA (2)	2,881	(638)	3,734	656	321

(1) These expenses include stock-based compensation expense, which is accounted for at fair value, using the Black-Scholes option-pricing model. Stock-based compensation expense is recognized over the vesting period of the stock options and was included in cost of goods sold and operating expenses as follows:

	Years ended December 31,			Three months ended March 31,	
	2010	2011	2012	2012	2013
(in thousands)					
Cost of goods sold	\$ 61	\$ 35	\$ 7	\$ 2	\$ 12
Research and development	60	50	8	2	11
Sales and marketing	80	58	9	2	10
General and administrative	579	420	137	12	78
Total stock-based compensation expense	\$ 780	\$ 563	\$ 161	\$ 18	\$ 111

- (2) We prepare Adjusted EBITDA and our other non-GAAP measures to eliminate the impact of items that we do not consider indicative of our overall operating performance. To arrive at our non-GAAP gross profit, we exclude stock-based compensation expense from our GAAP gross profit. To arrive at our non-GAAP income (loss) from operations we exclude all amortization of intangible assets, stock-based compensation expense and non-recurring consulting fees, if any, from our GAAP net income (loss) from operations. To arrive at our Adjusted EBITDA, we exclude these same items and, additionally, exclude asset impairment charges, loss (gain) from disposal of idle assets, unrealized exchange loss (gain), interest (income) expense, on a net basis, provision for (benefit from) income taxes and all depreciation expense from our GAAP net income (loss).

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 stock-based compensation expense, adjusted depreciation and amortization, income tax expense and other income, net, is appropriate because treatment of these items may vary for reasons unrelated to our overall operating performance;
- We use non-GAAP measures in conjunction with our GAAP financial measures for planning purposes, including the preparation of our annual operating budget, as a measure of operating performance and the effectiveness of our business strategies and in communications with our board of directors concerning our financial performance;
- We believe that non-GAAP measures provide better comparability with our past financial performance, facilitates better period-to-period comparisons of operational results and also facilitates comparisons with our peer companies, many of which also use similar non-GAAP financial measures to supplement their GAAP reporting; and
- We anticipate that, after consummating this offering, our investor presentations and those of securities analyst will include non-GAAP measures to evaluate our overall operating performance.

Adjusted EBITDA and other non-GAAP measures should not be considered as an alternative to gross profit, income (loss) from operations, net income (loss) or any other measure of financial performance calculated and presented in accordance with GAAP. Our Adjusted EBITDA and other non-GAAP measures may not be comparable to similarly titled measures of other organizations because other organizations may not calculate Adjusted EBITDA or such other non-GAAP measures in the same manner. You are encouraged to evaluate these adjustments and the reason we consider them appropriate. For a reconciliation between GAAP and Non-GAAP measures, see footnote (3) to the table in the section titled "Summary Consolidated Financial Data" on page 9 of this prospectus.

Comparison of the Three Months Ended March 31, 2013 and 2012

Revenue

	Three months ended March 31,		Change	
	2012	2013	Amount	%
Revenue	\$ 12,506	\$ 14,317	\$ 1,811	14.5%

(in thousands, except percentages)

Of our total revenue in the three months ended March 31, 2013, we generated \$11.1 million, or 79.0%, from the CATV market, \$1.3 million, or 9.0%, from the internet data center market, \$0.8 million, or 5.5%, in the FTTH market, and \$1.0 million, or 6.5%, from other markets.

The increase in revenue was attributable to a \$1.4 million increase in revenue from the CATV market and a \$0.6 million increase from the internet data center market, which increases were partially offset by a \$0.3 million decrease in the FTTH market and a \$0.9 million decrease from other markets. Our CATV market revenue increased due to an increase in sales of our CATV equipment products in China. Revenues in the internet data center market were driven by increasing sales to new customers acquired late in 2012.

Cost of goods sold and gross margin

	Three months ended March 31,					
	2012		2013		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
	(in thousands, except percentages)					
Cost of goods sold	\$ 8,393	67.1%	\$ 9,732	68.0%	\$ 1,339	16.0%
Gross margin		32.9%		32.0%		

Cost of goods sold increased by \$1.3 million, or 16.0%, from the three months ended March 31, 2012 to the three months ended March 31, 2013, primarily due to a combination of an \$0.8 million increase in direct material costs and a \$0.4 million increase in labor and overhead costs, both of which were associated with our increase in revenues. The decrease in gross margin was primarily the result of an unfavorable product mix in the CATV market.

Operating expenses

	Three months ended March 31,					
	2012		2013		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
	(in thousands, except percentages)					
Research and development	\$ 1,575	12.6%	\$ 2,004	14.0%	\$ 429	27.2%
Sales and marketing	809	6.5%	907	6.3%	98	12.1%
General and administrative	1,950	15.6%	2,357	16.5%	407	20.8%
Amortization of intangible assets	15	0.1%	17	0.1%	2	16.7%
Total operating expenses	\$ 4,349	34.8%	\$ 5,285	36.9%	\$ 936	21.5%

Research and development expense

Research and development expense increased by \$0.4 million, or 27.2%, from the three months ended March 31, 2012 to the three months ended March 31, 2013. This was primarily due to increases in personnel costs and R&D work order and project costs related to new product development.

Sales and marketing expense

Sales and marketing expense increased by \$0.1 million, or 12.1%, from the three months ended March 31, 2012 to the three months ended March 31, 2013. This was primarily due to an increase in personnel costs due to additional sales and marketing staff.

General and administrative expense

General and administrative expense increased by \$0.4 million, or 20.8%, from the three months ended March 31, 2012 to the three months ended March 31, 2013. This was primarily due to an increase in personnel costs, professional fees and travel expenses.

Other income (expense), net

	<u>Three months ended March 31,</u>					
	<u>2012</u>		<u>2013</u>		<u>Change</u>	
	<u>Amount</u>	<u>% of revenue</u>	<u>Amount</u>	<u>% of revenue</u>	<u>Amount</u>	<u>%</u>
	(in thousands, except percentages)					
Interest income	\$ 2	0.0%	\$ 20	0.1%	\$ 18	1009.9%
Interest expense	(376)	(3.0)%	(306)	(2.1)%	70	(18.6)%
Other income (expense), net	87	0.7%	(8)	(0.1)%	(96)	(109.1)%
Total other income (expense), net	<u>\$ (287)</u>	<u>(2.3)%</u>	<u>\$ (294)</u>	<u>(2.1)%</u>	<u>\$ (8)</u>	<u>2.6%</u>

Total other income (expense), net remained relatively unchanged from the three months ended March 31, 2012 to the three months ended March 31, 2013.

Interest expense decreased for the three months ended March 31, 2012 to the three months ended March 31, 2013 due to the benefit of lower interest rates on relatively unchanged loan balances.

Other income (expense) increased due to government subsidies received in China offset by an unrealized foreign exchange loss recognized resulting from the depreciation of the NT dollar against the U.S. dollar.

Benefit from (provision for) income taxes

	<u>Three Months ended March 31,</u>		
	<u>2012</u>	<u>2013</u>	<u>Change</u>
	(in thousands, except percentages)		
Benefit from (provision for) income taxes	\$ —	\$ —	\$ —
Effective tax rate	0.0%	0.0%	0.0%

Our effective tax rate was 0.0% for the three months ended March 31, 2013 and the three months ended March 31, 2012, as we did not generate positive taxable income.

Comparison of Years Ended December 31, 2012 and 2011
Revenue

	<u>Years ended December 31,</u>		<u>Change</u>	
	<u>2011</u>	<u>2012</u>	<u>Amount</u>	<u>%</u>
	(in thousands, except percentages)			
Revenue	\$ 47,840	\$ 63,421	\$ 15,581	32.6%

Of our total revenue in 2012, we generated \$49.8 million, or 78.6%, from the CATV market, \$5.3 million, or 8.3%, from the internet data center market, \$3.7 million, or 5.8%, from the FTTH market, and \$4.6 million, or 7.3%, from other markets. Total revenue increased by \$15.6 million, or 32.6%, from 2011 to 2012. The increase in revenue was attributable to an \$11.0 million increase in revenue from our CATV market, a \$5.3 million increase from the internet data center market, and a \$0.4 million increase in the FTTH market, which increases were partially offset by a \$1.0 million decrease from other markets. Our CATV market revenue increased in 2012 primarily due to increased capital expenditures by CATV service providers and increased shipments of our CATV equipment products. Revenues in 2012 were also driven by sales increases from two customers in the internet data center market. Our FTTH market revenue increased primarily because of the sale of new transceiver products to existing customers. Revenue declined in other markets because of a de-emphasis by our sales staff and the decline in sales of certain legacy products within those markets.

Cost of goods sold and gross margin

	Years ended December 31,					
	2011		2012		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
	(in thousands, except percentages)					
Cost of goods sold	\$ 34,468	72.0%	\$ 44,492	70.2%	\$ 10,024	29.1%
Gross margin		28.0%		29.8%		

Cost of goods sold increased by \$10.0 million, or 29.1%, from 2011 to 2012, primarily due to a combination of an \$8.5 million increase in direct material costs and a \$1.3 million increase in labor and overhead costs, both of which were associated with our increase in revenues. The increase in gross margin was caused by lower direct labor costs and lower overhead from improved efficiency, combined with a reduction in our inventory reserve. The inventory reserves were higher in 2011 primarily due to discontinued products and aging of inventory on hand.

Operating expenses

	Years ended December 31,					
	2011		2012		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
	(in thousands, except percentages)					
Research and development	\$ 6,451	13.5%	\$ 7,603	12.0%	\$ 1,152	17.9%
Sales and marketing	2,412	5.0%	3,135	4.9%	723	30.0%
General and administrative	8,197	17.1%	7,952	12.5%	(245)	(3.0)%
Amortization of intangible assets	46	0.1%	60	0.1%	14	29.4%
Total operating expenses	\$ 17,106	35.8%	\$ 18,750	29.6%	\$ 1,644	9.6%

Research and development expense

Research and development expense increased by \$1.2 million, or 17.9%, from 2011 to 2012, \$0.7 million of which was attributable to R&D material expenses associated with new product development. The remaining \$0.5 million increase was a result of a reallocation of existing personnel costs to R&D work orders and an increase in R&D staffing. Because our R&D staff is

integral to new product development, our R&D staff often rotate between R&D work orders (non-production orders) and production orders. As we shift those personnel from production back to R&D, our R&D expenses vary.

Sales and marketing expense

Sales and marketing expense increased by \$0.7 million, or 30.0%, from 2011 to 2012. This was due to a \$0.5 million increase in personnel costs due to additional sales and marketing staff to better serve our customers, and an increase in sales commissions of \$0.2 million because of our revenue growth.

General and administrative expense

General and administrative expense decreased by \$0.2 million, or 3.0%, from 2011 to 2012. This was primarily due to a decrease in stock option compensation expense because of the use of a reduced volatility assumption and prior grants becoming fully vested.

Other income (expense), net

	Years ended December 31,					
	2011		2012		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
	(in thousands, except percentages)					
Interest income	\$ 15	0.0%	\$ 26	0.0%	\$ 11	71.3%
Interest expense	(1,338)	(2.8)%	(1,381)	(2.2)%	(45)	3.3%
Other income (expense), net	(271)	(0.6)%	231	0.4%	502	186.0%
Total Other income (expense), net	\$ (1,594)	(3.3)%	\$ (1,124)	(1.8)%	\$ 470	29.5%

Total net other expense decreased by \$0.5 million, or 29.5%, from 2011 to 2012. Interest expense remained relatively unchanged from 2011 to 2012. While average loan balances increased from 2011 to 2012 by about \$2.0 million, we benefited from a reduction in interest rates in 2012. The net other expense decreased by \$0.5 million from 2011 to 2012 primarily due to foreign currency revaluation gains from U.S. denominated accounts in 2012 when the NT dollar appreciated against the U.S. dollar.

Benefit from (provision for) income taxes

	Years ended December 31,		
	2011	2012	Change
	(in thousands, except percentages)		
Benefit from (provision for) income taxes	\$ —	\$ —	\$ —
Effective tax rate	0.0%	0.0%	0.0%

Our effective tax rate was 0.0% for 2011 and 2012, as we did not generate positive taxable income.

Comparison of Years Ended December 31, 2011 and 2010**Revenue**

	Years ended December 31,		Change	
	2010	2011	Amount	%
	(in thousands, except percentages)			
Revenue	\$ 40,489	\$ 47,840	\$ 7,351	18.2%

Of our total revenue in 2011, we generated \$38.9 million, or 81.4%, from the CATV market, \$3.3 million, or 6.9%, from the FTTH market, \$5.6 million, or 11.6%, from other markets and an immaterial amount from the internet data center market. Total revenue increased by \$7.4 million, or 18.2%, from 2010 to 2011. The increase in revenue was attributable to a \$5.9 million increase in revenue from our CATV market, a \$1.4 million increase in the FTTH market, and immaterial increases from other markets, including the internet data center market. Our CATV market revenue increased in 2011 primarily due to increased capital expenditures by CATV service providers and increased shipments of our CATV equipment products. Our FTTH market revenue increased primarily because of the sale of new transceiver products within our existing customer base. Revenue in other markets was flat because of a de-emphasis by our sales staff on certain legacy products within those markets.

Cost of goods sold and gross margin

	Years ended December 31,				Change	
	2010		2011		Amount	%
	Amount	% of revenue	Amount	% of revenue		
(in thousands, except percentages)						
Cost of goods sold	\$ 27,539	68.0%	\$ 34,468	72.0%	\$ 6,930	25.2%
Gross margin		32.0%		28.0%		

Cost of goods sold increased by \$6.9 million, or 25.2%, from 2010 to 2011. The increase was primarily due to higher sales volumes in the CATV market. Cost of goods sold in 2011 was also affected by an increase in inventory reserves of \$0.7 million, including a specific write-off of discontinued products in the fourth quarter of 2011.

The decrease in gross margin was primarily the result of an unfavorable product mix in the CATV market in addition to the \$0.7 million in higher inventory loss reserve through the application of our inventory reserve policy.

Operating expenses

	Years ended December 31,					
	2010		2011		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
	(in thousands, except percentages)					
Research and development	\$ 5,176	12.8%	\$ 6,451	13.5%	\$ 1,275	24.6%
Sales and marketing	1,993	4.9%	2,412	5.0%	419	21.0%
General and administrative	8,341	20.6%	8,197	17.1%	(145)	(1.7)%
Amortization of intangible assets	41	0.1%	46	0.1%	5	13.3%
Asset impairment charges	492	1.2%	—	0.0%	(492)	(100.0)%
Total operating expenses	16,043	39.6%	17,106	35.8%	1,063	6.6%

Research and development expense

Research and development expense increased by \$1.3 million, or 24.6%, from 2010 to 2011. This was primarily due to a \$0.6 million increase in personnel costs and a \$0.4 million increase in R&D work order and project costs.

Sales and marketing expense

Sales and marketing expense increased by \$0.4 million, or 21.0%, from 2010 to 2011. The increase was primarily attributable to a \$0.2 million increase in personnel costs from additional sales personnel, and a \$0.2 million increase in shipping and samples expense as we expanded our customer base and markets.

General and administrative expense

General and administrative expense decreased by \$0.1 million, or 1.7%, from 2010 to 2011. The decrease was due primarily to a change in accounting for stock-based compensation expense and other savings and lower professional service fees, offset by an increase in personnel costs.

Asset impairment charges

In 2010, we recognized a \$0.5 million asset impairment charge related to equipment with carrying values lower than the estimated fair values.

Other income (expense), net

	Years ended December 31,					
	2010		2011		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
	(in thousands, except percentages)					
Interest income	\$ 34	0.1%	\$ 15	0.0%	\$ (19)	(56.2)%
Interest expense	(906)	(2.2)%	(1,338)	(2.8)%	(431)	47.6%
Other income (expense), net	585	1.4%	(271)	(0.6)%	(857)	(146.3)%
Total Other income (expense), net	\$ (287)	(0.7)%	\$ (1,594)	(3.3)%	\$ (1,307)	455.6%

The increase in interest expense of \$0.4 million, or 47.7%, from 2010 to 2011 was due to additional debt in 2011 related to loans for our China subsidiary and loans from stockholders in 2010.

Other income (expense), net decreased by \$0.9 million, or 146.4%, from 2010 to 2011 primarily related to an unrealized foreign exchange loss recognized resulting from the depreciation of the NT dollar against the U.S. dollar.

Benefit from (provision for) income taxes

	Years ended December 31,		
	2010	2011	Change
	(in thousands, except percentages)		
Benefit from (provision for) income taxes	\$ —	\$ —	\$ —
Effective tax rate	0.0%	0.0%	0.0%

Our effective tax rate was 0.0% for 2010 and 2011, as we did not generate positive taxable income.

Quarterly Results of Operations

The following tables set forth selected unaudited quarterly statements of operations data for our last nine completed fiscal quarters. The information for each of these quarters has been prepared on the same basis as the consolidated financial statements appearing elsewhere in this prospectus and, in the opinion of management, includes all adjustments necessary for the fair presentation of the results of operations for these periods. These data should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this prospectus. These quarterly operating results are not necessarily indicative of our operating results for any future period.

	Mar. 31, 2011	Jun. 30, 2011	Sep. 30, 2011	Dec. 31, 2011	Mar. 31, 2012	Jun. 30, 2012	Sep. 30, 2012	Dec. 31, 2012	Mar. 31, 2013
	(in thousands, except percentages)								
Revenue	\$ 9,507	\$ 11,489	\$ 12,094	\$ 14,750	\$ 12,506	\$ 15,638	\$ 16,416	\$ 18,861	\$ 14,317
Cost of goods sold (1)	6,844	7,956	8,297	11,371	8,393	10,938	11,743	13,418	9,732
Gross profit	\$ 2,663	\$ 3,533	\$ 3,797	\$ 3,379	\$ 4,113	\$ 4,700	\$ 4,673	\$ 5,443	\$ 4,585
Gross margin	28.0%	30.8%	31.4%	22.9%	32.9%	30.1%	28.5%	28.9%	32.0%
Operating expenses:									
Research and development (1)	\$ 1,520	\$ 1,396	\$ 1,758	\$ 1,777	\$ 1,575	\$ 1,708	\$ 2,178	\$ 2,144	\$ 2,004
Sales and marketing (1)	492	560	625	736	809	806	759	756	907
General and administrative (1)	2,043	2,064	2,048	2,087	1,965	1,947	1,892	2,213	2,374
Total operating expenses	\$ 4,056	\$ 4,020	\$ 4,431	\$ 4,601	\$ 4,349	\$ 4,460	\$ 4,829	\$ 5,112	\$ 5,285
Income (loss) from operations	\$ (1,392)	\$ (487)	\$ (634)	\$ (1,221)	\$ (236)	\$ 240	\$ (156)	\$ 331	(700)
Interest and other income (expense), net	(279)	(334)	(634)	(347)	(287)	(332)	(225)	(280)	(294)
Net income (loss)	\$ (1,671)	\$ (821)	\$ (1,268)	\$ (1,568)	\$ (523)	\$ (92)	\$ (381)	\$ 51	\$ (994)
Additional Financial Data:									
Non-GAAP gross profit (2)	\$ 2,672	\$ 3,542	\$ 3,806	\$ 3,388	\$ 4,115	\$ 4,702	\$ 4,675	\$ 5,445	\$ 4,597
Non-GAAP income (loss) from operations (2)	(1,160)	(280)	(483)	(1,076)	(203)	278	(108)	474	(555)
Non-GAAP net income (loss) (2)	(1,469)	(832)	(1,340)	(1,385)	(443)	(106)	(215)	262	(686)
Adjusted EBITDA (2)	(432)	255	(214)	(245)	656	953	851	1,275	305

(1) These expenses include stock-based compensation expense as follows:

	Mar. 31, 2011	Jun. 30, 2011	Sep. 30, 2011	Dec. 31, 2011	Mar. 31, 2012	Jun. 30, 2012	Sep. 30, 2012	Dec. 31, 2012	Mar. 31, 2013
	(in thousands)								
Cost of goods sold	\$ 9	\$ 9	\$ 9	\$ 9	\$ 2	\$ 2	\$ 2	\$ 2	\$ 12
Research and development	13	13	13	12	2	2	2	2	11
Sales and marketing	16	16	13	12	2	2	2	2	10
General and administrative	108	108	104	99	12	12	9	104	78
Total stock-based compensation expense	\$ 146	\$ 146	\$ 139	\$ 132	\$ 18	\$ 18	\$ 15	\$ 110	\$ 111

- (2) See footnote 3 to the table in the section titled "Summary Consolidated Financial Data" on page 9 of this prospectus for further discussion regarding Non-GAAP measures. The following table reflects the reconciliation of U.S. GAAP financial measures to non-GAAP financial measures:

	Mar. 31, 2011	Jun. 30, 2011	Sep. 30, 2011	Dec. 31, 2011	Mar. 31, 2012 (in thousands)	Jun. 30, 2012	Sep. 30, 2012	Dec. 31, 2012	Mar. 31, 2013
Gross profits	\$ 2,663	\$ 3,533	\$ 3,797	\$ 3,379	\$ 4,113	\$ 4,700	\$ 4,673	\$ 5,443	\$ 4,585
Non-GAAP adjustment:									
Stock-based compensation expense	9	9	9	9	2	2	2	2	12
Non-GAAP gross profit	\$ 2,672	\$ 3,542	\$ 3,806	\$ 3,388	\$ 4,115	\$ 4,702	\$ 4,675	\$ 5,445	\$ 4,597
Income (loss) from operations	\$ (1,392)	\$ (487)	\$ (634)	\$ (1,221)	\$ (236)	\$ 240	\$ (156)	\$ 331	\$ (700)
Non-GAAP adjustments:									
Amortization of intangible assets	11	11	12	13	15	14	15	16	17
Stock-based compensation expense	146	146	139	132	18	18	15	110	111
Non-recurring consultant fee	75	50	—	—	—	6	18	17	17
Non-GAAP income (loss) from operations	\$ (1,160)	\$ (280)	\$ (483)	\$ (1,076)	\$ (203)	\$ 278	\$ (108)	\$ 474	\$ (555)
Net income (loss)	\$ (1,671)	\$ (821)	\$ (1,268)	\$ (1,568)	\$ (523)	\$ (92)	\$ (381)	\$ 51	\$ (994)
Non-GAAP adjustments:									
Amortization of intangible assets	11	11	12	13	15	14	15	16	17
Stock-based compensation expense	146	146	139	132	18	18	15	110	111
Non-recurring consultant fee	75	50	—	—	—	6	18	17	17
Loss (gain) from disposal of idle assets	—	(9)	(85)	15	(36)	—	(1)	—	—
Unrealized exchange loss (gain)	(30)	(209)	(138)	24	83	(52)	119	68	163
Non-GAAP net income (loss)	\$ (1,469)	\$ (832)	\$ (1,340)	\$ (1,385)	\$ (443)	\$ (106)	\$ (215)	\$ 262	\$ (686)
Net income (loss)	\$ (1,671)	\$ (821)	\$ (1,268)	\$ (1,568)	\$ (523)	\$ (92)	\$ (381)	\$ 51	\$ (994)
Non-GAAP adjustments:									
Amortization of intangible assets	11	11	12	13	15	14	15	16	17
Stock-based compensation expense	146	146	139	132	18	18	15	110	111
Depreciation expense	763	768	752	783	725	724	721	712	722
Non-recurring consultant fee	75	50	—	—	—	6	18	16	—
Loss (gain) from disposal of idle assets	—	(9)	(85)	15	(36)	—	(1)	—	—
Unrealized exchange loss (gain)	(29)	(209)	(138)	24	83	(53)	119	68	163
Interest expense	274	319	374	356	374	336	345	301	286
Adjusted EBITDA	\$ (432)	\$ 255	\$ (214)	\$ (245)	\$ 656	\$ 953	\$ 851	\$ 1,275	\$ 305

The following table provides the unaudited quarterly results as a percentage of revenue.

	Mar. 31, 2011	Jun. 30, 2011	Sep. 30, 2011	Dec. 31, 2011	Mar. 31, 2012	Jun. 30, 2012	Sep. 30, 2012	Dec. 31, 2012	Mar. 31, 2013
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100%
Cost of goods sold	72.0%	69.2%	68.6%	77.1%	67.1%	69.9%	71.5%	71.1%	68%
Gross profit	28.0%	30.8%	31.4%	22.9%	32.9%	30.1%	28.5%	28.9%	32.0%
Operating expenses:									
Research and development	16.0%	12.2%	14.5%	12.0%	12.6%	10.9%	13.3%	11.4%	14.0%
Sales and marketing	5.2%	4.9%	5.2%	5.0%	6.5%	5.2%	4.6%	4.0%	6.3%
General and administrative	21.5%	18.0%	16.9%	14.2%	15.7%	12.4%	11.5%	11.7%	16.6%
Total operating expenses	42.7%	35.0%	36.6%	31.2%	34.8%	28.5%	29.4%	27.1%	36.9%
Income (loss) from operations	(14.6)%	(4.2)%	(5.2)%	(8.3)%	(1.9)%	1.5%	(0.9)%	1.8%	(4.9)%
Interest and other income (expense), net	(2.9)%	(2.9)%	(5.2)%	(2.3)%	(2.3)%	(2.1)%	(1.4)%	(1.5)%	(2.1)%
Net income (loss)	(17.6)%	(7.1)%	(10.5)%	(10.6)%	(4.2)%	(0.6)%	(2.3)%	0.3%	(6.9)%
Additional Financial Data:									
Non-GAAP gross profit (1)	28.1%	30.8%	31.5%	23.0%	32.9%	30.1%	28.5%	28.9%	32.1%
Non-GAAP income (loss) from operations (1)	(12.2)%	(2.4)%	(4.0)%	(7.3)%	(1.6)%	1.8%	(0.7)%	2.5%	(3.9)%
Non-GAAP net income (loss) (1)	(15.5)%	(7.2)%	(11.1)%	(9.4)%	(3.5)%	(0.7)%	(1.3)%	1.4%	(4.8)%
Adjusted EBITDA (1)	(4.5)%	2.2%	(1.8)%	(1.7)%	5.2%	6.1%	5.2%	6.8%	2.1%

(1) See footnote 2 to the preceding table.

Quarterly revenue trends and seasonality

Our quarterly results reflect seasonality in the sale of our products. Historically, our revenue has been highest in the fourth quarter and lowest in the first quarter. The first quarter of the year has historically been negatively affected by reduced economic activity due to the Chinese New Year holiday and the lower level of deployment of outdoor CATV equipment in cold weather environments. We expect our first quarter revenue to remain the lowest quarter of the year and be lower than the fourth quarter of the prior year.

Quarterly gross margin trends

Our gross margin varies quarter to quarter but has been within a range of 28.0% and 32.9% over the past nine quarters, except for the fourth quarter of 2011 when we incurred an additional charge to inventory of \$0.7 million from the application of our inventory reserve policy. Our gross margin varies primarily due to the product mix in a particular quarter, as well as from the level of manufacturing efficiencies, production yields (particularly in the laser chip fabrication process) and overall supply costs.

Quarterly operating result trends

Our quarterly operating results are likely to fluctuate due to seasonality and other factors such as:

- general economic, industry and market conditions in our target markets;
- our CATV customers' willingness to outsource more of their internal design and manufacturing;
- changes in the mix of products within a quarter or changes in the volume of products sold within a particular target market;
- our ability to obtain new design wins and the timing of such design wins;
- the level of revenues from our design wins;
- pricing policies by us or our competitors;
- our ability to fulfill sales orders in a timely manner within normal lead times or as otherwise demanded by customers;
- our ability to adjust our production in response to quarter-over-quarter variations in revenue;
- our ability to adjust sales, general and administrative costs in response to changes in revenue; and
- our ability to control costs and capital expenditures.

The occurrence of one or more of these factors could cause our revenue and corresponding operating results to vary widely. As such, we believe that our quarterly levels of revenue and expenses may vary significantly in the future, and that period-to-period comparisons of our results may not be meaningful and should not be relied upon as an indication of future performance.

Liquidity and Capital Resources

Since inception, we have financed our operations through private sales of equity securities and cash generated from operations and from various lending arrangements. At December 31, 2012, our cash, cash equivalents and restricted cash totaled \$11.2 million. Cash and cash equivalents were held for working capital purposes and were invested primarily in money market funds. We do not enter into investments for trading or speculative purposes.

The table below sets forth selected cash flow data for the periods presented:

	Years Ended December 31,			Three months ended
	2010	2011	2012	March 31, 2013 (unaudited)
	(in thousands)			
Net cash provided by (used in) operating activities	\$ (3,209)	\$ (4,125)	\$ (358)	\$ 1,321
Net cash used in investing activities	(2,914)	(1,571)	(3,290)	(943)
Net cash provided by (used in) financing activities	8,975	2,836	12,754	(2,666)
Effect of exchange rates on cash and cash equivalents	(621)	136	(150)	142
Net increase (decrease) in cash and cash equivalents	<u>\$ 2,232</u>	<u>\$ (2,724)</u>	<u>\$ 8,956</u>	<u>\$ (2,146)</u>

Operating activities

In the three months ended March 31, 2013, net cash provided by operating activities was \$1.3 million. Cash provided by operating activities primarily related to payments from customers from the sale of our products in excess of cash paid to our suppliers. During the three months ended March 31, 2013, we recognized a net loss of \$0.9 million. The net loss incorporated non-cash charges, including depreciation and amortization of \$0.8 million, stock-based compensation expenses of \$0.1 million and non-cash increases to our inventory reserve accounts of \$0.1 million.

In 2012, net cash used in operating activities was \$0.4 million. Cash used in operating activities primarily related to payments to suppliers in excess of cash received from our customers from the sale of our products. During 2012, we recognized a net loss of \$0.9 million. However, that net loss incorporated non-cash charges, including depreciation and amortization of \$2.9 million, stock-based compensation expense of \$0.1 million and non-cash increases to our inventory reserve accounts of \$0.9 million. In addition, we spent \$0.5 million in 2012 to increase our inventories in anticipation of expected increases in sales volumes.

In 2011, net cash used in operating activities was \$4.1 million. Cash used in operating activities primarily related to payments to suppliers in excess of cash received from our customers from the sale of our products. During 2011, we recognized a net loss of \$5.3 million. However, that net loss incorporated non-cash charges, including depreciation and amortization of \$3.1 million, stock-based compensation expense of \$0.6 million and non-cash increases to our inventory reserve accounts of \$1.6 million. In addition, we spent \$1.6 million in 2011 to increase our inventories in anticipation of expected increases in sales volumes.

In 2010, net cash used in operating activities was \$3.2 million. Cash used in operating activities primarily related to payments to suppliers in excess of cash received from our customers from the sale of our products. During 2010, we recognized a net loss of \$3.4 million. However, that net loss incorporated non-cash charges, including depreciation and amortization of \$3.3 million, asset impairment charges of \$0.5 million and stock-based compensation expense of \$0.8 million and non-cash increases to our asset reserve accounts of \$0.6 million.

Investing activities

Our investing activities consisted primarily of capital expenditures and purchases of intangible assets.

In the three months ended March 31, 2013, we used \$0.9 million of cash for investing activities for the purchase of additional machinery and equipment to support our research and development efforts and manufacturing activities.

In 2012, we used \$3.3 million of cash for investing activities. We used \$3.2 million of cash for the purchase of additional machinery and equipment to support our research and development efforts and manufacturing activities, partially offset by \$0.1 million of cash provided by the sale of obsolete equipment.

In 2011, we used \$1.6 million of cash for investing activities. We used \$1.8 million of cash for the purchase of property and equipment, partially offset by \$0.4 million of cash provided by the sale of obsolete equipment.

In 2010, we used \$2.9 million of cash for investing activities, including \$3.0 million of capital expenditures associated with the purchase of machinery and equipment and the expansion of our operations in China.

Financing activities

Our financing activities consisted primarily of proceeds from the issuance of preferred stock and activity associated with our various lending arrangements.

In the three months ended March 31, 2013, our financing activities used \$2.7 million in cash. We repaid \$2.5 million in bank loans and increased our restricted cash by \$0.3 million, related to the compensating balances required by our loans in China. These decreases were offset by \$0.1 million received from the exercise of stock warrants.

In 2012, our financing activities provided \$12.8 million in cash. We received \$10.2 million in cash from the issuance of preferred stock, \$2.7 million in net borrowings associated with our bank loans and \$0.8 million from the issuance of notes payable, offset in part by \$0.7 million of payments of principal on our term loans and notes payable and \$0.2 million to repay loans from stockholders.

In 2011, our financing activities provided \$2.8 million in cash, primarily resulting from \$2.9 million of cash from the issuance of preferred stock and \$1.6 million in net borrowings associated with our bank loans, offset in part by \$0.2 million of payments of principal on our term loans and notes payable and \$1.2 million to repay loans from stockholders.

In 2010, our financing activities provided \$9.0 million in cash, primarily resulting from \$6.1 million of net borrowings associated with our bank loans, \$0.4 million from the issuance notes payable and \$3.2 million from the proceeds of loans from stockholders. Restricted cash increased during 2010 by \$0.5 million due to less compensating balance required for our loan in China. Such proceeds were offset by \$0.4 million of payments of principal on our term loans and notes payable.

Loans and commitments

We have lending arrangements with several financial institutions, including a loan and security agreement with East West Bank in the U.S., several lines of credit arrangements for our China subsidiary and a financing agreement for our Taiwan location.

As of March 31, 2013, our loan and security agreement in the U.S. included a \$10.5 million revolving line of credit which matures on November 15, 2014. Also included with the same bank are two term loans with monthly payments of principal and interest that mature on May 4, 2014. As of March 31, 2013, we had \$6.5 million outstanding under the revolving line of credit and \$0.1 and \$3.2 million outstanding on the term loans. On April 11, 2013, the Company extended the maturity dates of these loans to November 15, 2014.

Our loan and security agreement requires us to maintain certain financial covenants, including a liquidity ratio, and restricts our ability to incur additional debt or to engage in certain transactions and is secured by substantially all of our U.S. assets. As of March 31, 2013, we were in compliance with all covenants contained in this agreement.

As of March 31, 2013, our China subsidiary had a line of credit facility and bank acceptances with China banks totalling \$12.8 million. As of March 31, 2013, a total of \$12.1 million was outstanding under various notes and bank acceptances, each with its own maturity date and each renewing annually from January 2013 to March 2014. Of the notes that mature beginning in April 2013, such loans are expected to be renewed on the same terms and with new one year terms. These loans have renewed each year for the past three years. While there can be no assurance of renewal as each loan matures, we expect these loans to renew this year as they have over the past periods.

Our Taiwan location had a \$0.2 million note payable to a financing company as of March 31, 2013. This note is payable in monthly installments and matures on June 20, 2013.

In 2010, we borrowed \$3.2 million from 12 shareholders under the terms of unsecured promissory note agreements. These notes bore an interest rate of 6.0% with maturity dates that were 18 months from their original note date. All of these notes were extended until December 31, 2012. During 2011 or 2012, all of these note holders converted their respective notes into preferred stock, or the notes were paid and extinguished.

A customary business practice in China is for customers to exchange accounts receivable with notes receivable issued by their bank. From time to time we accept notes receivable from certain of our customers in China. These notes receivable are non-interest bearing and are generally due within six months, and such notes receivable may be redeemed with the issuing bank prior to maturity at a discount. Historically, we have collected on the notes receivable in full at the time of maturity.

Frequently, we also direct our banking partners to issue notes payable to our suppliers in China in exchange for accounts payable. Our China subsidiary's banks issue the notes to vendors and issue payment to the vendors upon redemption. We owe the payable balance to the issuing bank. The notes payable are non-interest bearing and are generally due within six months of issuance. As a condition of the notes payable lending arrangements, we are required to keep a compensating balance at the issuing banks that is a percentage of the total notes payable balance until the notes payable are paid by our China subsidiary. These balances are classified as restricted cash on our consolidated balance sheets. As of March 31, 2013, our restricted cash totaled \$0.8 million.

Future liquidity needs

We believe that our existing cash and cash equivalents, and cash flows from our operating activities, will be sufficient to meet our anticipated cash needs for the next 12 to 24 months. Our future capital requirements will depend on many factors including our growth rate, the timing and extent of spending to support our development efforts, the expansion of our sales and marketing activities, the introduction of new and enhanced products, the costs to increase our manufacturing capacity and the continuing market acceptance of our products. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, operating results and financial condition would be adversely affected.

Contractual Obligations and Commitments

The following summarizes our contractual obligations as of December 31, 2012:

(in thousands)	Payments due by period				
	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Notes payable and long-term debt (1)	\$ 24,584	\$ 15,421	\$ 9,163	\$ —	\$ —
Operating leases (2)	635	494	140	—	—
Purchase obligations (3)	62	26	26	9	—
Total commitments	<u>\$ 25,281</u>	<u>\$ 15,941</u>	<u>\$ 9,329</u>	<u>\$ 9</u>	<u>\$ —</u>

- (1) We have several loan and security agreements in China and the U.S. that provide various credit facilities, including lines of credit and term loans. The amount presented in the table represents the principal portion of the obligations.
- (2) We have entered into various non-cancellable operating lease agreements for our offices in Taiwan and the U.S.
- (3) We are obligated to make payments under various arrangements with suppliers for the procurement of goods and services.

Quantitative and Qualitative Disclosures About Market Risk**Market Risks**

Market risk represents the risk of loss that may impact our financial statements through adverse changes in financial market prices and rates and inflation. Our market risk exposure results primarily from fluctuations in foreign exchange and interest rates. We manage our exposure to these market risks through our regular operating and financing activities. We have not historically attempted to reduce our market risks through hedging instruments; we may, however, do so in the future.

Interest Rates

We are exposed to interest rate fluctuations on our cash and cash equivalents. We had unrestricted cash and cash equivalents of \$4.5 million, \$1.8 million and \$10.7 million at December 31, 2010, 2011 and 2012, respectively. Our cash and cash equivalents are subject to limited interest rate risk and are primarily maintained in money market funds and bank deposits.

We have entered into various loan agreements with East West Bank in the U.S., China Construction Bank and Shanghai Pu-Dong Development Bank in China and Chailease Finance Co LTD in Taiwan. At December 31, 2012:

- the short-term U.S.-based loans had a principal balance of \$8.6 million, bearing interest at rates based on the prime rate plus a premium of 1.25% or floor rate of 4.5% whichever is higher,
- the term loan with a U.S. bank had a principal balance of \$3.32 million, with monthly payment of principal and interest at prime rate plus 1.25% or swap contract with fixed 5%, maturing May 3, 2014,
- the Chinese-based loan had a principal balance of \$10.5 million, bearing interest at 110%-125% of LIBOR,
- the Chinese bank acceptance notes issued to vendors had a balance of \$1.5 million, bearing no interest rate, and
- the Taiwanese-based loan had \$0.4 million principal balance outstanding, with monthly payment of principal and interest at interest rate of 3.3%, maturing on June 30, 2013.

With respect to our interest expense for the year ended December 31, 2012, an increase or decrease of 1.0% in each of our interest rates would have resulted in an increase or decrease of \$0.2 million in our interest expense for such period.

Foreign Exchange Rates

We operate on an international basis with a portion of our revenue and expenses being incurred in currencies other than the U.S. dollar. Fluctuations in the value of these foreign currencies in which we conduct our business relative to the U.S. dollar affects our results and will cause U.S. dollar translation of such currencies to vary from one period to another. We cannot predict the effect of exchange rate fluctuations upon our future operating results. The effect on our results of operations from currency fluctuations is reduced, however, because we have revenue and expenses in each of these foreign currencies.

We maintain certain assets, including certain bank accounts, accounts receivables, land and building, in RMB and the NT dollar, which are sensitive to foreign currency exchange rate fluctuations. Additionally, certain of our current and long-term liabilities are denominated in these currencies. As of December 31, 2012, currency changes resulted in assets and liabilities denominated in these currencies being translated into \$0.3 million more U.S. dollars than at December 31, 2011.

Additionally, the value of the RMB against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in political and economic conditions in China. The conversion of RMB into foreign currencies, including U.S. dollars, has been based on rates set by the People's Bank of China. On July 21, 2005, the Chinese government changed its policy of pegging the value of the RMB to the U.S. dollar and began allowing modest appreciation of the RMB against the U.S. dollar. Fluctuation of the RMB exchange rate is, however, restricted to a rise or fall of no more than 0.5% per day versus the U.S. dollar, and the People's Bank of China continues to intervene in the foreign exchange market to prevent significant short-term fluctuations in the RMB exchange rate. Nevertheless, under China's current exchange rate regime, the RMB may appreciate or depreciate significantly in value against the U.S. dollar in

the medium to long term. The RMB has appreciated 8.63% against the U.S. dollar from Jan. 1, 2010 to December 31, 2012. There remains international pressure on the Chinese government to adopt a substantial liberalization of its currency policy, which could result in a further and more significant appreciation in the value of the RMB against the U.S. dollar.

We use the U.S. dollar as our functional and reporting currency for our financial statements. All transactions in currencies other than the U.S. dollar during the year are re-measured at the exchange rates prevailing on the respective relevant dates of such transactions. Monetary assets and liabilities existing at the balance sheet date denominated in currencies other than the U.S. dollar are re-measured at the exchange rates prevailing on such date. Exchange differences are recorded in our consolidated income statement. The financial records of our China subsidiary and our Taiwan location are maintained in their respective local currencies, the RMB and the NT dollar, which are the functional currencies for our China subsidiary and our Taiwan location, respectively. Assets and liabilities are translated at the exchange rates at the balance sheet date, equity accounts are translated at historical exchange rates and revenues, expenses, gains and losses are translated using the average rate for the year in 2010, 2011 and using quarterly average rate for 2012. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of accumulated other comprehensive income in our statement of stockholders' equity (deficit) and comprehensive income. Transaction gains and losses are recognized in our statements of operations in other income (expenses).

We incurred approximately 51.1% of our operating expenses in currencies other than the U.S. dollar during 2012. As of December 31, 2012, we held the U.S. dollar equivalent of approximately \$1.5 million in RMB and \$0.1 million in NT dollars, included in cash and cash equivalents. Fluctuations in exchange rates directly affect our cost of revenues and net income, and have a significant impact on fluctuations in our operating margins. For example, in 2012, 81.9% of our revenues were generated from sales denominated in U.S. dollars, and 25.5% of our operating costs and expenses were denominated in RMB and 25.6% of our operating costs were denominated in NT dollars. Fluctuations in exchange rates also affect our balance sheet. For example, if we need to convert U.S. dollars into RMB or NT dollars for our operations, appreciation of the RMB or the NT dollar against the U.S. dollar would have an adverse effect on the RMB or NT dollar amount that we receive from the conversion. With respect to our cash and cash equivalents as of December 31, 2012, a 1.0% change in the exchange rates between the RMB and the U.S. dollar would result in an immaterial change in our total cash and cash equivalents, and a 1.0% change in the exchange rates between the NT dollar and the U.S. dollar would result in an immaterial change our total cash and cash equivalents.

Fluctuations in currency exchange rates of the above currencies we hold against the U.S. dollar would have a corresponding impact on the U.S. dollar equivalent of such currencies included in the cash and cash equivalents reported in our financial statements from period to period.

Inflation

We believe that the relatively low rate of inflation in the U.S. over the past few years has not had a significant impact on our sales or operating results or on the prices of raw materials. To the extent we expand our operations in China and Taiwan, such actions may result in inflation having a more significant impact on our operating results in the future.

Off-Balance Sheet Arrangements

During 2010, 2011 and 2012, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. These principles require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, expenses and cash flows, and related disclosure of contingent assets and liabilities. Our estimates include those related to revenue recognition, stock-based compensation expense, impairment analysis of goodwill and long-lived assets, valuation of inventory, warranty liabilities and accounting for income taxes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. To the extent that there are material differences between these estimates and our actual results, our future financial statements will be affected.

We believe that of our significant accounting policies, which are described in Note B to our consolidated financial statements appearing elsewhere in this prospectus, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, we believe these are the most critical to fully understand and evaluate our financial condition and results of operations.

Revenue recognition

We generally employ a direct sales model in North America, and in the rest of the world we use both direct and indirect channels. Our revenue recognition policy is to recognize gross revenue whether our products are sold on a direct or indirect basis, because our reseller customers (indirect channel) take title to our products and honor the same terms and conditions as do our direct sales customers. We recognize revenue from the sale of our products provided that persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectability is reasonably assured. Contracts or customer purchase orders are used to determine the existence of an arrangement. Shipping documents and customer acceptance, when applicable, are used to verify delivery. We assess whether the price is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment. We assess collectability based primarily on the creditworthiness of the customer as determined by credit checks and the customer's payment history. Customers are generally extended net 30 credit terms from the date of shipment, with some extension to net 60 credit terms for some more creditworthy customers.

Whether our products are sold on a direct or indirect basis, revenue is recognized when the product is shipped and title has transferred to the customer. We bear all costs and risks of loss or damage to the goods up to that point. On most orders, our terms of sale provide that title passes to the customer upon placement by us with a common carrier (upon shipment). In some cases we may provide for title transfer to the customer upon delivery of the goods to the customer. We determine payments made to third party sales representatives are appropriately recorded to sales and marketing expense and not a reduction of revenue. Shipping and handling costs are included in cost of goods sold. All sales are non-refundable and we accept returns only

of goods covered by our limited warranty. If goods are returned due to a warranty claim, then we repair the goods if we are able and return it to the customer with no impact on revenue. If we cannot repair or replace the goods, then we process the received goods as a sales return, netted against revenue. We present revenue net of sales returns and allowances, warranty expenses, sales taxes and any similar assessments. We provided a limited warranty as part of our standard terms and conditions of sale. This warranty provides for the repair or replacement of our products, at our discretion, that we determined (i) are defective in workmanship, material, or not in compliance with the mutually agreed written applicable specification and (ii) has in fact failed under normal use on or before one year from the date of original shipment of the products. Some of our customers are provided limited warranties between three to five years, on certain limited and identified products.

Stock-based compensation expense

We issue stock options to employees, consultants and non-employee directors. Stock options are granted at or above fair market value on the date of the grant and generally vest over a four-year period. The fair market value of our stock has been historically determined by our board of directors.

The following stock options were granted in 2012:

<u>Grant date</u>	<u>Stock Option Shares Granted</u>	<u>Exercise price per share</u>	<u>Fair value of underlying security</u>	<u>Fair value of option granted</u>
February 10, 2012	168,800	\$ 0.20	\$ 0.20	\$ 0.168111
May 22, 2012	2,049,500	\$ 0.20	\$ 0.20	\$ 0.167915
November 13, 2012	429,000	\$ 0.20	\$ 0.20	\$ 0.167467
	2,647,300			

In granting options at \$0.20 per share on February 10, 2012, May 22, 2012 and November 13, 2012, the primary valuation factors considered by our board of directors were:

- the price per share at which we had sold shares of our Series F preferred stock, and more recently, shares of our Series G preferred stock;
- the losses that had been incurred in 2011 and 2012, and management's expectations that we would achieve our forecasted revenue for the quarter ended March 31, 2013, and
- the valuation that had been established as of March 31, 2009, using the Probability Weighted Expected Return, or PWERM method, our estimated weighted average cost of capital and a lack of marketability discount.

The PWERM method estimates the value of the common stock based upon an analysis of future values for the enterprise assuming various future outcomes. The concluded share value is based on the probability weighted present value of expected future investment returns, considering each of the possible future outcomes available to the enterprise as well as the claims of each share class on our equity value. The valuation utilized the income approach (or discounted cash flow method) and the market approach (the guideline public company method and the similar transactions method). Both approaches capture the total value of our operations, including any goodwill or intangible value that may be present.

Based upon our analyses, and the facts and circumstances as of February 10, 2012, May 22, 2012 and November 13, 2012, the fair market value of our common stock was estimated to be \$0.20 per share as of each such date.

The following stock options were granted in the three months ended March 31, 2013:

<u>Grant date</u>	<u>Stock Option Shares Granted</u>	<u>Exercise price per share</u>	<u>Fair value of underlying security</u>	<u>Fair value of option granted</u>
January 18, 2013	10,037,000	\$ 0.25	\$ 0.25	\$ 0.157717

To aid in our board of directors' determination of the fair market value of our common stock, in January 2013, we engaged an independent appraisal firm to perform a valuation study to determine the fair market value of our common stock for financial reporting and stock option-pricing purposes. The valuation was to assist with regulations related to Internal Revenue Code 409A, Nonqualified Deferred Compensation and audit requirements related to Accounting Standards Codification, or ASC, 718, Compensation—Stock Compensation. ASC 718 is the new accounting nomenclature for the rules and guidelines previously addressed in Statement of Financial Accounting Standards No. 123R, Share-Based Payment. A detailed report expressing their conclusions of fair market value on a non-controlling, non-marketable basis was issued with a valuation date as of December 31, 2012. Since we contemplated an initial public offering, the appraisal firm utilized the PWERM method for equity allocation, considered more appropriate than the Option-Pricing Method or Current Value Method. Based upon our analyses, and the facts and circumstances as of the valuation date, December 31, 2012, the fair market value of our common stock was estimated to be \$0.25 per share.

In granting options at \$0.25 per share in January 2013, the primary valuation factors considered by our board of directors were:

- an enterprise value of \$80.2 million as of December 31, 2012, which was determined using the PWERM;
- a discount rate of 24.0%, based on our estimated weighted average cost of capital;
- a lack of marketability discount of 30.0%;
- liquidity event scenario probabilities of 60.0% for an initial public offering, 20.0% for a sale or merger and 20.0% for continuing as a private company—these probabilities used a 40.0% probability of an initial public offering occurring by September 2013 and a 20% probability of an initial public offering occurring between September and December 2013, and were based on a sale or merger occurring within three years;
- the price per share at which we had recently sold shares of our Series G preferred stock; and
- management's expectations that we would achieve forecasted revenue for the quarter ended March 31, 2013.

Based upon these and other factors, our board of directors determined that the exercise price for options granted in January of 2013 to be \$0.25 per share.

Our stock-based compensation expense was recorded as follows:

	Years ended December 31,			Three months ended March 31,	
	2010	2011	2012	2012	2013
	(in thousands)				
Cost of goods sold	\$ 61	\$ 35	\$ 7	\$ 2	\$ 12
Research and development	60	50	8	2	11
Sales and marketing	80	58	9	2	10
General and administrative	579	420	137	12	78
Total stock-based compensation expense	\$ 780	\$ 563	\$ 161	\$ 18	\$ 111

We follow ASC 718, the authoritative accounting guidance for stock-based compensation expense, which requires companies to measure the cost of employee stock options at the date of the grant.

Our determination of the fair value of stock-based payment awards on the measurement date utilizes the Black-Scholes option-pricing model, which requires the use of assumptions. For the years ended December 31, 2010, 2011 and 2012, and for the three months ended March 31, 2013, we used the following assumptions to calculate the fair value of stock options:

	Years ended December 31,			Three months ended March 31,
	2010	2011	2012	2013
Expected volatility	74%	70%	70%	70%
Risk-free interest rate	1.72%	2.32%	1.01%	1.05%
Expected term (years)	6.25	6.25	6.25	6.25
Expected dividend yield	—	—	—	—
Estimated forfeitures	13%	13%	10%	10%

As there was no trading value for our common stock prior to this offering, the expected volatility of stock options granted to date was derived from an analysis of reported data for a peer group of companies that issued stock options with similar terms. The expected volatility has been determined using an average of the expected volatility reported by these peer companies during the period. The expected term of the stock options has been determined utilizing the simplified method, which calculated a simple average based on vesting period and option life. We do not anticipate paying dividends in the near future. Estimated forfeitures are based on historical experience and future work force projections. We will revise the estimates, if necessary, in subsequent periods, if actual forfeitures differ from our estimates.

Long-lived assets

Depreciation and amortization of the intangible assets and other long-lived assets is provided using the straight-line method over their respective estimated useful lives, reflecting the pattern of economic benefits associated with these assets. Changes in circumstances such as technological advances, changes to our business model, or changes in our capital strategy could cause the actual useful lives of intangible assets or other long-lived assets to differ from initial

estimates. In those cases where we determine that the useful life of an asset should be revised, we depreciate the remaining net book value over the new estimated useful life.

Our long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We obtain appraisals on an asset-by-asset basis and will recognize an impairment loss when the sum of the appraised values is less than the carrying amount of such assets. The appraised values, based on reasonable and supportable assumptions and projections, require subjective judgments. Depending on the assumptions and estimates used, the appraised values projected in the evaluation of long-lived assets can vary within a range of outcomes. The appraisals consider the likelihood of possible outcomes in determining the best estimate for the value of the assets. We did not record any asset impairment charges in 2012 or 2011. During 2010, we recorded an asset impairment charge of \$0.5 million related to equipment in China that was no longer useful in the manufacturing process and therefore without value.

Valuation of inventories

Inventories are stated at the lower of cost (average-cost method) or market. Work in process and finished goods includes materials, labor and allocated overhead. We assess the valuation of our inventory on a periodic basis and provide an allowance for the value of estimated excess and obsolete inventory based on estimates of future demand. During the years ended December 31, 2012, 2011 and 2010, we recorded excess and obsolete inventory charges of \$0.9 million, \$1.6 million, and \$0.6 million, respectively. Of the \$1.6 million in inventory reserves during 2011, \$1.0 million was recorded in the fourth quarter of 2011 and was associated with the application of our inventory reserve policy.

During 2011, we reviewed our inventory policy to determine if the existing reserve for obsolescence and loss was appropriate. The policy at the time provided reserves on a schedule that weighted inventory over a two year period, but the maximum reserve was 80% of inventory value, regardless of the age of inventory. We modified the policy to account for more distinct periods, and to fully reserve any inventory that was over two years old. The policy provides for aging of inventory as follows:

- Less than 360 days—10%
- Between 360 and 540 days—50%
- Between 540 and 720—80%
- Over 720 days—100%

We considered the following factors in our determination of the appropriate reserve level: how often we buy material in bulk that lasts for more than 12 months of supply; changes in material costs over a 24 month period; the overall market value of raw material, semi-finished goods and finished goods across our varied product lines and within markets; changes in expected demand for our products; the change in valuations historically; the determined safety stock for key customers; and the likelihood of postponement in delivery schedules for materials already placed in finished goods inventory.

Accounting for income taxes

We account for income taxes in accordance with the provisions of ASC 740, Income Taxes. The liability method is used to account for deferred income taxes. Under the liability method, deferred tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The ability to realize deferred tax assets is evaluated annually and a valuation allowance is provided if it is unlikely that the deferred tax assets will not give rise to future benefits in our tax returns.

Recent Accounting Pronouncements

ASU 2011-04. In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. This ASU represents the converged guidance of the FASB and the IASB on measuring fair value and for disclosing information about fair value measurements. The amendments in this ASU clarify our board of directors' intent about the application of existing fair value measurement and disclosure requirements and changes particular principles or requirements for measuring fair value and for disclosing information about fair value measurements. ASU 2011-04 is effective prospectively for interim and annual reporting periods beginning after December 15, 2011. We adopted the provisions of ASU 2011-04 on January 1, 2012, and the adoption of this standard did not have a material impact on our financial position, results of operations, or cash flows.

ASU 2011-05. In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. The amendments in this ASU allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. ASU 2011-05 should be applied retrospectively for interim and annual reporting periods beginning after December 15, 2011 with early adoption permitted. We early adopted the provisions of ASU 2011-05 during the fourth quarter of 2011, and the adoption of this standard did not have a material impact on our financial position, results of operations, or cash flows.

ASU 2011-12. In December 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendment to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. This ASU defers the guidance on whether to require entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement where net income is presented and the statement where other comprehensive income is presented for both interim and annual financial statements. ASU 2011-12 reinstated the requirements for the presentation of reclassifications that were in place prior to the issuance of ASU 2011-05 and did not change the effective date of ASU 2011-05. ASU 2011-12 should be applied consistently with ASU 2011-05; accordingly, this ASU is to be applied retrospectively for interim and annual reporting periods beginning after December 15, 2011, with early adoption permitted. We early adopted the provisions of ASU 2011-12 during the fourth quarter of 2011, and the adoption of this standard did not have a material impact on our financial position, results of operations, or cash flows.

BUSINESS

Overview

We are a leading, vertically integrated provider of fiber-optic networking solutions. We target three networking end-markets: CATV, FTTH and internet data centers. We design and manufacture a range of optical communications solutions at varying levels of integration, from components, subassemblies and modules to complete turn-key equipment. We are primarily focused on the higher-performance segments within the CATV, FTTH and internet data center markets which increasingly demand faster connectivity and innovation. In 2012, our products were used by the five largest CATV equipment OEMs, consisting of Arris Group Inc., Aurora Networks, Inc., Cisco Systems, Inc., Harmonic Inc. and Motorola Mobility Holdings, Inc. Our other key customers included Genexis B.V. in the FTTH market and Microsoft Corporation in the internet data center market.

The three end markets we target are all driven by significant bandwidth demand fueled by the growth of network-connected devices, video traffic, cloud computing and online social networking. According to Cisco Systems' Visual Networking Index, global network traffic is expected to grow at a compound annual growth rate of 29% from 2011 to 2016. To address this increased bandwidth demand, CATV and telecommunications service providers are competing directly against each other by providing bundles of voice, video and data services to their subscribers and investing to enhance the capacity and capability of their networks. The trend of rising bandwidth consumption also impacts the internet data center market, as reflected in the shift to higher speed server connections. According to a 2012 Crehan Research forecast, 10 gigabit ethernet port shipments in 2012 were 13.5 million and are projected to grow to 42.9 million in 2015, representing a 46.9% CAGR. As a result of these trends, fiber-optic networking technology is becoming essential in all three of our target markets, as it is often the only economic way to deliver the required bandwidth.

The CATV market is our largest and most established market, for which we supply a broad array of products including lasers, transmitters and turn-key equipment. Sales of headend, node and distribution equipment have contributed significantly to our growth in recent years as a result of our ability to meet the needs of CATV equipment vendors who have begun to outsource both the design and manufacture of this equipment. While these equipment vendors have relied upon third parties to assemble products for some time, only recently have they started to shift the design of equipment to other parties due in part to the sophisticated engineering expertise needed to perform this work. We believe that our extensive high-speed optical, mixed-signal semiconductor and mechanical engineering capabilities position us well to benefit from it.

Our vertically integrated manufacturing model provides us several advantages, including rapid product development, fast response times to customer requests and better control over product quality and manufacturing costs. We design, manufacture and integrate our own analog and digital lasers using a proprietary MBE fabrication process, which we believe is unique in our industry. The lasers we manufacture are proven to be extremely reliable over time and highly tolerant of changes in temperature and humidity, making them exceptionally well-suited to the CATV and FTTH markets where networking equipment is often installed outdoors. We believe the superior performance of our lasers is evidenced by our leading share of lasers installed in CATV networks today.

We are based in Sugar Land, Texas, where we design and fabricate our lasers, and conduct most of our research and development efforts. At our facilities in Ningbo, China, and Taipei, Taiwan, we complete the assembly of our lasers and photodiodes and also design and assemble

our module and equipment products, utilizing a combination of advanced automation and skilled labor. In addition to our global sales team in the U.S., we also have regional sales teams located in China and Taiwan.

Our revenues in 2012 were \$63.4 million and our gross margin was 29.8%. We have grown our revenue at a CAGR of 36.4% from 2009 to 2012. In the years ended December 31, 2010, 2011 and 2012 and the three months ended March 31, 2012 and 2013, we incurred net losses of \$3.4 million, \$5.3 million, \$0.9 million, \$0.5 million and \$0.9 million, respectively, and our accumulated deficit at December 31, 2012 and March 31, 2013 was \$81.9 million and \$82.9 million, respectively.

Industry Background

Our three target markets of CATV, FTTH and internet data centers share a common trend of a significant growth in bandwidth consumption, and the corresponding need for network infrastructure improvement to support it. Within the CATV and FTTH markets, the speed of a broadband connection determines the types and quality of services that can be offered, and competitive pressure among service providers is spurring ever faster broadband connectivity. According to the Akamai State of the Internet report for the fourth quarter of 2012, the number of 10 megabit or faster broadband connections in the U.S. rose 90% year-over-year. Akamai reported that, globally, the average connection speed increased 25% over the prior year, including growth in nine out of the top 10 countries.

Government encouragement and sponsorship of enhanced broadband service is contributing to investment in access networks. For instance, in January 2013, the U.S. Federal Communications Commission announced the "Gigabit City Challenge," setting a goal of at least one community per state with 1 gigabit per second broadband by 2015. Similarly, according to Infonetics, China's State Agency for Radio, Film, and Television (SARFT) announced a \$30 billion Next Generation Broadband (NGB) stimulus program in 2009 to support the construction of critical networking infrastructure and promote the delivery of enhanced voice, video and data services between 2009 and 2015.

The commercial opportunity to provide ultra-high speed broadband services is also attracting private sector interest. For example, in 2010 Google announced plans to build a network, known as Google Fiber, to deliver up to 1 gigabit per second service to residences, approximately 100 times faster than the current average peak rate in the U.S. The network became operative late in 2012 in Kansas City, and Google has announced that additional cities are to be activated in 2013 and 2014. To deliver this dramatically greater bandwidth, Google is utilizing very advanced optical networking technology. The Google Fiber network demonstrates the ability to deliver dramatically more bandwidth to an end user, and may prompt traditional network service providers to accelerate investment in advanced optical networking solutions.

Based upon data prepared by Ovum, we estimate that our CATV, FTTH and internet data center target markets represented an annual revenue opportunity of \$2.2 billion in 2012.

Trends in the CATV Market

CATV service providers have been upgrading their hybrid fiber coaxial networks, which use a combination of optical fiber and coaxial cable, to support high speed, two-way communications. According to Infonetics, CATV service providers have spent approximately \$41 billion in the past five years on upgrades and extensions to their networking infrastructure, including \$25 billion spent in North America. Broadcast video services remain the primary

offering for CATV service providers, who compete in part on the breadth of high definition, or HD, TV content and on-demand programming they offer. CATV network operators can leverage an upgraded network to deliver additional services such as enhanced voice and broadband connectivity. Enhanced broadcast video and data connectivity services have had a profound effect on CATV network architecture, as they require substantially greater bandwidth to a home (the "forward path"), and two-way communications (introducing a "return path" from the home). Infonetics estimates 53 million broadband subscribers in North America, or 54% of total North American broadband subscribers, received their service through a CATV network at the end of 2012.

Outside of the U.S., the opportunity for CATV growth is significant. For instance, China's installed cable infrastructure is significantly larger than that of the U.S., with over 190 million cable television subscribers. Nearly half of China's cable television subscribers are served by relatively low capacity, one-way cable networks today, and China has implemented a government stimulus program to upgrade broadband infrastructure. As a result, we believe that the Chinese CATV service providers will invest significantly in coming years.

Consolidation among CATV equipment companies has continued in recent years, putting pressure on the largest companies to streamline their operations, improve profitability and focus their resources. In response, many of these CATV equipment companies have begun to outsource not only the manufacturing of equipment, but more important to us, they have begun to outsource the system design function as well. Outsourcing of system design is significantly more challenging than simply shifting the assembly of equipment to a third party manufacturer. The complex interworking of optical, radio frequency and electrical technologies, as well as the physical challenges imposed by the harsh and unregulated conditions in which the CATV equipment is installed, requires deep technical knowledge of high-speed optical, mixed-signal semiconductor and mechanical engineering. Field failure of equipment is costly and problematic for CATV network operators, so they expect equipment providers to provide extremely reliable and durable solutions. As a result, the decision by a major CATV equipment company to outsource design and manufacture to a third party is made carefully, and once an outsourced design partner is selected, CATV equipment companies are typically very reluctant to change vendors. Moreover, once the design function is outsourced to a third party, the reallocation of internal resources previously performing that function makes it difficult for the equipment company to return to internally designing equipment.

Based upon data prepared by Ovum, we estimate that our CATV target market represented an annual revenue opportunity of \$850 million in 2012.

Trends in the FTTH Market

The FTTH market generally refers to the Passive Optical Networks, or PONs, that telecommunications service providers are deploying. PONs take their name from the use of passive splitters to divide the optical signal provided to each residential user over a shared fiber-optic cable from a service provider's central office. The equipment in the service provider's central office is called an optical line terminal, or OLT, and the equipment at the end user is an optical network unit, or ONU. A PON supports significantly greater bandwidth than does the legacy copper wire network, although the connection speed to a user (the "downstream" speed) is higher than the connection speed from the user (the "upstream" speed). In the U.S., Verizon's FIOS service and AT&T's uVerse offering are examples of PON deployments, and PONs have been widely deployed in Japan, Korea and selected cities in Europe as well. According to Infonetics, worldwide FTTH subscribers are expected to grow from 39 million in 2011 to

112 million in 2016, representing a CAGR of 23%, with the growth of higher speed FTTH connections among those subscribers being greater than the overall growth of FTTH connectivity.

Over time, the technology used in PONs has evolved to meet the increased bandwidth demand from users. At present, the most commonly deployed PON technology is GPON, or Gigabit PON, which delivers up to 2.5 gigabits per second of data downstream, split among subscribers, and 1.5 gigabits per second upstream. Due to the splitting of the bandwidth among multiple users—often as many as 32—the actual bandwidth delivered to an individual subscriber is far less than the 2.5 gigabits per second supported by the GPON equipment. To deliver more bandwidth to a subscriber, a service provider can reduce the split ratio or change the PON technology. Reducing the number of subscribers supported by a single OLT may be less expensive for modest, incremental upgrades, but may not be the most economical solution to deliver the significant increases in bandwidth needed to support 1 gigabit per second service to the home, as encouraged by the FCC's Gigabit Challenge.

One approach that does support 1 gigabit per second service to the home connection is WDM-PON, or wavelength division multiplexing PON. Well-proven in other areas of the network for decades, WDM technology enables the transmission of multiple wavelengths of data over a single fiber-optic strand, thus significantly increasing the bandwidth of the physical fiber connection. Due to this significant increase in bandwidth supported with WDM-PON, the cost per bit delivered to a subscriber is lower than that for GPON—at faster connection speeds. In addition to providing more bandwidth, WDM-PON offers a subscriber superior privacy and the service provider better scalability because each subscriber has a dedicated wavelength rather than a shared one.

Based upon data prepared by Ovum, we estimate that our FTTH target market represented an annual revenue opportunity of \$704 million in 2012.

Trends in the Internet Data Center Market

An internet data center is structured in a layered format, with rows of servers within multiple racks, and each server and rack connecting through a switch. These rack switches then connect to each other, and ultimately to the service provider's network. The connections between these top-of-rack switches, and to the service provider's network, are increasingly done with higher-capacity optical networking technology. Legacy copper cables can carry signals at distances adequate to meet most needs within an enterprise or internet data center at speeds up to about 1 gigabit per second. However, at speeds of 10 gigabits per second and above, the signals sent over copper cables experience increasing attenuation and dispersion over distances common in large internet data center environments, making copper much less effective as a transmission medium. According to a 2012 Crehan Research forecast, 10 gigabit ethernet port shipments were 13.5 million in 2012 and are projected to grow to 42.9 million in 2015, representing a 46.9% CAGR.

In recent years, a number of leading internet companies such as Amazon.com Inc., Facebook, Inc., Google Inc. and Microsoft Corporation have begun to adopt more open internet data center architectures, using a mix of systems and components from a variety of vendors, and in some cases designing their own equipment. For these companies, compatibility of new networking equipment with legacy infrastructure is not as important, and as a consequence, these companies are more willing to work with non-traditional equipment vendors. Non-traditional equipment vendors generally permit companies to source optical modules from any vendor, thus creating an open and growing opportunity for optical device vendors.

Based upon data prepared by research firm Ovum, we estimate that our internet data center target market represented an annual revenue opportunity of \$638 million in 2012.

Key Challenges in Our Markets

The key challenges that we experience in our markets include:

- **Continuous pressure for innovation.** To enhance their competitiveness and improve the financial returns on their infrastructure investments, CATV and FTTH network operators seek to regularly introduce new service offerings, increase the bandwidth provided to each user and reduce their operating costs. These operators work with their equipment and optical device suppliers to develop innovative technology that enables desired enhancements. Within the internet data center market, industry-leading technology companies such as Google, Facebook, Microsoft and Amazon are internally designing and developing internet data centers to deliver cloud-based solutions. These companies are, in many cases, working with third parties to design custom data-center equipment to improve their internet data center performance and differentiate their services from other vendors.
- **Demand for highly integrated solutions.** CATV and FTTH network operators are seeking integrated and customized solutions that meet specific design and performance requirements. Furthermore, network equipment manufacturers are seeking to simplify their supply chains and lower their costs by working with optical device vendors who can provide a broad range of products, including integrated modules and subsystems rather than simply supplying discrete optical components.
- **Need for reliable performance in harsh and demanding environments.** Unlike optical devices deployed in the long haul and metro segments of the telecom network, optical devices deployed in CATV and FTTH networks are typically installed outdoors, and occasionally in remote locations. As a result, these devices are subject to a wide range of temperatures and highly variable environmental conditions, and maintenance can be difficult. As a result of the difficulties associated with outdoor deployment, product quality and reliability are essential.
- **Demand for production of high-quality devices in large volumes.** Due to the high number of optical devices deployed in CATV and FTTH networks as well as in internet data centers, network equipment manufacturers seek vendors that can provide cost-effective and high-quality optical devices in large volumes. As the required bandwidth in CATV and FTTH networks increases and the shift to fiber-optic technologies continues in order to meet the bandwidth needs, the number of optical devices deployed in CATV and FTTH networks should continue to increase.
- **Need for mixed signal communications expertise.** As CATV network operators continue to shift from primarily broadcast-video content providers to data-connectivity providers, the networks they utilize to offer these services are evolving. For example, many newer networks are being designed with digital return-path capabilities. In this type of network, signals traveling from the cable office headend to the user residence, including digital video and data services, continue to be transported as analog signals, whereas signals traveling in the opposite direction, from the residence to the cable office headend, may now be carried as digital signals. This combination of analog and digital signaling creates unique challenges, which require high-performance networking equipment and optical technology.

Our Solutions

We are a leading, vertically integrated provider of fiber-optic networking solutions. We are primarily focused on the higher-performance segments within the CATV, FTTH and internet data center markets which increasingly demand faster connectivity and new technologies. Our products include a broad range of optical communications-based solutions at varying levels of integration from components to complete turn-key systems that we design and manufacture for leading networking equipment companies. The key benefits of our solutions include:

- **Enable customers to deliver innovative products.** We leverage our deep expertise in high-speed optical, mixed-signal semiconductor and mechanical engineering and our proprietary MBE laser fabrication process to deliver technologically advanced solutions to our customers. Our solutions enable our customers to offer a wide variety of innovative products that meet their desired performance needs and cost requirements. Our comprehensive manufacturing capabilities give us significant time-to-market advantages as well as the flexibility and agility to respond to changing customer needs.
- **Enhance efficiency and cost effectiveness of our customers' supply chain.** We design and sell products at the level of integration desired by a customer, from components to turn-key equipment providing our customers a more dependable, cost-effective and simplified supply chain. By leveraging our vertical integration, proprietary expertise and our broad range of products, we can often design and manufacture new solutions rapidly and cost-effectively for our customers. For example, our integration capabilities have enabled us to benefit from the trend of outsourced design and manufacturing among CATV equipment vendors.
- **Deliver high quality, reliable products in high volume.** As a vertically integrated supplier, we are able to monitor and maintain quality control throughout the production process, using our internally produced components where possible for our final products. By leveraging this greater degree of control throughout the entire production process, our proprietary MBE laser fabrication process and packaging technology, and our extensive facilities, we are able to deliver high-quality, highly-reliable and stable products in high volume.
- **Provide sophisticated design solutions to our customers.** We believe our expertise in analog and digital optical engineering, as well as radio frequency and high-speed electronics differentiates us from many competitors, as other vendors tend to focus on a limited number of these disciplines. Our mixed-signal expertise enables us to design solutions that meet many of the different network architectures and protocols used today. We offer our customers an advantage by providing them a comprehensive solution.

Our Strengths

Our key competitive strengths include the following:

- **Industry-leading position in the CATV market.** We are the leading provider of optical components and the second largest provider of subsystems to the CATV market, according to Ovum. In 2012, our products were used by the five largest CATV equipment OEMs consisting of Arris Group Inc., Aurora Networks, Inc., Cisco Systems, Inc., Harmonic Inc. and Motorola Mobility Holdings, Inc. These OEMs are extremely demanding on their suppliers with respect to product performance, reliability, cost and vendor service level. We believe these customer relationships benefit us with other

customers who view our selection by these leading OEMs as validation of our expertise and product excellence.

- **Proprietary technological expertise and track record of innovation.** We continue to develop innovative solutions as evidenced by our 38 design wins since 2010 which collectively account for a significant portion of our revenue today. We believe our proprietary laser manufacturing, or MBE process, allows us to produce more reliable and cost-effective solutions than our competitors who typically employ MOCVD processes. We own fundamental IP in MBE technology and the manufacturing process. We have 138 issued and pending patents. In addition we have amassed substantial manufacturing, process, design and testing domain expertise that we retain as documented trade secrets.
- **Highly customized products.** Most of our products have some level of customization, and in some cases our product is the only one that can meet our customers' specifications. These factors make it more difficult for our customers to rapidly switch to another supplier, and, we believe, contribute to longer product lifecycles and more stable product pricing relative to the pricing trends experienced in many telecommunications optical component categories.
- **Proven system design capabilities.** Our customers rely on us to design their customized, complex and integrated equipment due to our deep expertise in high-speed optical, mixed-signal semiconductor and mechanical engineering. As a result of these capabilities, we believe that we are well positioned to take advantage of the continuing shift to outsourced design and manufacturing among CATV equipment vendors.
- **Vertically integrated, geographically distributed manufacturing model.** Our vertically integrated design and manufacturing process encompasses all steps from laser wafer design and fabrication to complete optical system design and assembly. Furthermore, we have geographically distributed our manufacturing model by strategically locating our operations in the U.S., China and Taiwan to reduce development time and production costs and to help protect our intellectual property. Our comprehensive capabilities allow us to offer our customers a dependable supply of quality optical components, modules and equipment. Additionally, these capabilities give us significant time-to-market, time-to-volume and cost advantages as well as the ability to respond more rapidly to changing market and customer requirements. Furthermore, these capabilities allow us to provide fully integrated solutions and capture a larger portion of the bill of materials within the optical value chain.

Our Strategy

We seek to be the leading global provider of optical components, modules and equipment designed for each of our three target markets, CATV, FTTH and internet data centers. All of our target markets are growing due to the increasing demand for bandwidth, but each of our markets is also being driven by independent factors. As a result, our overall growth is not dependent upon a single market or a single trend. Our strategy includes the following key elements:

- **Extend our leadership in CATV networking.** We intend to maintain our position as the leading producer of optical components used in CATV networks, and to capture an increasing share of the CATV equipment market as the major equipment vendors continue to outsource the design and manufacturing of such products. We believe that our comprehensive design expertise, proven ability to handle increased system-level

responsibility and vertically integrated manufacturing model position us well to capture a meaningful share of this opportunity.

- **Continue to penetrate FTTH and internet data center markets.** We believe our WDM-PON technology is a cost-effective solution for delivering substantially greater bandwidth to a residence. As the residential access market migrates to higher bandwidth connections, we expect that our solutions will become increasingly attractive. In the internet data center market, we target operators who have adopted an open system architecture—one in which the optical connectivity solutions can be provided by a different vendor than the vendor which provides their servers and switches. We believe this segment of the market will grow meaningfully in coming years, and that we are well positioned to capture this business as an independent optics vendor.
- **Continue to invest in our capabilities and infrastructure.** Product and process innovations have been important elements in our growth and commercial success. For instance, our leading position in the CATV market is a result of our research and development efforts to address the need for climate-tolerant, low-cost and highly reliable lasers, components and equipment. We believe our vertically integrated manufacturing model and our ability to design and manufacture the fundamental optical devices that are deployed throughout a network give us a significant competitive advantage. We intend to continue to invest in new products, new technology and our production infrastructure and facilities to maintain and strengthen our competitive position.
- **Selectively pursue other opportunities that leverage our existing expertise.** The proven performance of our lasers in harsh climate conditions and our expertise in designing and manufacturing outdoor plant equipment for the CATV industry provide us an advantage in pursuing applications that are also characterized by having varying and demanding environments. We have sold and plan to continue to sell products into the telecom networking market, such as for wireless and wireline telecom infrastructure. We have also selectively sold products into the industrial robotics, aerospace and defense, and oil and gas exploration markets. We will continue to seek ways to capitalize on our research and development investments and leverage our high-speed optical, mixed-signal semiconductor and mechanical engineering expertise in these and other markets.
- **Pursue complementary acquisition and strategic alliance opportunities.** While we prefer to use our components whenever possible, we will evaluate and selectively pursue acquisition opportunities or strategic alliances that we believe will enhance or complement our current product offerings, augment our technology roadmap, or diversify our revenue base.

Technology

We believe that we have technology leadership in four key areas: semiconductor laser manufacturing, electronic technologies that enhance the performance of our lasers, optical hybrid integration and mixed-signal semiconductor design.

- **Differentiated semiconductor laser manufacturing.** We use a MBE fabrication process to make our lasers, rather than MOCVD, the technique most commonly used in optical chip manufacturing by traditional communications optics vendors. Among the differentiators of MBE relative to MOCVD fabrication are a lower process temperature and the use of solid phase materials rather than gaseous sources to grow wafers and the growth of more highly strained crystals. These factors contribute to longer operating lives

of our lasers, improved laser efficiency and threshold current, among other performance attributes that make them well-suited to our target markets. While we believe that these advantages of MBE are important, MBE does have disadvantages including the inability to use certain dopant materials (for example Iron), difficulty in certain types of regrowth, and the necessity to maintain complex ultra-high vacuum equipment. As a result of some of these challenges, production yields, and the performance attributes of laser devices, are highly variable and optimizing these characteristics requires numerous enhancements and modifications to standard MBE equipment and the MBE process. To our knowledge, we are unique in using an MBE process to produce communications lasers in high volume, and believe it would be difficult, and time-consuming, for other vendors to replicate our production technology.

- **Laser enhancement technology.** Certain properties of the semiconductor lasers predominantly used in traditional communications devices, such as chirp and wavelength drift, negatively affect their ability to transmit signals over long fiber distances or prevent them from transmitting signals with acceptable fidelity in certain applications. We have developed laser enhancement circuitry that can correct many of these deficiencies. We believe that our technology will become more essential with wider deployment of higher capacity CATV and FTTH systems, which place more stringent demands on laser performance.
- **Optical hybrid-integration technology.** Reducing the size, power consumption and complexity of optical devices is essential for achieving the price and performance targets of our customers. Our ability to integrate multiple optical networking functions into a single device, and to co-package multiple devices into smaller form factors helps us meet customer requirements and we believe can also create new opportunities. For instance, installing new fiber-optic cable is expensive and difficult, and in some situations prohibitively so for a network service provider. As a consequence, network operators seek to maximize the utilization of their installed fiber plant. In long-haul and metropolitan networks, service providers deployed WDM technology as fiber utilization rose. Fiber utilization in access networks is rising, but the use of WDM technology in the access segment has been problematic due to the relatively high cost and power consumption of the requisite optical devices. We have developed proprietary miniaturized optical packaging, electronic control circuitry and testing algorithms to create a hybrid WDM-PON solution that addresses these historical impediments that we believe will make WDM-PON a cost-effective alternative for deployment.

WDM-PON is a term used for a variety of multi-wavelength PON architectures. Various technologies have been utilized by several companies to deploy WDM-PON networks in the past. These existing technologies are generally believed to be too costly to deploy or suffer from operational limitations that limit their use to only certain deployment scenarios. By contrast, we believe our optical hybrid-integration technology can be deployed in a wide range of circumstances due to its lower cost per bit delivered, and as the market migrates to higher bandwidth connections we expect that our solutions will become increasingly attractive. In the internet data center market, we target operators who have adopted an open system architecture—one in which the optical connectivity solutions can be provided by a different vendor than the vendor which provides their servers and switches. We believe this segment of the market will grow meaningfully in coming years, and that we are well positioned to capture this business as an independent optics vendor.

- **Mixed-signal design.** As CATV providers continue to evolve from primarily broadcast-video content providers to a mixture of HD video content together with data-connectivity providers, the networks they utilize to offer these services must evolve as well. Older analog networks are giving way to hybrid networks that incorporate both analog and digital signals. For example, many newer networks are being designed with "digital return-path" capabilities. In this type of network, signals traveling from the head-end to the residence are transported as analog signals, whereas signals traveling in the opposite direction (that is, originating at the residence and being transmitted towards the head-end) are carried as digital signals. This combination of analog and digital signaling creates unique design challenges. Our engineers have many years of experience in developing equipment, modules and components that are well suited to these sorts of mixed-signal architectures. We believe that having deep experience in both digital and analog signaling allows us to offer superior solutions to our customers, compared with companies who have expertise in only one of these signal types.

Our Products

Our products include an array of optical communications solutions at varying levels of integration. We begin from the fundamental building blocks of lasers and laser components. From these foundational products, we design and manufacture a wide range of products from optical modules to complete turn-key equipment. We design our products to target customers in our identified markets to meet their needs and specifications.

Our components often incorporate one or more of our optical laser chips inside a precision housing that provides mechanical protection as well as standardized electrical contacts. More complex optical components may also include optical filters (for example, for use in WDM) or other optical elements by which optical signals are routed internally within the component. These more advanced components may also include coolers, heaters and sensors that allow the temperature of the laser chip to be measured and controlled. We manufacture the majority of the laser chips and optical components that are used in our own products.

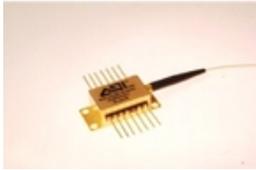
At the next level of integration, our module or sub-assembly products typically contain one or more of our optical components and some additional control circuitry. Examples of modules include our transceiver line primarily used in internet data center markets and FTTH markets.

At the highest level of integration and complexity, our equipment products typically contain one or more optical components, modules and additional electronic control circuitry required to enable these subsystems to operate independently. For example, our CATV transmitter equipment requires utilization of our optical components and assembly onto a circuit board and to an external housing. Examples of equipment include our CATV transmitter and CATV nodes.

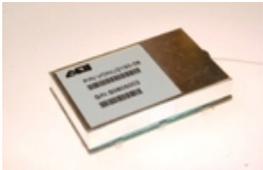
Our products mainly differ from each other by their end market, intended use and level of integration. We have over 12,800 product stock-keeping units, or SKUs, including approximately 6,500 component product SKUs, approximately 3,600 module product SKUs and approximately 2,700 equipment product SKUs. The following tables provide a view of our some of our various components, modules and equipment grouped by the markets they serve.

Selected CATV Products

<u>Representative Picture</u>	<u>Product Family</u>	<u>Product Level</u>	<u>Description</u>
	CATV transmitters	Equipment	Equipment for transmitting data and video signals from the office or hub site of a multiple system operator, or MSO, to the consumer. Compliant with the emerging DOCSIS 3.1 standard.
	CATV nodes	Equipment	Equipment used for receiving optical signals and re-transmitting them over the coaxial cable portion of an CATV network. May also include return-path functions for receiving signals from the consumer and re-transmitting them as optical signals. Compliant with the emerging DOCSIS 3.1 standard.
	CATV return-receivers	Equipment	Equipment used in the office or hub site of an MSO to receive signals transmitted from a node.
	Ethernet over Coax Access Points	Equipment	Used primarily in China for deployment of fiber-to-the-home services over the CATV infrastructure.
	SFP Transmitter/Receiver	Module	Pluggable transmitter or receiver for digital return-path CATV architecture. Up to 90° Celsius operating temperature.

<u>Representative Picture</u>	<u>Product Family</u>	<u>Product Level</u>	<u>Description</u>
	Cooled laser diodes	Component	Laser diodes incorporating integrated coolers to maintain consistent performance over wide ambient temperature ranges. Up to 90° Celsius operating temperature.
	Uncooled laser diodes	Component	Laser diodes without coolers. Up to 90° Celsius operating temperature.
	Photodiodes	Component	Used to receive optical signals transmitted from a laser diode or other optical transmitter.

Selected FTTH Products

<u>Representative Picture</u>	<u>Product Family</u>	<u>Product Level</u>	<u>Description</u>
	WDM-PON OLT module	Module	Transmission, multiplexing, demultiplexing and reception of multiple WDM optical signals. 16 Gbps transceiver modules.
	Gigabit Ethernet SFF	Module	Small Form Factor transmit/receive module for Gigabit Ethernet FTTH.
	Video receiver modules	Module	Reception of video signals in an FTTH network.

<u>Representative Picture</u>	<u>Product Family</u>	<u>Product Level</u>	<u>Description</u>
	Bi-directional and tri-port optical blocks	Component	Optical devices incorporating wavelength division multiplexing functionality allowing multiple signal types on a single optical fiber.
	Laser chips	Component	Standard GPON optical chips used by other manufacturers in specialized applications.

Selected Internet Data Center Products

<u>Representative Picture</u>	<u>Product Family</u>	<u>Product Level</u>	<u>Description</u>
	10 gigabit small form factor pluggable, or SFP+, transceivers	Module	Used for 10 Gigabit Ethernet optical interconnections.
	Small form-factor pluggable, or SFP, transceivers	Module	Used for Gb Ethernet, or GbE, SONET OC-3 to OC-48, FiberChannel.
	Active Optical Cable	Module	10 and 40 Gbps fiber-optic cable incorporating laser diode drive electronics into the cable assembly.

Intellectual Property

We rely on a combination of patent, copyright, trademark and trade secret laws, as well as confidentiality and licensing arrangements, to establish and protect our intellectual property. We employ various methods to protect these intellectual property rights, including maintaining a technological infrastructure with significant security measures, limiting disclosure and restricting access to only those individuals with an operational need for such information, and having employees, consultants and suppliers execute confidentiality agreements with us. While we expect our intellectual property to provide competitive advantages, we also find meaningful value from unpatented proprietary process knowledge, know-how and trade secrets.

Patents

As of March 31, 2013, we owned 57 issued patents in the U.S., 20 issued patents in China and 27 issued patents in Taiwan and had 37 additional patents pending, of which 23 were pending in the U.S., three were pending in China and 11 were pending in Taiwan, in addition to various counterpart applications pending pursuant to the Patent Cooperation Treaty and in Europe. Our issued patents will expire between 2018 and 2028.

Our portfolio of patents and patent applications covers several different technology families including:

- laser structure and design;
- optical signal conditioning and laser control;
- laser fabrication;
- photodiode and optical receiver design and fabrication;
- optical device and module designs;
- optical device packaging equipment and techniques; and
- optical network enhancements.

Trademarks

We have registered the trademarks APPLIED OPTOELECTRONICS, INC., AOI and our logo with the U.S. Patent and Trademark Office on the Principal Register. These marks are also registered in, or have applications for registration pending in, various foreign trademark offices.

Research and Development

To maintain our growth and competitiveness, we engage in an active research and development program to develop new products and enhance existing products. As a result of these efforts, we anticipate releasing various new or enhanced products over the next several years. Over the past three years, we released an average of over 1,000 product SKUs per year. Our research and development expenses were approximately \$5.2 million, \$6.5 million, \$7.6 million, \$1.6 million and \$2.0 million for the years 2010, 2011 and 2012 and the three month periods ended March 31, 2012 and 2013, respectively.

As of March 31, 2013, we had a total of 170 engineers working in production and R&D, including 13 with Ph.D. degrees. We had 84 of those engineers dedicated to R&D, with 15 located in the U.S. and 69 located in Asia. We continue to recruit talented engineers to further enhance our research and development capabilities. We have research and development departments in our facilities in Texas, China and Taiwan. Our research and development teams collaborate on joint projects, and by co-locating with our manufacturing operations enable us to achieve an efficient cost structure and improve our time to market.

A key factor in our research and development success is our highly collaborative process for new product development. Particularly in our equipment and module businesses, we often collaborate very closely with our customers from a very early stage in product development. By

purposefully fostering this close collaboration, we believe that we can more rapidly develop leading solutions meeting the needs of our customers.

Manufacturing and Operations

We have three manufacturing sites: Sugar Land, Texas, Ningbo, China and Taipei, Taiwan. Our research and development functions are partnered with our manufacturing locations. In our U.S. facility, we manufacture laser chips (utilizing our MBE process), sub-assemblies and components. The sub-assemblies are used in the manufacture of components by our other manufacturing facilities or sold to third parties as modules. We manufacture our laser chips only within our U.S. facility, where our laser design team is located. In our Taiwan location, we manufacture optical components, such as our butterfly lasers, which incorporate laser chips, sub-assemblies and components manufactured within our U.S. facility. In addition, in our Taiwan location, we manufacture transceivers for the FTTH, internet data center and other markets. In our China facility we take advantage of lower labor costs and manufacture certain more labor intensive components and optical equipment systems, such as CATV transmitters (at the headend) and CATV outdoor equipment (at the node). Each facility conducts testing on the components, modules or subsystems it manufactures and each facility is certified to ISO 9001:2000.

Our products are sold to our customers worldwide and also supply our internal component needs for the transceivers and equipment we manufacture. With a vertically integrated manufacturing process, we produce many of our own laser chips and other parts required to manufacture our optical components. Through this model, we are able to reduce development time and product costs as well as enhance quality control. We incorporate our own components into our transceivers, subsystems and equipment products wherever possible. In instances where we do not produce components ourselves, we source them from external suppliers and regularly evaluate these relationships in an attempt to reduce risk and lower cost.

We depend on a limited number of suppliers for certain raw materials and components used in our products. We regularly review our vendor relationships in an attempt to mitigate risks and lower costs, especially where we depend on one or two vendors for critical components or raw materials. While maintaining inventories that we believe are sufficient to meet our near-term needs, we strive not to carry significant inventories of raw materials. Accordingly, we maintain ongoing communications with our vendors in order to help prevent any interruptions in supply, and have implemented a supply-chain management program to maintain quality and lower purchase prices through standardized purchasing efficiencies and design requirements. To date, we generally have been able to obtain sufficient quantities of quality supplies in a timely manner.

Customers

Our customers are primarily CATV and telecommunications equipment manufacturers and internet data center operators. We generally employ a direct sales model in North America and in the rest of the world we use both direct and indirect sales channels. In 2010, 2011 and 2012, we obtained 82.9%, 84.3% and 85.4% of our revenue, respectively, through our direct sales efforts and the remainder of our revenue through our indirect sales channels. Our sales channel partners provide logistical services and day-to-day customer support. Where we sell through an indirect sales channel, we work with the end customer to establish technological specifications for our products. Our equipment customers typically offer our equipment under their brand-name and our equipment is often customized with unique design or performance criteria by each of these customers. We also from time to time offer design or manufacturing services to

customers to assist them in more effectively using our products and realizing time-to-market advantages.

In 2012, our products were used by the five largest CATV equipment OEMs consisting of Arris Group Inc., Aurora Networks, Inc., Cisco Systems, Inc., Harmonic Inc. and Motorola Mobility Holdings, Inc. Our other key customers included Genexis B.V. in the FTTH market and Microsoft Corporation in the internet data center market.

We support our sales efforts by attendance at industry trade shows, technical conferences, advertising in various trade journals and magazines and other promotional efforts. These efforts are aimed at attracting new customers and enhancing our existing customer relationships.

Backlog

We generally make sales pursuant to short-term purchase orders without deposits and subject to rescheduling, revision or cancellation on short notice. We accordingly believe that purchase orders are not an accurate indicator of our future sales and any backlog of purchase orders is not a reliable indicator of our future revenue.

Competition

The optical networking market is intensely competitive. Because of the broad nature of our product offerings, we do not believe that we face a single major competitor across all of our markets. We do, however, experience intense competition in each product area from a number of manufacturers and we anticipate that competition will increase. Our major competitors in one or more of our markets include Avago, Inc., EMCORE Corporation, Finisar Corporation, JDS Uniphase Corporation, Mitsubishi, NeoPhotonics Corporation, Oclaro, Inc. and Sumitomo Electric Industries, Ltd.

Many of our competitors are larger than we are and have significantly greater financial, marketing and other resources. In addition, several of our competitors have large market capitalizations or cash reserves and are much better positioned to acquire other companies to gain new technologies or products that may displace our products. Network equipment providers, who are our customers, and network service providers, who are supplied by our customers, may decide to manufacture the optical subsystems incorporated into their network systems in-house. We also encounter potential customers that, because of existing relationships, are committed to the products offered by these competitors.

We believe the principal competitive factors in our target markets include the following:

- use of internally manufactured components;
- product breadth and functionality;
- timing and pace of new product development;
- breadth of customer base;
- technological expertise;
- reliability of products;

- product pricing; and
- manufacturing efficiency.

We believe that we compete favorably with respect to the above factors based on our MBE processes, our vertically integrated model, the performance and reliability of our product offerings and the compelling value we offer to our customers.

Employees

As of March 31, 2013, we employed 808 full-time employees, of which 22 held Ph.D. degrees in a science or engineering field. Of our employees, 176 are located in the U.S., 445 are in China, and 187 are in Taiwan. None of our employees are represented by any collective bargaining agreement, but certain employees of our China subsidiary are members of a trade union. We have never suffered any work stoppage and believe that we have satisfactory relations with our employees.

Facilities

We maintain manufacturing, research and development, sales and administrative offices in the U.S., China and Taiwan. Our corporate headquarters is located at our facility in Sugar Land, Texas. The table below provides information regarding our facilities.

<u>Location</u>	<u>Owned or Lease Expiration Date</u>	<u>Approximate Square Footage</u>	<u>Use</u>
Sugar Land, Texas (1)	Owned	23,850	Administration, sales, manufacturing, research and development
Sugar Land, Texas	May 31, 2014	6,062	Research and development
Ningbo, China	Owned (2)	458,849	Administration, sales, manufacturing, research and development
Taipei, Taiwan	March 31, 2014 (3) April 9, 2014 (3)	42,903	Administration, sales, manufacturing, research and development

(1) The property is subject to a mortgage in favor of East West Bank, securing our long-term debt obligations.

(2) Our China subsidiary acquired the land use rights to the real property on which our new facility is located from the Chinese government. The land use rights expire on March 8, 2054. Our China subsidiary owns the facility located on the property.

(3) Leases covering two floors expire on March 31, 2014 and the lease covering the other floor expires on April 9, 2014.

We believe that our existing facilities are adequate to meet our current needs and that we will be able to obtain additional commercial space as needed.

Environmental Matters

Our research and development and manufacturing operations and our products are subject to a variety of federal, state, local and foreign environmental, health and safety laws and regulations, including those governing discharges of pollutants to air and water, the use, storage, handling and disposal of hazardous materials, employee health and safety, and the hazardous material content in our products. Our environmental management systems in our facilities in Ningbo and Taipei are both certified to meet the requirements of ISO14001:2004. However, there

can be no assurance that violations of applicable laws at any of our facilities will not occur in the future as a result of human error, accident, equipment failure or other causes. We use, store and dispose of hazardous materials in our manufacturing operations and hazardous materials are present in our products. We incur costs to comply with environmental, health and safety requirements, and any failure to comply, or the identification of contamination for which we are found liable, could cause us to incur substantial costs, including cleanup costs, monetary fines, or civil or criminal penalties, and subject us to property damage and personal injury claims, and result in the suspension of production, alteration of our manufacturing processes, redesign of our products, or curtailment of sales and adverse publicity. Liability under environmental, health and safety laws can be joint and several and without regard to fault or negligence. For example, pursuant to environmental laws and regulations, including but not limited to the Comprehensive Environmental Response Compensation and Liability Act, or CERCLA, we may be liable for the full amount of any remediation-related costs at properties we currently own or formerly owned, such as our currently owned Sugar Land, Texas facility, or at properties at which we operated, as well as at properties we will own or operate in the future, and properties to which we have sent hazardous substances, whether or not we caused the contamination.

We expect that our operations and products will be affected by new environmental requirements on an ongoing basis. Environmental, health and safety requirements have become more stringent over time, and changes to existing requirements could restrict our ability to expand our facilities, require us to acquire costly pollution control equipment, or cause us to incur other significant expenses or to modify our manufacturing processes or the hazardous material content of our products. Identification of presently unidentified environmental conditions, more vigorous enforcement by a governmental authority, enactment of more stringent legal requirements or other unanticipated events could give rise to adverse publicity, restrict our operations, affect the design or marketability of our products or otherwise cause us to incur material environmental costs.

We face increasing complexity in our product design and procurement operations as we adjust to new and upcoming requirements relating to the materials composition of our products. Some jurisdictions in which our products are sold have enacted requirements regarding the hazardous material content of certain products. For example, member states of the European Union and China are among a growing number of jurisdictions that have placed restrictions on the use of lead, among other chemicals, in electronic products, which affect the composition and packaging of our products. The passage of such requirements in additional jurisdictions, or the tightening of standards or elimination of certain exemptions in jurisdictions where our products are already subject to such requirements, could cause us to incur significant expenditures to make our products compliant with new requirements, or could limit the markets into which we may sell our products. Other governmental regulations may require us to reengineer our products to use components that are more environmentally compatible, resulting in additional costs to us.

Legal Proceedings

We anticipate that we will from time to time be subject to various claims and legal actions during the ordinary course of our business. We are not aware of any material claims or legal actions to which we, our properties or our officers or directors are subject.

MANAGEMENT**Executive Officers and Directors**

The following table sets forth certain information regarding our executive officers and directors as of April 30, 2013.

<u>Name</u>	<u>Age</u>	<u>Position(s)</u>
Chih-Hsiang (Thompson) Lin	50	President, Chief Executive Officer and Director
James L. Dunn, Jr.	51	Chief Financial Officer
Stefan J. Murry	40	Chief Strategy Officer
Hung-Lun (Fred) Chang	49	Senior Vice President of Optical Component Business Unit
Klaus Alexander Anselm	44	Vice President of Semiconductor Products
Shu-Hua (Joshua) Yeh	47	Senior Vice President of Network Equipment Module Business Unit
Chung-Yao (Ford) Li	51	Senior Vice President, Asia General Manager
Juen-Sheng (Andrew) Kang	62	Director, Chairman of the Board of Directors
William H. Yeh (1)(3)	60	Director, Compensation Committee Chairman
Richard B. Black (1)(2)	79	Director, Audit Committee Chairman
Alan Moore (2)	52	Director
Min-Chu (Mike) Chen (1)(3)	63	Director
Alex Ignatiev (2)(3)	68	Director, Nominating and Corporate Governance Committee Chairman

(1) Member of the compensation committee.

(2) Member of the audit committee.

(3) Member of the nominating and corporate governance committee.

Chih-Hsiang (Thompson) Lin, Ph.D., founded Applied Optoelectronics, Inc. in February 1997 and has been President and Chief Executive Officer since our inception. He currently serves as a director on our board of directors, and he served as Chairman of our board of directors from May 2000 through September 2002, and again from June 2008 through October 2009. Dr. Lin has also served as a research associate professor and senior research scientist at the University of Houston. Dr. Lin holds a BS degree in Nuclear Engineering from National Tsing Hua University in Taiwan and an MS degree and a Ph.D. in Electrical and Computer Engineering from University of Missouri-Columbia.

The board of directors believes that Dr. Lin is qualified to serve as a director based on his extensive background in business management, his role as founder, President and Chief Executive Officer and his years of service on our board.

James L. Dunn, Jr., has served as our Chief Financial Officer since December 2012. Prior to joining us, Mr. Dunn served as the Chief Financial Officer of GET Enterprises, LLC, a private equity backed distributor of restaurant tableware, from March to December 2012. Mr. Dunn also served as Chief Financial Officer and in-house counsel of Polymics, Ltd., a global manufacturer of high temperature plastics, from 2009 to 2012. Mr. Dunn served as the Chief Financial Officer

and General Counsel of iLinc Communications, Inc. (Amex:ILC), a provider of web conferencing software, from 1998 to 2009. Mr. Dunn received a BBA in Accounting from Texas A&M University and a JD from Southern Methodist University School of Law.

Stefan J. Murry, Ph.D., has served as our Chief Strategy Officer since December 2012. Previously, Dr. Murry served as our Vice President of Sales and Marketing from June 2004 until December 2012, our Director of Sales and Marketing from January 2000 to June 2004 and as a Senior Engineer of Device Packaging from February 1997 to January 2000. He also previously served as Research Associate and Mission Control Specialist with the Space Vacuum Epitaxy Center in Houston, TX. Dr. Murry has been issued multiple patents in the optoelectronics industry, as well as in various related and complimentary industries. Dr. Murry received BS and MS degrees in Physics and a Ph.D. in Electrical Engineering from the University of Houston.

Hung-Lun (Fred) Chang, Ph.D., has served as Senior Vice President of our Optical Component Business Unit since October 2012. Previously, Dr. Chang served as Vice President of our Optical Module Division from March 2005 until October 2012, our Director of Manufacturing from June 2002 to March 2004, and as our Deputy Packaging Manager from April 2001 to May 2002. Dr. Chang has held numerous positions in the optoelectronics industry throughout his career. His most recent position prior to joining us was Deputy Manager of the Optical Active Component Group at Hon-Hai Precision Industry Co., Ltd., which is based in Taiwan. He was also a researcher and project manager of the Optoelectronic Module Technology group at Chunghwa Telecom Co., Ltd. from 1996 to 2000. Dr. Chang received a BS degree in Electrophysics and a Ph.D. in Electro-Optical Engineering from National Chiao Tung University in Taiwan.

Klaus Alexander Anselm, Ph.D., has served as our Vice President of Semiconductor Products since 2009. Previously, Dr. Anselm served as our Senior Director of Semiconductor Products from October 2007 to 2009, as our Director of Semiconductor Products from 2004 until September 2007, and as our Processing Department Manager from 1999 to 2004. Dr. Anselm received a BS degree in Electrical Engineering from Rice University, and an MS degree and Ph.D. in Electrical Engineering from the University of Texas at Austin.

Shu-Hua (Joshua) Yeh has served as Senior Vice President of our Network Equipment Module Business Unit since November 2012. Previously, Mr. Yeh served as our General Manager of our Video Equipment Division of Global Technology Inc., our China subsidiary, since its acquisition by us in March 2006 and had served as its President and Chief Executive Officer from April 2002 until the acquisition. From May 1995 to April 2002, Mr. Yeh served as a Vice President of Sales and Marketing of Twayway CATV Technology Inc. Mr. Yeh received a BS degree in Mechanical Engineering and an MS in Automatic Control Science from National Chung Shing University in Taiwan.

Chung-Yao (Ford) Li has served as our Senior Vice President since November 2011 and as our Asia General Manager since July 2011. From 2007 to 2011, Mr. Li served as a general manager in Shanghai, China for Pegatron Corporation, an electronics and computing design and manufacturing company. Mr. Li served in various operational management capacities of Wistron Infocomm Corporation from 2005 until 2007. From 2002 to 2005, Mr. Li also served as an Assistant Vice President of Quanta Computer Inc., in Shanghai, China. Mr. Li received an MS degree in Engineering Manufacturing Management from University of South Australia.

Juen Sheng (Andrew) Kang has served as a director on our board of directors since May 2000 and currently serves as the Chairman of the our board of directors, a position he has held since October 2009. Mr. Kang also served as our Chairman of our board of directors from October

2002 through May 2008. He is a director, the Managing Director and a co-founder of Technology Associates Management Co. Ltd., a strategic investment company, a position he has held since 1997. Before founding Technology Associates Management Company Ltd. in 1997, Mr. Kang was the founder and President of a venture capital company, Technology Associates Corporation, in Taiwan from 1990 to 1997. Mr. Kang currently serves as a director of Asia Star, a position he has held since September 2012, and as a director Techgains Pan Pacific Corporation and Techgains Global Corporation, positions he has held 2000. Mr. Kang also currently serves as a director and Chairman of Intelligent Exipitaxy Technology, Inc., a publicly-held company in Taiwan, and as a director and Chief Executive Officer of Natural Polymer International Corporation, positions he has held since 1997. Mr. Kang has also served as a director of HelixMicro Inc. from 2007 to March 2013, Techgains International Corporation from 1999 to March 2013, and GobiTech, Inc. from 1998 to 2011. Mr. Kang received an MS in Management from Arthur D. Little School of Management, and BA and MA degrees in Economics from Soochow University in Taiwan.

The board of directors believes that Mr. Kang is qualified to serve as a director based on his business management and leadership experience, his service on other private company and publicly-held boards of directors and his years of service as the Chairman of our board of directors.

William H. Yeh has served as a director on our board of directors since May 2000. He is the current Chief Executive Officer and President of Hungyeh Investment, Ltd., a hospitality real estate investment and management company, a position he has held since 2000. Mr. Yeh has also served as president of Gold Star Investment since 1997. He was a Senior Vice President of United Central Bank overseeing the Houston region and Vice Chairman of Central Bancorp, Inc. from 1997 to 2012. He is also currently a director of Central Bancorp, Inc., the holding company of United Central Bank, a position which he has held since 1997. Mr. Yeh received a BS degree from National Cheng Kung University in Taiwan an MS degree from University of Houston–Clear Lake.

The board of directors believes that Mr. Yeh is qualified to serve as a director based on his business and financial management and leadership experience and his years of service on our board.

Richard B. Black has served as a director on our board of directors since August 2001. He is the President and Chief Executive Officer of ECRM, Incorporated, a worldwide supplier of laser based imaging devices, a position he has held since 2002, and has been the chairman of the board of directors of ECRM, Incorporated since 1983. Beginning in 1989, Mr. Black was a director of Oak Technology, Inc., a manufacturer of semi-conductors for optical storage, and then became President in 1998 and vice chairman of the board of directors in 1999 until its merger with Zoran, Inc. in 2003. Mr. Black has served as President and CEO of AM International from 1980 to 1982 and Maremont Corporation from 1967 to 1979. He served as a director and chairman of the audit committee of GSI Group, a manufacturer of lasers, laser systems, semi-conductor equipment, from 1998 to 2012, and was its chairman of its board of directors from 2006 to 2012. He currently serves as a director and chairman of the audit committee of Alliance Fiber Optics Products, Inc. (Nasdaq: AFOP), a position he has held since 2002, and TREX Enterprises, Inc., a position he has held since 2000. Mr. Black has served as trustee of the Institute for Advanced Study at Princeton since 1990, and became its vice chairman in 2006. He has served as a trustee of the American Indian College Fund, Beloit College, Bard College, and serves on the Visiting Committee for the Physical Sciences Division of the University of Chicago. Mr. Black received a BS degree in Engineering from Texas A&M University, an MBA from Harvard University and an honorary Ph.D. from Beloit College.

The board of directors believes that Mr. Black is qualified to serve as a director based on his extensive business and financial management and leadership experience, and his service on other private company and publicly-held boards of directors.

Alan Moore has served as a director on our board of directors since March 2013. Since 2007, Mr. Moore has served as Manager of Silver Tree Fund II Management, LLC, a real estate investment fund, since 1999, he has served as the Treasurer of Silver Tree Partners, Inc., a real estate development company, and since 1995, he has served as the President of Red Oak Capital, a private equity company. From May 2004 until December 2011, Mr. Moore served as Manager of Silver Tree Fund Management, LLC, also a real estate investment fund, and from March 1998 to October 1999, Mr. Moore served as the Chief Financial Officer of Window on WallStreet (sold to Trade Station Group, Inc. in 1999). Previously, Mr. Moore was a co-founder of Fossil, Inc. (Nasdaq: FOSL). Mr. Moore received an MS degree in Accounting and a BA degree in Business Control Systems from the University of North Texas.

The board of directors believes that Mr. Moore is qualified to serve as a director based on his extensive background in business and financial management and his role as co-founder of a publicly-held company.

Min-Chu (Mike) Chen, Ph.D. has served as a director on our board of directors since February 27, 2013. Since January 2013, Dr. Chen has served as a member of the board of directors of Nanning Baota Biowin Technologies Co. Ltd., a real estate management company, since January 2012, he has served as an executive director of FGel Nanotek, Inc., a food and beverage additive company, since November 2011, he has served as the Asia Pacific Director for U.S. Flow Control Group Pte. Ltd., a petroleum equipment manufacturer and services company, since 2010, he has served as a director of Iecont Technology Inc., and since 2001, he has been a partner and member of the board of directors of EverRich Capital Inc., a consulting company. From September 2008 to April 2010, Dr. Chen served as the Chief Executive Officer of SilverPAC, Inc., a consumer electronics business, and from March 1994 to June 2002, Dr. Chen served as a board member of PCTEL, Inc. (Nasdaq: PCTI). Dr. Chen received a Ph.D. in Ocean Engineering from Oregon State University.

The board of directors believes that Dr. Chen is qualified to serve as a director based on his business management experience, his service on other private company boards of directors and his prior service on the board of a publicly-held company.

Alex Ignatiev, Ph.D. has served as a director on our board of directors since February 2013, and previously served as a director on our board of directors from June 2008 to October 2009 and from May 2001 to August 2002. Since March 2013, Dr. Ignatiev has served as the Chief Science Officer of Smart Grid Intelligent Management, Inc., which develops operating systems and alternative energy source integration, since February 2009, he has served as the Chief Technology Officer of Quarius Technologies, LP, a renewable energy company, since February 2006, he has served as a vice president and Chief Technology Officer at Nano EnerTex, Inc., a nanomaterials company, since January 2005, he has served as a Vice President of Virtual Vision LLP, which develops artificial retinas, and since May 2002, he has served as the Chief Technology Officer of Metal Oxide Technologies, Inc., which develops, manufactures and sells superconducting wire. Dr. Ignatiev was a director of the Space Vacuum Epitaxy Center at the University of Houston from 1987 until 2002 after which he became director of the Texas Center for Superconductivity and Advanced Materials until 2005. From 2005 until the present he has served as a director of the Center for Advanced Materials at the University of Houston. Dr. Ignatiev has also served a task leader for the Texas Center for Superconductivity from 1987 to 2008. Dr. Ignatiev has served since 2010 as the Hugh Roy and Lillie Cranz Cullen professor of

physics, chemistry and electrical and computer engineering at the University of Houston, and has been elected to the International Academy of Astronautics and to the Kazakhstan National Academy of Sciences. Dr. Ignatiev received a Ph.D. in Materials Science from Cornell University.

The board of directors believes that Dr. Ignatiev is qualified to serve as a director based on his business management experience, broad technology industry experience and his past service on our board.

Our executive officers are elected by, and serve at the discretion of, our board of directors. There are no family relationships among any of our directors or executive officers.

Board Composition

Our amended and restated certificate of incorporation to be in effect immediately prior to the closing of this offering will provide that the number of authorized directors will be determined from time to time by resolution of the board of directors and any vacancies in our board of directors and newly created directorships may be filled only by our board of directors. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes, so that, as nearly as possible, each class will consist of one-third of the total number of directors. Our amended and restated certificate of incorporation will further provide for the removal of a director only for cause and by the affirmative vote of the holders of 66²/₃% or more of the shares then entitled to vote at an election of our directors. We currently have seven directors.

Following the closing of this offering, our board of directors will be divided into three classes with members of each class of directors serving for staggered three-year terms as follows:

- Class I directors, Alan Moore and Alex Ignatiev, whose initial terms will expire at the annual meetings held in 2014;
- Class II directors, William H. Yeh and Juen-Sheng (Andrew) Kang, whose initial terms will expire at the annual meetings held in 2015; and
- three Class III directors, Chih-Hsiang (Thompson) Lin, Richard B. Black and Min-Chu (Mike) Chen, whose initial terms will expire at the annual meetings held in 2016.

Our classified board could have the effect of making it more difficult for a third party to acquire us. We have determined that each of William H. Yeh, Richard B. Black, Alex Ignatiev, Alan Moore and Min-Chu (Mike) Chen qualify as independent directors under the NASDAQ rules.

Director Compensation

In 2012 non-employee directors were eligible to receive \$1,500 for each board meeting attended in person. In addition, a \$300 meeting fee was payable for each board or committee meeting attended by telephone. If a committee meeting occurred at the same site as a scheduled board meeting, no additional compensation was paid. Employee directors did not receive any compensation other than their employee compensation for their service as directors. Directors were reimbursed for out-of-pocket expenses incurred in the course of their service on the board of directors or its committees.

Non-employee directors continuing in office following each annual meeting of stockholders were eligible to receive an option to acquire 40,000 shares. The Chairman of the board of directors was eligible to receive an option for an additional 10,000 shares and each chair of a committee was eligible to receive an option for an additional 5,000 shares. All options granted to directors vest in equal monthly amounts over the first twelve months following the date of grant and expire, subject to early termination in accordance with their terms, on the tenth anniversary of the date of grant.

The table below sets forth, for each person who served as a non-employee director during 2012, information regarding compensation for service on our board of directors during 2012.

<u>NAME</u>	<u>Fees Earned or Paid in Cash</u>	<u>Option Awards (2)</u>	<u>Total</u>
Juen-Sheng (Andrew) Kang	\$ 1,500	\$ 10,048	\$ 11,548
William H. Yeh	1,500	8,792	10,292
Richard B. Black	1,500	6,280	7,780
Nancy T. Chang (5)	1,500	5,861	7,361
Benjamin C M Jen (4)	1,500	5,861	7,361
Chih-Kai (C.K.) Cheng (3)	1,500	5,024	6,524
Hsiang-Teh (Steven) Ho (3)	1,500	—	—

- (1) Reflects the aggregate dollar amount of fees earned or paid in cash for services as a non-employee director, including committee service fees, fees for serving as a committee chairperson, and board and committee meeting fees.
- (2) Represents the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. The assumptions used in calculating the grant date fair value of the stock options reported in Note M to the consolidated financial statements included in this prospectus. The amounts reported in this column reflect the accounting cost for these stock options and do not correspond to the actual economic value that may be received by the named executive officers for the stock options.
- (3) Resigned as a member of our board of directors on February 20, 2013.
- (4) Resigned as a member of our board of directors on February 27, 2013.
- (5) Resigned as a member of our board of directors on March 22, 2013.

Board Committees

Our board of directors directs the management of our business and affairs, as provided by Delaware law, and conducts its business through meetings of the board of directors. Upon completion of this offering our board of directors will have three standing committees: an audit committee, a compensation committee and a nominating and corporate governance committee. Our board of directors may establish other committees to facilitate the management of our business.

Audit Committee

Our audit committee currently consists of Richard B. Black, Alan Moore and Alex Ignatiev. Our board of directors has determined that Messrs. Black, Moore and Ignatiev each satisfy the independence and financial literacy requirements under the applicable rules and regulations of the SEC and NASDAQ. Mr. Black serves as the chairman of this committee, and our board of directors has determined that he qualifies as an "audit committee financial expert" as that term is defined in the rules and regulations established by the SEC and has the requisite financial

sophistication as defined under the applicable NASDAQ rules. The functions of this committee include, but are not limited to:

- meeting with our management periodically to consider the adequacy of our internal controls and the objectivity of our financial reporting;
- meeting with our independent auditors and with internal financial personnel regarding these matters;
- appointing, compensating, retaining and overseeing the work of our independent auditors;
- pre-approving audit and non-audit services of our independent auditors;
- reviewing our audited financial statements and reports and discussing the statements and reports with our management, including any significant adjustments, management judgments and estimates, new accounting policies and disagreements with management;
- Establishing procedures for the receipt, retention and treatment of complaints we receive regarding accounting, internal accounting controls or auditing matters, as well as for the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;
- reviewing the independence and quality control procedures of the independent auditor and the experience and qualifications of the independent auditor's senior personnel that are providing us audit services;
- reviewing all related-party transactions for approval; and
- reviewing and reassessing the adequacy of the audit committee's charter at least annually and recommending any changes to our board of directors.

Both our independent auditors and internal financial personnel regularly meet privately with our audit committee and have unrestricted access to this committee.

Compensation Committee

Our compensation committee currently consists of William H. Yeh, Richard B. Black and Min-Chu (Mike) Chen, each of whom is not an employee and is otherwise "independent" as that term is defined in the current applicable NASDAQ rules. Mr. Yeh serves as the chairman of this committee. Pursuant to its charter, our compensation committee has responsibility for overseeing our compensation policies and programs, including developing compensation policies and providing oversight in the implementation of all applicable policies and benefit plans. Specifically, the compensation committee recommends the compensation payable to our non-employee directors, evaluates and sets compensation for the Chairman of our board of directors and our executive officers and monitors all general compensation programs. In accordance with its charter, the compensation committee's responsibilities include, but are not limited to:

- reviewing and approving all compensation for the Chief Executive Officer, including incentive-based and equity-based compensation;

- reviewing and approving annual performance objectives and goals relevant to compensation for the Chief Executive Officer and evaluating the performance of the Chief Executive Officer;
- reviewing and approving incentive-based or equity-based compensation plans in which our executive officers participate;
- reviewing and approving all compensation for executive officers, including incentive-based and equity-based compensation, and overseeing the evaluation of management;
- approving all employment, severance, or change-in-control agreements, special or supplemental benefits, or provisions including the same, applicable to executive officers;
- periodically reviewing and advising our board of directors concerning both regional and industry-wide compensation practices and trends in order to assess the adequacy and competitiveness of our compensation programs for executive officers relative to comparable companies in our industry;
- reviewing and reassessing the adequacy of the compensation committee charter and recommending any changes to our board of directors on an annual basis; and
- reviewing and evaluating the compensation committee's own performance periodically.

The compensation committee may delegate its authority to a subcommittee to make grants of stock, stock options and other equity securities to executive officers and other employees, provided that these grants are made within established guidelines. In addition, the compensation committee may obtain advice or assistance from compensation consultants, legal counsel or other advisors to perform its duties, provided that the compensation committee shall periodically assess the independence of any such compensation consultant as required by NASDAQ rules and applicable law.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee currently consists of William H. Yeh, Alex Ignatiev and Min-Chu (Mike) Chen. Mr. Ignatiev serves as the chairman of this committee. Our nominating and corporate governance committee oversees and advises the board of directors with respect to corporate governance matters, assists the board of directors in identifying and recommending qualified candidates for nomination to the board of directors, makes recommendations to the board of directors with respect to assignments to committees of the board of directors and oversees the evaluation of the board of directors. The functions of this committee include, but are not limited to:

- making recommendations to the board of directors regarding all nominees for board membership, whether for the slate of director nominees to be proposed by the board of directors to the stockholders or any director nominees to be elected by the board of directors to fill interim director vacancies;
- considering director candidates submitted by stockholders and determining the procedure to be followed by stockholders in submitting such recommendations;

- recommending board of director committee structure and responsibilities to be included in the charter of each committee of the board of directors to be submitted to full board of directors for consideration;
- recommending directors to serve on each board committee and suggesting rotations for chairpersons of the board committees as the nominating and corporate governance committee deems appropriate;
- recommending corporate governance standards to the board of directors;
- evaluating and recommending any revisions to board of directors and board committee meeting policies;
- reviewing the effectiveness of the operation of the board of directors and board committees, including the corporate governance and operating practices;
- reviewing and reassessing the adequacy of the nominating and corporate governance committee charter and recommending any changes to the board of directors; and
- periodically reviewing the compensation paid to non-employee directors and make recommendations to our board of directors for any adjustments.

Compensation Committee Interlocks and Insider Participation in Compensation Decisions

None of our executive officers serves as a member of our compensation committee or as a member of the board of directors or any other committee serving an equivalent function of any other entity that has one or more of its executive officers serving as a member of our board of directors or compensation committee.

Code of Business Conduct

Our board of directors has adopted a code of business conduct. The code of business conduct applies to all of our employees, officers and directors. Upon the effectiveness of the registration statement of which this prospectus is a part, the full text of our code of business conduct will be posted on our website at www.ao-inc.com under the Investor Relations section. We intend to disclose future amendments to certain provisions of our code of business conduct, or waivers of such provisions, at the same location on our website identified above and also in public filings.

Risk Assessment of Compensation Programs

We do not believe that our compensation programs create risks that are reasonably likely to have a material adverse effect on our company. We believe that the combination of different types of compensation as well as the overall amount of compensation, together with our internal controls and oversight by the board of directors, mitigates potential risks.

Tax and Accounting Considerations

Section 162(m) of the Internal Revenue Code generally disallows public companies a tax deduction for compensation in excess of \$1,000,000 paid to their Chief Executive Officer and certain other executive officers unless certain performance and other requirements are met. As one of the factors in its consideration of compensation matters, the compensation committee also considers the anticipated tax treatment to our company and to the executive officers of various payments and benefits, including the effect of Section 162(m). The compensation committee retains discretion, however, to implement executive compensation programs that may not be deductible under Section 162(m) if the compensation committee believes the programs are nevertheless appropriate to help achieve our primary objective of ensuring that compensation paid to our executive officers is reasonable, performance-based and consistent with the goals of our company and its stockholders. We do not believe that Code Section 162(m) will limit our tax deductions for our last completed fiscal year.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table presents summary information regarding the total compensation awarded to, earned by, and paid to our principal executive officer, principal financial officer and other two most highly compensated executive officers who were serving as executive officers at the end of the fiscal year ended December 31, 2012. These officers are referred to as our named executive officers. The information included in this table reflects compensation for the years ended December 31, 2011 and 2012.

Name and Principal Position	Year	Salary (1) \$	Bonus \$	Stock Awards \$	Option Awards (2) \$	Non-Equity Incentive Plan Compensation \$	Nonqualified deferred compensation earnings \$	All Other Compensation (3) \$	Total \$
Chih-Hsiang (Thompson) Lin	2012	318,689	—	—	53,733	—	—	4,632	377,054
President and Chief Executive Officer	2011	306,886	—	—	6,879	—	—	4,347	318,112
James L. Dunn, Jr. (4)	2012	3,654	—	—	—	—	—	113	3,767
Chief Financial Officer	2011	—	—	—	—	—	—	—	—
Stefan J. Murry	2012	201,872	—	—	21,829	—	—	1,540	225,241
Chief Strategy Officer	2011	190,256	—	—	2,635	—	—	1,255	194,146
Hung-Lun (Fred) Chang	2012	177,285	—	—	15,112	—	—	1,540	193,937
Senior Vice President of Optical Module Division	2011	172,033	—	—	1,844	—	—	1,255	175,132

- (1) Includes amounts earned but deferred at the election of the named executive officers, such as salary deferrals under our 401(k) Plan established under Section 401(k) of the Code.
- (2) Represents the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. The assumptions used in calculating the grant date fair value of the stock options reported in the Option Awards column are set forth in Note M to the consolidated financial statements included in this prospectus. The amounts reported in this column reflect the accounting cost for these stock options and do not correspond to the actual economic value that may be received by the named executive officers for the stock options.
- (3) Includes life insurance premiums paid by us for the benefit of the named executive officers.
- (4) Mr. Dunn joined us on December 12, 2012 as Chief Financial Officer. His base annualized salary for 2012 was \$192,000.

Outstanding Equity Awards at Fiscal Year-end

The following table sets forth certain information regarding outstanding equity awards at fiscal year-end for our named executive officers for the year ended December 31, 2012.

Name	Number of Shares Underlying Unexercised Options		Option Exercise Price \$	Option Expiration Date	
	Exercisable	Unexercisable			
Chih-Hsiang (Thompson) Lin	62,500 (1)	—	\$ 0.165	July 31, 2014	
	103,125 (2)	—	\$ 0.25	June 9, 2015	
	131,250 (3)	—	\$ 0.20	October 19, 2019	
	6,664 (4)	—	\$ 0.20	October 19, 2019	
	350,000 (5)	—	\$ 0.20	June 5, 2017	
	28,333 (6)	—	\$ 0.20	August 3, 2017	
	250,000 (7)	—	\$ 0.20	February 12, 2018	
	20,000 (8)	—	\$ 0.20	May 29, 2019	
	422,500 (9)	422,500 (9)	\$ 0.20	August 23, 2020	
	228,462 (10)	293,738 (10)	\$ 0.20	March 4, 2021	
	—	320,000 (11)	\$ 0.20	May 22, 2022	
James L. Dunn, Jr.	—	—	—	—	
Stefan J. Murry	27,000 (12)	—	\$ 0.10	December 31, 2014	
	85,000 (1)	—	\$ 0.15	July 31, 2014	
	41,100 (13)	—	\$ 0.15	December 31, 2014	
	60,000 (3)	—	\$ 0.20	October 19, 2019	
	80,000 (5)	—	\$ 0.20	October 19, 2019	
	80,000 (7)	—	\$ 0.20	February 12, 2018	
	115,000 (9)	115,000 (9)	\$ 0.20	August 23, 2020	
	87,499 (10)	112,501 (10)	\$ 0.20	March 4, 2021	
	—	130,000 (11)	\$ 0.20	May 22, 2022	
	Hung-Lun (Fred) Chang	22,518 (14)	—	\$ 0.10	December 31, 2014
		85,000 (1)	—	\$ 0.15	July 31, 2014
12,000 (15)		—	\$ 0.25	June 9, 2015	
41,000 (3)		—	\$ 0.20	October 19, 2019	
65,000 (7)		—	\$ 0.20	October 19, 2019	
60,000 (5)		—	\$ 0.20	October 19, 2019	
90,000 (9)		90,000 (9)	\$ 0.20	August 23, 2020	
61,249 (10)		78,751 (10)	\$ 0.20	March 4, 2021	
—		90,000 (11)	\$ 0.20	May 22, 2022	

- (1) The amounts reported reflect shares of common stock underlying stock options granted in calendar year 2004 under our 2000 Incentive Share Plan. The stock options vest over a four-year period with respect to one-forty-eighth (1/48) of the shares as of the first day of the calendar month following the vesting start date, subject to continued service through each applicable vesting date.
- (2) The amounts reported reflect shares of common stock underlying stock options granted in calendar year 2005 under our 2004 Incentive Share Plan. The stock options vest over a four-year period with respect to one-sixteenth (1/16) of the shares as of each three-month period following the vesting start date, subject to continued service through each applicable vesting date.

- (3) The amounts reported reflect shares of common stock underlying stock options granted in calendar year 2006 under our 2006 Incentive Share Plan. The stock options vest over a four-year period with respect to one-sixteenth (1/16) of the shares as of each three-month period following the vesting start date, subject to continued service through each applicable vesting date.
- (4) The amounts reported reflect shares of common stock underlying stock options granted in calendar year 2006 under our 2006 Incentive Share Plan. The stock options vest over a one year period with respect to one-twelfth (1/12) of the shares as of the first day of the calendar month beginning after the vesting start date, subject to continued service through each applicable vesting date.
- (5) The amounts reported reflect shares of common stock underlying stock options granted in calendar year 2007 under our 2006 Incentive Share Plan. The stock options vest over a four-year period as follows: 25% of the shares underlying the stock option vest on the first anniversary of the vesting start date with the remainder vesting 25% each twelve month period over the remaining three years, subject to continued service through each applicable vesting date.
- (6) The amounts reported reflect shares of common stock underlying stock options granted in calendar year 2007 under our 2006 Incentive Share Plan. The stock options vest over a seventeen month period with respect to one-seventeenth (1/17) of the shares as of the first day of the calendar month beginning after the vesting start date, subject to continued service through each applicable vesting date.
- (7) The amounts reported reflect shares of common stock underlying stock options granted in calendar year 2008 under our 2006 Incentive Share Plan. The stock options vest over a four-year period as follows: 25% of the shares underlying the stock option vest on the first anniversary of the vesting start date and the remaining shares shall become exercisable with respect to one-thirty-sixth (1/36) of the remaining shares as of the first day of the calendar month following the first anniversary of the vesting start date, subject to continued service through each applicable vesting date.
- (8) The amounts reported reflect shares of common stock underlying stock options granted in calendar year 2009 under our 2006 Incentive Share Plan. The stock options vest over a one year period with respect to one-twelfth (1/12) of the shares as of the first day of the calendar month beginning after the vesting start date, subject to continued service through each applicable vesting date.
- (9) The amounts reported reflect shares of common stock underlying stock options granted in calendar year 2010 under our 2006 Incentive Share Plan. The stock options vest over a four-year period as follows: 25% of the shares underlying the stock option vest on the first anniversary of the vesting start date with the remaining shares vesting 12.5% each six months over the remaining three years, subject to continued service through each applicable vesting date.
- (10) The amounts reported reflect shares of common stock underlying stock options granted in calendar year 2011 under our 2006 Incentive Share Plan. The stock options vest over a four-year period as follows: 25% of the shares underlying the stock option vest on the first anniversary of the vesting start date and the remaining shares shall become exercisable with respect to one-thirty-sixth (1/36) of the remaining shares as of the first day of the calendar month following the first anniversary of the vesting start date, subject to continued service through each applicable vesting date.
- (11) The amounts reported reflect shares of common stock underlying stock options granted in calendar year 2012 under our 2006 Incentive Share Plan. The stock options vest over a four-year period as follows: 25% of the shares underlying the stock option vest on the first anniversary of the vesting start date with the remaining shares vesting 12.5% each six months over the remaining three years, subject to continued service through each applicable vesting date.
- (12) The amounts reported reflect shares of common stock underlying stock options granted in calendar year 2001 under our 2000 Incentive Share Plan. The stock options vest over a five-year period with respect to one-twentieth (1/20) of the shares as of the first day of the calendar quarter (three-month period) following the vesting start date, subject to continued service through each applicable vesting date.
- (13) The amounts reported reflect shares of common stock underlying stock options granted in calendar year 2000 under our 1998 Incentive Share Plan. The stock options vest over a four-year period as follows: 25% of the shares underlying the stock option vest immediately and the remaining shares shall become exercisable with respect to one-thirty-sixth (1/36) of the remaining shares as of the first day of the calendar month following the first anniversary of the vesting start date, subject to continued service through each applicable vesting date.
- (14) The amounts reported reflect shares of common stock underlying stock options granted in calendar year 2002 under our 2000 Incentive Share Plan. The stock options vest over a four-year period as follows: 25% of the shares underlying the stock option vest on the first anniversary of the vesting start date with the remainder vesting one-sixteenth (1/16) as of the first day of the calendar quarter (three-month period) following the vesting start date, subject to continued service through each applicable vesting date.

- (15) The amounts reported reflect shares of common stock underlying stock options granted in calendar year 2005 under our 2000 Incentive Share Plan. The stock options vest over a four-year period with respect to one-sixteenth (1/16) of the shares as of each three-month period following the vesting start date, subject to continued service through each applicable vesting date.

Agreements with Executive Officers

Change of Control or Separation of Service Agreements with Chief Executive Officer and Other Executive Officers

Each of Mr. Lin, Mr. Murry and Mr. J. Yeh has an agreement regarding change of control or separation of service with our company, which provides that, if our board of directors terminates his employment for any reason other than Cause or if he resigns for Good Reason before the occurrence of a Change in Control, as defined below, he will be entitled to receive (i) a payment equal to one year's base salary plus \$15,000, (which may be used for benefit continuation under COBRA or for any other purpose), (ii) a payment equal to his target bonus and (iii) in the case of Mr. Murry, a lump sum equal to Mr. Murry's four most recent commission payments. The severance benefits that may arise as a result of a termination prior to a Change of Control will be paid periodically in installments over the 12 months following his separation from service, subject to certain limitations including his execution of a release agreement. The release agreement would include a reasonable agreement to cooperate for a period of six months following the employment termination date and a mutual non-disparagement clause. In consideration of these benefits, he has agreed to be subject to a non-compete provision for a period of 12 months following his separation from service and would agree to maintain the confidentiality of company information. Mr. Dunn's and Mr. Chang's employment agreement do not provide for the above benefits.

Each employment agreement generally defines "Cause" as, following written notice to the executive and the executive's failure to cure such occurrence(s): (i) conviction or plea of nolo contendere to any felony offense or to a crime of moral turpitude; (ii) commission of willful misconduct or violation of law in connection with the performance of his duties, including (a) misappropriation of funds or property, (b) attempting to secure personally any profit in connection with any transaction entered into on behalf of our company, or (c) making any material misrepresentation to our board of directors, our company or its affiliates; (iii) material violation or failure to comply with our company policy; (iv) material breach of the employment agreement; or (v) the willful and continued failure or neglect to substantially perform his duties with our company. "Good Reason" is defined to include: (i) the executive's assignment to duties inconsistent with his position or title; (ii) reduction in his base compensation, except as part of an overall cost reduction program that affects all senior executives and does not disproportionately affect executive; (iii) any purported termination of the executive by our company other than for disability or Cause or a voluntary resignation initiated by the executive, except for a voluntary termination for Good Reason; (iv) failure of any successor entity to our company to expressly assume the employment agreement; and (v) material breach by our company of the agreement.

Each of Mr. Lin, Mr. Murry, Mr. J. Yeh, Mr. Dunn and Mr. Chang have provisions in their employment agreements that provide if, within one year after a Change of Control or within six months prior to a Change of Control, the executive's employment is terminated by the executive for Good Reason or by our company other than for Cause, the executive will instead be entitled to receive severance benefits consisting of: (i) a lump sum payment equal to one year's base salary plus \$10,000 (\$15,000 for Mr. Dunn and Mr. Chang) which may be used for benefit continuation under COBRA or for any other purpose; (ii) a lump sum payment equal to his target bonus; and (iii) accelerated vesting of the executive's stock options, with all vested options becoming exercisable for an extended period following termination of employment. The severance benefits that may arise as a result of termination within one year following a Change of Control will be paid on the later of the 60th day after the effective date of the executive's separation from service or six months and one day after executive's separation from service if the executive is, at the time of termination, a "specified employee" as defined under Section 409A of the Internal Revenue Code, as amended. Additionally, Mr. Lin's employment agreement provides him with a tax gross-up payment to make him whole for any excise taxes that he would owe resulting from the application of the 20% excise tax provisions under Section 280G of the Internal Revenue Code of 1986, as amended, that apply when certain "parachute payments" are paid to Mr Lin as the result of a Change of Control. None of the other employment agreements with our executive officers provide them with any right to a tax gross-up.

A "Change in Control" is deemed to occur if: (i) individuals who constitute the board of directors of our company on the date of the employment agreement (Incumbent Directors) cease to constitute at least a majority of our board of directors; provided, that any individual whose election or nomination for election by the stockholders was approved by a majority of the then Incumbent Directors shall be considered an Incumbent Director, with certain exceptions; or (ii) the stockholders of our company approve (1) any merger, consolidation or recapitalization of our company or any sale of substantially all of its assets where (a) the stockholders of our company prior to the transaction do not, immediately thereafter, own at least 51% of both the equity and voting power of the surviving entity or (b) the Incumbent Directors at the time of the approval of the transaction would not immediately thereafter constitute a majority of the board of directors of the surviving entity, or (2) any plan of liquidation or dissolution of our company.

Equity Compensation Plans

2013 Long-Term Incentive Plan

Our board of directors and stockholders have adopted and approved our 2013 Long-Term Incentive Plan, or the 2013 Plan, which will become effective immediately prior to the closing of this offering. The following is a brief summary of the material terms of our 2013 Plan.

Purpose

The purpose of our 2013 Plan is to attract and retain employees, directors and consultants by providing them with additional incentives, and to promote the success of our company's business.

Administration

Our board of directors or one or more committees appointed by our board of directors will administer the 2013 Plan. For this purpose our board of directors has delegated general administrative authority for the 2013 Plan to the compensation committee. A committee may delegate some or all of its authority with respect to the 2013 Plan to another committee of directors and may delegate certain limited award grant authority to one or more officers of our company. (The appropriate acting body, be it our board of directors, a committee within its delegated authority, or an officer within his or her delegated authority, is referred to in this summary as the "Administrator.") The Administrator determines the number of shares that are subject to awards and the terms and conditions of such awards, including the price (if any) to be paid for the shares or the award. Along with other authority granted to the Administrator under the 2013 Plan, the Administrator may (i) determine fair market value, (ii) select recipients of awards, (iii) determine the number of shares subject to awards, (iv) approve form award agreements, (v) determine the terms and conditions of awards, (vi) reduce the exercise price of outstanding awards without participant consent, (vii) amend outstanding awards, and (viii) allow participants to satisfy withholding tax obligations through a reduction of shares.

Eligibility

Persons eligible to receive awards under the 2013 Plan include our officers, employees, consultants and member of our board of directors. The Administrator determines from time to time the participants to whom awards will be granted.

Authorized shares; limits on awards

The maximum number of common shares that may be issued or transferred pursuant to awards under the 2013 Plan equals 24,000,000, which number includes shares remaining available under our prior plans as described below and shares subject to outstanding awards forfeited back to our prior plans, all of which may be subject to incentive stock option treatment. The maximum aggregate number of common shares that may be issued pursuant to all awards under the 2013 Plan shall increase annually on the first day of each fiscal year following the adoption of the 2013 Plan by the number of common shares equal to the lesser of (i) 10,000,000 shares, (ii) 2% of the total issued and outstanding common shares on the first day of such fiscal year, or (iii) such lesser amount determined by our board of directors. Additionally, the maximum number of shares subject to those options and stock appreciation rights that are granted during any calendar year to any individual under the 2013 Plan is 18,000,000 shares.

To the extent that an award is settled in cash or a form other than shares, the shares that would have been delivered had there been no such cash or other settlement will not be counted against the shares available for issuance under the 2013 Plan. To the extent that shares are delivered pursuant to the exercise of a stock appreciation right or stock option, or to satisfy the tax withholding obligations under an award, then only the shares actually issued shall be counted against the applicable share limits. Shares that are subject to or underlie awards that expire or for any reason are cancelled or terminated, are forfeited, fail to vest, or for any other reason are not paid or delivered under the 2013 Plan will again be available for subsequent awards under the 2013 Plan. Additionally, shares that are exchanged by a participant or withheld by our company as full or partial payment in connection with any award under the 2013 Plan, as well as any shares exchanged by a participant or withheld by our company to satisfy the tax withholding obligations related to any award under the 2013 Plan, will be available for subsequent awards under the 2013 Plan and are not counted against the applicable share limits.

As is customary in incentive plans of this nature, the number and kind of shares available under the 2013 Plan and the then outstanding stock-based awards, as well as exercise or purchase prices, performance targets under certain performance-based awards and share limits, are subject to adjustment in the event of certain reorganizations, mergers, combinations, consolidations, recapitalizations, dividends, stock splits, a split-up or a spin-off, repurchases or exchange, or other similar events, or extraordinary dividends or distributions of property to the stockholders.

Incentive awards

The 2013 Plan authorizes stock options, stock appreciation rights, or SARs, restricted stock, restricted stock units, performance shares and performance units, as well as other awards (described in the 2013 Plan) that are responsive to changing developments in management compensation. The 2013 Plan retains the flexibility to offer competitive incentives and to tailor benefits to specific needs and circumstances. Any award may be paid or settled in cash. An option or SAR will expire, or other award will vest in accordance with the schedule set forth in the applicable award agreement.

- **Stock option.** A stock option is the right to purchase common shares at a future date at a specified price per share generally equal to, but no less than, the fair market value of a share on the date of grant. An option may either be an Incentive Stock Option, or ISO, or a nonstatutory stock option, or NSO. ISO benefits are taxed differently from NSOs, as described under "Federal Income Tax Treatment of Awards under the 2013 Plan," below. ISOs also are subject to more restrictive terms and are limited in amount by the Code and the 2013 Plan. Full payment for shares purchased on the exercise of any option must be made at the time of such exercise in a manner approved by the Administrator.
- **SAR.** A SAR is the right to receive payment of an amount equal to the excess of the fair market value of a common share on the date of exercise of the SAR over the base price of the SAR. The base price will be established by the Administrator at the time of grant of the SAR but will not be less than the fair market value of a share on the date of grant. SARs may be granted in connection with other awards or independently.
- **Restricted stock award.** A restricted stock award is typically for a fixed number of common shares subject to restrictions. The Administrator specifies the price, if any, the participant must pay for such shares and the restrictions (which may include, for example, continued service and/or performance standards) imposed on such shares. A stock bonus may be granted by the Administrator to any eligible person to reward exceptional or special services, contributions or achievements in the manner and on such terms and conditions (including any restrictions on such shares) as determined from time to time by the Administrator. The number of shares so awarded shall be determined by the Administrator and may be granted independently or in lieu of a cash bonus.
- **Restricted stock unit.** A restricted stock unit is similar to a SAR except that it entitles the recipient to receive an amount equal to the fair market value of a common share.

- **Performance-based award.** A performance-based award is designed to satisfy the requirements for deductibility under Section 162(m) of the Code (in addition to other awards expressly authorized under the 2013 Plan which may also qualify as performance-based) and may be based on the performance of our company and/or one or more of our subsidiaries, divisions, segments, or units. The business criteria from which performance goals will be established are listed in the 2013 Plan under the term "Performance Goals." Performance goals may be adjusted to reflect certain changes, including reorganizations, liquidations and capitalization and accounting changes, to the extent permitted by Section 162(m). Performance-based awards may be stock-based (payable in stock only or in cash or stock) or may be cash-only awards (in either case, subject to the limits described under the heading "Authorized Shares; Limits on Awards" above). Before any performance-based award is paid, the Administrator must certify that the performance goals have been satisfied. The Administrator has discretion to determine the performance goals and restrictions or other limitations of the individual awards and reserves discretion to reduce payments below maximum award limits.

The Administrator may grant stock unit awards and permit deferred payment of awards, and may determine the form and timing of payment, vesting and other terms applicable to stock units or deferrals.

Acceleration of awards; possible early termination of awards

Upon a change in control of our company, outstanding awards under the 2013 Plan will be assumed or substituted on the same terms. However, if the successor corporation does not assume or substitute the outstanding awards, then vesting of these awards will fully accelerate, and in the case of options or stock appreciation rights, will become immediately exercisable. For this purpose a change in control is defined to include certain changes in the majority of our board of directors, the sale of all or substantially all of our company's assets and the consummation of certain mergers or consolidations.

Transfer restrictions

Subject to certain exceptions, awards under the 2013 Plan are not transferable by the recipient other than by will or the laws of descent and distribution and are generally exercisable, during the recipient's lifetime, only by him or her.

Termination of or changes to the 2013 Plan

Our board of directors may amend or terminate the 2013 Plan at any time and in any manner. Unless required by applicable law or listing agency rule, stockholder approval for any amendment will not be required. Unless previously terminated by our board of directors, the 2013 Plan will terminate on _____, 2023. Generally speaking, outstanding awards may be amended, subject, however, to the consent of the holder if the amendment materially and adversely affects the holder.

Federal income tax treatment of awards under the 2013 Plan

Federal income tax consequences (subject to change) relating to awards under the 2013 Plan are summarized in the following discussion. This summary is not intended to be exhaustive and, among other considerations, does not describe the deferred compensation provisions of Section 409A of the U.S. Internal Revenue Code to the extent an award is subject to and does not satisfy those rules, nor does it describe state, local, or international tax consequences.

For "NSOs," our company is generally entitled to deduct (and the optionee recognizes taxable income in) an amount equal to the difference between the option exercise price and the fair market value of the shares at the time of exercise. For ISOs, our company is generally not entitled to a deduction nor does the participant recognize income at the time of exercise. The current federal income tax consequences of other awards authorized under the 2013 Plan generally follow certain basic patterns: SARs are taxed and deductible in substantially the same manner as NSOs; nontransferable restricted stock subject to a substantial risk of forfeiture results in income recognition equal to the excess of the fair market value over the price paid (if any) only at the time the restrictions lapse (unless the recipient elects to accelerate recognition as of the date of grant); bonuses and performance share awards are generally subject to tax at the time of payment; cash-based awards are generally subject to tax at the time of payment; and compensation otherwise effectively deferred is taxed when paid. Our company will generally have a corresponding deduction at the time the participant recognizes income. However, as for those awards subject to ISO treatment, our company would generally have no corresponding compensation deduction.

If an award is accelerated under the 2013 Plan in connection with a change in control (as this term is used under the Code), our company may not be permitted to deduct the portion of the compensation attributable to the acceleration ("parachute payments") if it exceeds certain threshold limits under the Code (and certain related excise taxes may be triggered). Furthermore, the aggregate compensation in excess of \$1,000,000 attributable to awards which are not "performance-based" within the meaning of Section 162(m) of the Code, or do not fall within any other applicable exception, may not be permitted to be deducted by our company in certain circumstances.

Various Incentive Share Plans

Our board of directors previously adopted, and our stockholders previously approved, the 1998 Share Incentive Plan, the 2000 Share Incentive Plan, the 2004 Share Incentive Plan and the 2006 Share Incentive Plan, which are referred to collectively as our Prior Plans. As of April 30, 2013, we had 22,316,816 shares of common stock subject to outstanding stock options under our Prior Plans with a weighted average exercise price of \$0.2216. Following this offering and in connection with the effectiveness of our 2013 Plan, no further awards will be granted under the Prior Plans. However, all outstanding awards under the Prior Plans will continue to exist and will continue to be governed by their existing terms. Upon a change in control of our company, as described in each of the Prior Plans, the vesting of stock options and other outstanding awards under the Prior Plans will be accelerated and all unexercised awards will terminate upon the change in control to the extent the acquirer does not assume the outstanding stock options.

Section 401(k) Plan

We maintain a tax-qualified retirement plan that provides eligible employees with an opportunity to save for retirement on a tax-advantaged basis. All participants' interests in their contributions are 100% vested when contributed. Historically, we have not made any matching contributions to the Section 401(k) plan. Pre-tax contributions are allocated to each participant's individual account and are then invested in selected investment alternatives according to the participants' directions. The retirement plan is intended to qualify under Sections 401(a) and 501(a) of the Code.

Indemnification of Directors and Officers and Limitation of Liability

As permitted by Delaware General Corporation Law, we have adopted provisions in our amended and restated certificate of incorporation and amended and restated bylaws to be in effect immediately prior to the closing of this offering that limit or eliminate the personal liability of our directors. Consequently, a director will not be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director, except for liability for:

- any breach of the director's duty of loyalty to us or our stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- any unlawful payments related to dividends or unlawful stock repurchases, redemptions or other distributions; or
- any transaction from which the director derived an improper personal benefit.

These limitations of liability do not alter director liability under the federal securities laws and do not affect the availability of equitable remedies such as an injunction or rescission. In addition, our amended and restated bylaws to be in effect immediately prior to the closing of this offering provide that:

- we will indemnify, to the fullest extent permitted by law, any person who is or was a party or is threatened to be made a party to any action, suit or proceeding by reason of the fact that he or she is or was one of our directors or officers or is or was serving at our request as a director or officer of another corporation, partnership, joint venture, trust, or other enterprise;
- we may indemnify to the fullest extent permitted by law any person who is or was a party or is threatened to be made a party to any action, suit, or proceeding by reason of the fact that he or she is or was one of our employees or agents or is or was serving at our request as an employee or agent of another corporation, partnership, joint venture, trust, or other enterprise; and
- we must advance expenses incurred by or on behalf of a director or officer in advance of the final disposition of any action or proceeding, subject to very limited exceptions.

Indemnification Agreements

We have entered into agreements that indemnify each of our directors and certain of our executive officers, in addition to the indemnification provided for in our amended and restated certificate of incorporation and amended and restated bylaws that will be in effect immediately prior to the closing of this offering. These agreements, among other things, provide for indemnification for judgments, fines, settlement amounts and expenses, including attorneys' fees incurred by the director or executive officer in any action or proceeding, including any action by or in our right, arising out of the person's services as a director or executive officer, or any other company or enterprise to which the person provides services at our request. We believe that these provisions and agreements are necessary to attract and retain qualified persons as directors and executive officers.

The limitations on liability and indemnification provisions in our amended and restated certificate of incorporation and amended and restated bylaws upon our completion of this offering may discourage stockholders from bringing a lawsuit against our directors for breach of their fiduciary duty and may reduce the likelihood of derivative litigation against our directors and officers, even though a derivative action, if successful, might otherwise benefit us and our stockholders. A stockholder's investment in us may be adversely affected to the extent we pay the costs of settlement or damage awards against our directors and officers under these indemnification provisions.

At present, there is no pending litigation or proceeding involving any of our directors or officers in which indemnification is sought, nor are we aware of any threatened litigation that may result in claims for indemnification.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Other than compensation agreements and other arrangements which are described as required under "Management" and the transactions described below, since January 1, 2010, there has not been, and there is not currently proposed, any transaction or series of similar transactions to which we were or will be a party in which the amount involved exceeded or will exceed \$120,000 and in which any director, executive officer, holder of five percent or more of our common stock outstanding, on an as-converted basis, or any member of their immediate family had or will have a direct or indirect material interest. Our audit committee will be responsible for approving all future transactions between us and our officers, directors and principal stockholders and their affiliates.

Loans from Stockholders

On February 3, 2010, we entered into a promissory note with Lina Yeh in the principal amount of \$200,000 at an interest rate of 6%. Lina Yeh is the wife of William Yeh, a member of our board of directors. The principal balance of \$200,000 was converted to acquire 571,427 shares of Series G preferred stock in August 2012 at a price of \$0.35 per share, and the remaining interest amount of \$7,715 under the promissory note was paid off in September 2012. In connection with the promissory note, Lina Yeh was also issued warrants to acquire 96,000 shares of Series F preferred stock at a price of \$0.25 per share, and 23,555 shares of Series G preferred stock at a price of \$0.60 per share. The warrants expire upon the closing of this offering.

On February 8, 2010, we entered into (i) a promissory note with Techgains Global Corporation in the aggregate principal amount of \$150,000 at an interest rate of 6% and (ii) a promissory note with Techgains Pan Pacific Corporation in the aggregate principal amount of \$150,000 at an interest rate of 6%. Juen-Sheng (Andrew) Kang, the Chairman of our board of directors, is a shareholder and a member of the board of directors of both Techgains Global Corporation and Techgains Pan Pacific Corporation. The remaining principal balance and the remaining interest of \$319,159 under the two promissory notes was converted to acquire 911,882 shares of Series G preferred stock in September 2012 at a price of \$0.35 per share. In connection with the promissory notes, Techgains Global Corporation and Techgains Pan Pacific Corporation each received warrants to acquire (i) 72,000 shares of Series F preferred stock at a price of \$0.25 per share and (ii) 26,666 shares of Series G preferred stock at a price of \$0.60. The warrants expire upon the closing of this offering.

On February 11, 2010, we entered into (i) a promissory note with Budworth Investments Limited in the aggregate principal amount of \$175,000 at an interest rate of 6% and (ii) a promissory note with Harbinger III Venture Capital Corp. in the aggregate principal amount of \$75,000 at an interest rate of 6%. Chih-Kai (C.K.) Chen, a former member of our board of directors, is a shareholder, co-founder and general partner of both Budworth Investments Limited and Harbinger III Venture Capital Corp. The principal balance and interest owed under the two promissory notes were paid off in September 2011. In connection with the promissory notes, Budworth Investments Limited and Harbinger III Venture III Venture Corp. received warrants to acquire an aggregate of 120,000 shares of Series F preferred stock at a price of \$0.25 per share. The warrants expire upon the closing of this offering.

We entered into (i) a promissory note with Robinhood III, LP on February 25, 2010 in the aggregate principal amount of \$300,000 at an interest rate of 6% and (ii) a promissory note with Robinhood III, LP on April 21, 2010 in the aggregate principal amount of \$550,000 at an interest rate of 6%. Nancy T. Chang, a former member of our board of directors is the sole beneficiary

and the President of the general partner of Robinhood III, LP, and entities affiliated with Robinhood III, LP beneficially own more than five percent of our common stock outstanding, on an as-converted basis. The principal balance and interest owed under one promissory note was paid off in August 2011 and the principal balance and interest owed under the other promissory note was paid off in November 2011. In connection with the promissory notes, Robinhood III, LP received warrants to acquire an aggregate of 408,000 shares of Series F preferred stock at a price of \$0.25 per share. The warrants expire upon the closing of this offering.

On April 23, 2010, we entered into a promissory note with Helix Micro, Inc. the aggregate principal amount of \$1,000,000 at an interest rate of 6%. Juen-Sheng (Andrew) Kang, the Chairman of our board of directors, is a shareholder and the former chairman of the board of directors of Helix Micro, Inc. The remaining principal balance of \$1,000,000 under the promissory note was initially converted to acquire 1,666,666 shares of Series G preferred stock in December 2011 at a price of \$0.60 per share, which number of shares was subsequently adjusted to an aggregate of 2,857,142 shares of Series G preferred stock at a price of \$0.35 per share in September 2012 as a result of the second closing of our Series G private placement. The remaining interest of \$102,445 owed under the promissory note was paid off in January 2012. In connection with the promissory note, Helix Micro, Inc. was issued warrants to acquire (i) 480,000 shares of Series F preferred stock at a price of \$0.25 per share and (ii) 22,222 shares of Series G preferred stock at a price of \$0.60. The warrants expire upon the closing of this offering.

Consulting Services

On April 1, 2009, William H. Yeh, a member of our board of directors, began providing us with certain financial consulting services. The compensation arrangement for such services was formalized on October 19, 2009 through a letter agreement that we entered into with Mr. Yeh. Pursuant to this letter agreement, we agreed to grant Mr. Yeh 4,000 shares of common stock as compensation for each month of such services that Mr. Yeh rendered to us. As a result, we granted Mr. Yeh 64,000 shares of common stock on August 1, 2010 for 16 months of services rendered and 40,000 shares of common stock on June 1, 2011 for 10 months of services rendered. As of May 31, 2011, Mr. Yeh ceased to render such services.

Private Placement of Securities

On December 31, 2011, we issued and sold an aggregate of 6,676,916 shares of Series G preferred stock to twenty-five investors, at a price of \$0.60 per share, in the initial closing of our Series G private placement. On September 7, 2012, we issued and sold an additional 31,410,977 shares of Series G preferred stock to fifty-four investors, at a price of \$0.35 per share, in the second closing of our Series G private placement. In connection with the second closing of our Series G private placement, we agreed to amend the per share price of our Series G preferred stock issued under the initial closing of our Series G private placement from \$0.60 per share to \$0.35 per share and, as a result, an additional 4,769,215 shares of Series G preferred stock were issued to the investors in connection with the initial closing of our Series G private placement.

On December 31, 2011, we also issued warrants to purchase 1,001,536 shares of Series G preferred stock, with exercise price of \$0.60 per share in connection with the initial closing of our Series G private placement to the investors in the private placement. However, those warrants were terminated as a result of the second closing of our Series G private placement. None of these warrants were exercised prior to their termination.

Of the aggregate 42,857,108 shares of Series G preferred stock issued in the Series G private placement, 10,457,931 shares were sold for an aggregate price of \$3,660,277.90 to investors that, at such time, were beneficially owned by either directors, executive officers, holders of five percent or more of common stock outstanding, on an as-converted basis, or members of their immediate families, consisting of 2,857,142 shares sold to Helix Micro, Inc., 1,027,369 shares sold to Techgains Global Corporation, 1,598,798 shares sold to Techgains Pan Pacific Corporation, 714,285 shares sold to Techgains Pacific Century Fund, 571,428 shares sold to Technology Associates Management Company, Ltd., 3,016,196 shares sold to Robinhood III, LP, 29,154 shares sold to Heather B. Black, 72,132 shares sold to Richard B. Black and 571,427 shares sold to William H. Yeh. In connection with the closing of this offering, it is expected that the outstanding shares of Series G preferred stock will convert into 42,857,108 shares of our common stock. See "Principal and Selling Stockholders" for more detail on the shares of our stock held by these investors.

Registration Rights

We provided registration rights to our holders of common stock and redeemable Series A preferred stock in connection with this offering, including Chih-Hsiang (Thompson) Lin, Stefan J. Murry, Hung-Lun (Fred) Chang, Klaus Alexander Anselm, Richard B. Black and Alex Ignatiev, who are certain of our executive officers and directors, and entities associated with Techgains Global Corporation and Techgains Pan Pacific Corporation. Such rights are subject to conditions and limitations at the sole discretion of our board of directors.

Additionally, we entered into registration rights agreements with our investors in connection with our Series C, D, E, F and G preferred stock private placements. As a result, following the closing of this offering, the holders of approximately shares of our common stock will be eligible to exercise certain rights with respect to the registration of such shares under the Securities Act. See "Description of capital stock—Registration rights."

Stockholders' Agreement

Beginning in 2000, we entered into a shareholders' agreement with stockholders who purchased shares of our preferred stock, which agreement has been amended to include additional investors and to make other changes at the time of each of our preferred stock private placements. The shareholders' agreement was most recently amended on January 14, 2011. The shareholders' agreement contains rights of first refusal and information rights and will terminate in accordance with its terms upon the closing of this offering.

Indemnification and Change in Control Agreements

We have agreed to indemnify our directors and our executive officers under certain circumstances and have purchased directors' and officers' liability insurance. The indemnification agreements and our amended and restated certificate of incorporation and amended and restated bylaws require us to indemnify our directors and officers to the fullest extent permitted by Delaware law. See "Management—Indemnification of directors and officers and limitation of liability" and "—Indemnification agreements. We have also entered into change in control agreements with our executive officers. See "Management—Agreements with executive officers."

Stock Option Awards

For information regarding stock option awards to our named executive officers and directors in 2012, see "Executive Compensation—Summary Compensation Table" and "Executive Compensation—Outstanding equity awards at fiscal year-end." In addition, on January 18, 2013, our board of directors granted a stock option for 2,740,000 shares of our common stock to Chih-Hsiang (Thompson) Lin, a stock option for 520,000 shares of our common stock to Stefan J. Murry, a stock option for 380,000 shares of our common stock to Hung-Lun (Fred) Chang and a stock option for 300,000 shares of our common stock to James L. Dunn, Jr., each with an exercise price of \$0.25 per share.

On April 12, 2013, our board of directors approved a plan to grant stock options to Mr. Lin, to be effective upon the completion of the offering, to be exercisable for a number of shares of our common stock such that Mr. Lin will hold stock and stock options for an aggregate of 6% of our outstanding securities on an as-converted and on an as-exercised basis, as of the closing of the offering. On April 12, 2013, our board of directors also approved a plan to grant stock options to members of our management team, including our other executive officers, to be effective upon the completion of the offering, which stock options are to be exercisable for shares of our common stock equal to, in the aggregate, 1% of our common stock, of our outstanding securities on an as-converted and on an as-exercised basis, as of the closing of the offering. Our board of directors has yet to allocate these stock options to specific members of our management team. Such stock options for Mr. Lin and other members of our management team will have an exercise price equal to the closing price of our common stock on the NASDAQ Global Market on the closing date of the offering.

Each of the stock options described above vest over a four year period, with 25% of the shares subject to each such option vesting on the first anniversary of the vesting commencement date and one sixth of the remaining shares vesting on the first day of each succeeding six month period, in each case subject to the optionee's continued service. Such vesting is subject to acceleration in the event of our change of control or the optionee's death, disability or retirement.

Review, Approval and Ratification of Transactions with Related Parties

Prior to this offering, our board of directors reviewed and approved transactions with directors, officers and holders of five percent or more of our common stock outstanding, on an as-converted basis, each of whom is a related party. Prior to our board of directors' consideration of a transaction with a related party, the material facts as to the related party's relationship or interest in the transaction were disclosed to our board of directors, and the transaction was approved by our board of directors unless a majority of the directors who were not interested in the transaction approved the transaction. In March 2013, we adopted a new audit committee charter and put into place a related party transactions policy that will require, among other items, that such transactions must be approved by our audit committee.

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth the beneficial ownership information of our common stock as of April 30, 2013, and as adjusted to reflect the sale of the shares of common stock in this offering, for:

- each person known to us to be the beneficial owner of more than 5% of our common stock outstanding, on an as-converted basis;
- each named executive officer;
- each of our directors;
- all of our executive officers and directors as a group; and
- each selling stockholder.

We have determined beneficial ownership in accordance with the rules of the SEC. These rules generally attribute beneficial ownership of securities to persons who possess sole or shared voting power or investment power with respect to those securities and include stock options and warrants that are immediately exercisable or exercisable within 60 days. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below have sole voting and investment power with respect to all shares of common stock beneficially owned by them, subject to applicable community property laws. This information is not necessarily indicative of beneficial ownership for any other purpose.

In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person, we deemed to be outstanding shares of common stock and preferred stock subject to options or warrants held by that person that are currently exercisable or exercisable within 60 days of April 30, 2013 on an as-converted basis. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person. Beneficial ownership representing less than 1.0% is denoted with an asterisk (*).

Percentage ownership calculations for beneficial ownership before this offering are based on 269,068,697 shares of common stock outstanding, on an as-converted basis assuming the conversion of all of the outstanding preferred stock. Percentage ownership calculations for beneficial ownership after this offering also include shares we are offering hereby. This table assumes no exercise of the underwriters' option to purchase additional shares in the offering.

Names of Beneficial owner	Shares beneficially owned before the offering		Shares being offered		Shares beneficially owned after the offering	
	Number	Percent	Number	Percent	Number	Percent
Other 5% or Greater Stockholders:						
Entities associated with Technology Associates Management Company, Ltd. (1)	23,389,001	8.7%				
Entities associated with Robinhood II, LP (2)	20,111,914	7.5%				
Certain Other Selling Stockholders:						
Directors and Named Executive Officers:						
Chih-Hsiang (Thompson) Lin (3)	3,487,195	1.3%				
Juen-Sheng (Andrew) Kang (1)	23,389,001	8.7%				
William H. Yeh (4)	2,737,956	1.1%				
Richard B. Black (5)	991,595	*				
Alex Ignatiev	136,869	*				
Min-Chu (Mike) Chen	57,428	*				
Alan Moore	2,975,593	1.1%				
Hung-Lun (Fred) Chang (6)	576,749	*				
Stefan J. Murry (7)	728,749	*				
Klaus Alexander Anselm (8)	492,562	*				
All executive officers and directors as a group (13 persons) (9)	58,470,394	21.7%				

(1) Includes (i) stock options to purchase 178,334 shares of common stock held by Juen-Sheng (Andrew) Kang, (ii) warrants to purchase 72,000 shares of Series F preferred stock convertible to 86,401 shares of common stock and 26,666 shares of Series G preferred stock convertible to 26,666 shares of common stock held by Techgains Global Corporation on an as-converted basis and (iii) warrants to purchase 72,000 shares of Series F preferred stock convertible to 86,401 shares of common stock and 26,666 shares of Series G preferred stock convertible to 26,666 shares of common stock held by Techgains Pan Pacific Corporation on an as-converted basis assuming the conversion of all of the outstanding preferred stock, which in each case is exercisable within 60 days of April 30, 2013. Also includes (a) 5,887,041 shares held of record by Techgains Global Corporation, (b) 4,676,658 shares held of record by Techgains Pacific Century Fund, LP, (c) 11,849,406 shares held of record by Techgains Pan Pacific Corporation and (d) 571,428 shares held of record by Technology Associates Management Company, Ltd., in each case on an as-converted basis assuming the conversion of all of the outstanding shares of preferred stock. Mr. Kang has the power to direct investments and/or has the sole power to vote the securities owned by Technology Associates Management Company, Ltd., as its managing director. Mr. Kang also has the sole power to vote the securities owned by Techgains Pan Pacific Corporation, Techgains Global Corporation and Techgains Pacific Century Fund LP, pursuant to investment management arrangements with these entities. The principal address of the entities associated with Technology Associates Management Company, Ltd. is 5052 Tennyson Parkway, Suite 100 Plano, Texas 75024. Mr. Kang disclaims any and all pecuniary interests and beneficial ownership interests in the shares of the Company held by the foregoing entities. Tekkang Management Consulting Inc., the majority shareholder of Technology Associates Management Company Ltd., holds of record 6,776,463 shares of our common stock, on an as-converted basis. Tekkang Management Consulting Inc. does not have any power, whether by itself or shared with others, to direct investments or to vote the securities of the Company held by Techgains Pan Pacific Corporation, Techgains Global Corporation and Techgains Pacific Century Fund LP. Mr. Kang is not a shareholder, director or officer of the majority shareholder of Tekkang Management Company Inc., and has no voting or investment control over the shares held of record by such majority shareholder. Tekkang Management Company Inc.

disclaims any and all pecuniary interests and beneficial ownership interests in the shares of the Company held by Techgains Pan Pacific Corporation, Techgains Global Corporation and Techgains Pacific Century Fund LP.

- (2) Includes stock options to purchase 109,664 shares of common stock held by Nancy T. Chang that are exercisable within 60 days of April 30, 2013. Also includes (a) 12,632,238 shares held of record by Robinhood II, LP, (b) 7,333,343 shares held of record by Robinhood III, LP and (c) 36,669 shares held of record by Ms. Chang. Ms. Chang resigned as a member of our board of directors on March 22, 2013. Ms. Chang has the power to direct investments and/or has the sole power to vote the securities owned by Robinhood II, LP and Robinhood III, LP, as the sole beneficiary and president of the general partner of such entities. The principal address of the entities associated with Robinhood II, LP is 101 Wescott St. #603, Houston, Texas 77007.
- (3) Includes stock options to purchase 1,853,734 shares of common stock that are exercisable within 60 days of April 30, 2013.
- (4) Includes stock options to purchase 163,164 shares of common stock, and warrants held by Lina Yeh to purchase 96,000 shares of Series F preferred stock convertible to 115,201 shares of common stock and 23,555 shares of Series G preferred stock convertible to 23,555 shares of common stock, which in each is exercisable within 60 days of April 30, 2013. Also includes 414,800 shares of common stock held of record by Ms. Yeh. Ms. Yeh is Mr. Yeh's spouse.
- (5) Includes stock options to purchase 37,500 shares of common stock that are exercisable within 60 days of April 30, 2013. Also includes 244,995 shares of common stock held of record by Heather Black. Ms. Black is Mr. Black's spouse.
- (6) Includes stock options to purchase 499,267 shares of common stock that are exercisable within 60 days of April 30, 2013.
- (7) Includes stock options to purchase 661,849 shares of common stock that are exercisable within 60 days of April 30, 2013.
- (8) Includes stock options to purchase 382,562 shares of common stock that are exercisable within 60 days of April 30, 2013.
- (9) Includes (i) stock options to purchase 4,488,573 shares of common stock that are exercisable within 60 days of April 30, 2013, (ii) warrants to purchase 240,000 shares of Series F preferred stock convertible to 288,003 shares of common stock that are exercisable within 60 days of April 30, 2013 and (iii) warrants to purchase 76,887 shares of Series G preferred stock convertible to 76,887 shares of common stock within 60 days of April 30, 2013.

DESCRIPTION OF CAPITAL STOCK

General

The following description of our capital stock is intended as a summary only and is qualified in its entirety by reference to our amended and restated certificate of incorporation and amended and restated bylaws to be in effect immediately prior to the closing of this offering, which are filed as exhibits to the registration statement, of which this prospectus forms a part.

Upon completion of this offering, our authorized capital stock will consist of 45,000,000 shares of common stock, par value \$0.001 per share, and 5,000,000 shares of undesignated preferred stock, par value \$0.001 per share.

Common Stock

As of March 31, 2013, there were 268,920,162 shares of our common stock outstanding and held of record by 353 stockholders, on an as-converted basis assuming the conversion of all outstanding shares of preferred stock. Holders of our common stock are entitled to one vote for each share of common stock held of record for the election of directors and on all matters submitted to a vote of stockholders. Holders of our common stock are also entitled to receive dividends ratably, if any, as may be declared by our board of directors out of legally available funds, subject to any preferential dividend rights of any preferred stock then outstanding. Upon our dissolution, liquidation or winding up, holders of our common stock are entitled to share ratably in our net assets legally available after the payment of all our debts and other liabilities, subject to the preferential rights of any preferred stock then outstanding. Holders of our common stock have no subscription, preemptive, redemption or conversion rights. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future. Except with respect to the election of directors (which shall be determined by our stockholders by a plurality of the votes cast by the stockholders entitled to vote on the election) and as described below in "Provisions of our Certificate of Incorporation and Bylaws and Delaware Anti-Takeover Law," a majority vote of common stockholders is generally required to take action under our amended and restated certificate of incorporation and amended and restated bylaws.

Preferred Stock

Upon the completion of this offering, our board of directors will be authorized, without action by the stockholders, to designate and issue up to an aggregate of 5,000,000 shares of preferred stock in one or more series. The board of directors can fix the rights, preferences and privileges of the shares of each series and any of its qualifications, limitations or restrictions. Our board of directors may authorize the issuance of preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of common stock. The issuance of preferred stock, while providing flexibility in connection with possible future financings and acquisitions and other corporate purposes could, under certain circumstances, have the effect of delaying, deferring or preventing a change in control of our company and might harm the market price of our common stock.

Our board of directors will make any determination to issue such shares based on its judgment as to our company's best interests and the best interests of our stockholders. We have no current plans to issue any shares of preferred stock.

Warrants

As of March 31, 2013, we had outstanding warrants to purchase:

- 300,000 shares of our common stock with an exercise price of \$0.20 per share. This warrant expires upon the closing of the offering. If this warrant has not been exercised prior to such expiration date, then the warrant shall be deemed to have been automatically exercised by "cashless" conversion pursuant to the terms of the warrant.
- 1,080,000 shares of our Series F preferred stock with an exercise price of \$0.25 per share. These warrants expire upon the closing of the offering. If these warrants have not been exercised prior to such expiration date, then the warrants shall be deemed to have been automatically exercised by "cashless" conversion pursuant to the terms of the warrants.
- 650,000 shares of our Series F preferred stock with a weighted average exercise price of \$0.38462 per share. If these warrants have not been exercised prior to the closing of the offering, then, pursuant to their terms, the warrants shall automatically adjust to be exercisable for an aggregate of 780,011 shares of common stock at a weighted average exercise price of \$0.32051 per share.
- 182,442 shares of our Series G preferred stock with an exercise price of \$0.60 per share. These warrants expire upon the closing of the offering. If these warrants have not been exercised prior to such expiration date, then the warrants shall be deemed to have been automatically exercised by "cashless" conversion pursuant to the terms of the warrants.
- 200,000 shares of our Series G preferred stock with an exercise price of \$0.35 per share. If this warrant has not been exercised prior to closing of the offering, then pursuant to its terms, the warrant shall automatically adjust to be exercisable for 200,000 shares of common stock at \$0.35 per share.

Registration Rights

Our board of directors approved giving certain registration rights to holders of our common stock and our redeemable Series A preferred stock in connection with this offering which rights are subject to conditions and limitations at the sole discretion of our board of directors, which rights are subject to conditions and limitations at the sole discretion of our board of directors. We have also entered into agreements with holders of our Series C, D, E, F and G preferred stock that give certain registration rights to such holders. Following the completion of this offering, there will be shares of our common stock, issued upon conversion of our preferred stock, entitled to such registration rights, excluding the shares issuable upon the exercise of warrants for our preferred stock. The registration rights granted under these registration rights agreements are subject to conditions and limitations, including our right to limit the number of shares included in such a registration upon advisement of the managing underwriter and our right not to effect a requested registration if the aggregate price to the public is less than \$2,000,000.

Demand registration rights

At any time more than 180 days after the effective date of this offering, the holders of a majority of the shares of common stock issued upon conversion of our Series C, D, E, F and G preferred stock, subject to exceptions, are entitled to demand registration of all or any of such shares and require us to file a registration statement under the Securities Act at our expense.

S-3 demand registration rights

Following the closing of this offering, the holders of the shares of common stock issued upon conversion of our Series C, D, E, F and G preferred stock, subject to exceptions, are entitled to demand registration rights pursuant to which they may require us to file, as soon as practicable, one registration statement under the Securities Act on Form S-3 in any 12-month period with respect to these shares. We have the ability to delay the filing of a registration statement under specified conditions, such as if we are in possession of material non-public information that would not be in our best interests to disclose.

Piggyback registration rights

If we propose to register any of our securities under the Securities Act for our own account or the account of any other holder, the holders of the shares of common stock issued upon conversion of our Series C, D, E, F and G preferred stock are entitled to notice of such registration and are entitled to include these shares in the registration, subject to exceptions, including our right to limit the number of shares included in the registration.

We will pay all registration expenses, other than underwriting discounts and commissions and certain other expenses (including all fees and expenses of the consultants, advisors, attorneys, special experts and other third parties engaged by the holders of the shares of common stock issued upon conversion of our common stock and Series A, C, D, E, F and G preferred stock, and all relevant taxes, including transfer taxes), related to the foregoing demand, S-3 or piggyback registration rights. The registration rights agreements contain customary cross-indemnification provisions, pursuant to which we are obligated to indemnify the selling stockholders in the event of material misstatements or omissions in the registration statement attributable to us, and they are obligated to indemnify us for material misstatements or omissions attributable to them.

Provisions of Our Certificate of Incorporation and Bylaws and Delaware Anti-Takeover Law

Our amended and restated certificate of incorporation and amended and restated bylaws will, immediately prior to the closing of this offering, include a number of provisions that may have the effect of encouraging persons considering unsolicited tender offers or other unilateral takeover proposals to negotiate with our board of directors rather than pursue non-negotiated takeover attempts. These provisions include the items described below.

Board composition and filling vacancies

In accordance with our amended and restated certificate of incorporation, our board of directors is divided into three classes serving staggered three year terms, with one class being elected each year. Our amended and restated certificate of incorporation also provides that directors may be removed only for cause and then only by the affirmative vote of the holders of 66²/₃% or more of the shares then entitled to vote at an election of directors. Furthermore, any vacancy on our board of directors, however occurring, including a vacancy resulting from an increase in the size of our board of directors, may only be filled by the affirmative vote of a majority of our directors then in office even if less than a quorum.

No written consent of stockholders

Our amended and restated certificate of incorporation provides that all stockholder actions are required to be taken by a vote of the stockholders at an annual or special meeting, and that stockholders may not take any action by written consent in lieu of a meeting.

Meetings of stockholders

Our amended and restated bylaws provide that only a majority of the members of our board of directors then in office, the Chairman of the board of directors or the Chief Executive Officer may call special meetings of stockholders and only those matters set forth in the notice of the special meeting may be considered or acted upon at a special meeting of stockholders. Our amended and restated bylaws limit the business that may be conducted at an annual meeting of stockholders to those matters properly brought before the meeting.

Advance notice requirements

Our amended and restated bylaws establish advance notice procedures with regard to stockholder proposals relating to the nomination of candidates for election as directors or new business to be brought before meetings of our stockholders. These procedures provide that notice of stockholder proposals must be timely given in writing to our corporate secretary before the meeting at which the action is to be taken. Generally, to be timely, notice must be received at our principal executive offices not less than 90 days or more than 120 days before the first anniversary date of the annual meeting for the preceding year. The notice must contain certain information specified in the amended and restated bylaws.

Amendment to bylaws and certificate of incorporation

As required by the Delaware General Corporation Law, any amendment of our amended and restated certificate of incorporation must first be approved by a majority of our board of directors and, if required by law or our amended and restated certificate of incorporation, thereafter be approved by a majority of the outstanding shares entitled to vote on the amendment, and a majority of the outstanding shares of each class entitled to vote thereon as a class, except that the amendment of the provisions relating to stockholder action, directors, limitation of liability and the amendment of our amended and restated bylaws and amended and restated certificate of incorporation must be approved by not less than $66\frac{2}{3}\%$ of the outstanding shares entitled to vote on the amendment, and not less than $66\frac{2}{3}\%$ of the outstanding shares of each class entitled to vote thereon as a class. Our bylaws may be amended by the affirmative vote of a majority vote of the directors then in office, subject to any limitations set forth in the bylaws; and may also be amended by the affirmative vote of at least $66\frac{2}{3}\%$ of the outstanding shares entitled to vote on the amendment, or, if the board of directors recommends that the stockholders approve the amendment, by the affirmative vote of the majority of the outstanding shares entitled to vote on the amendment, in each case voting together as a single class.

Blank check preferred stock

Upon the completion of this offering, our amended and restated certificate of incorporation authorizes 5,000,000 shares of preferred stock. The existence of authorized but unissued shares of preferred stock may enable our board of directors to render more difficult or to discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest or otherwise. For example, if in the due exercise of its fiduciary obligations, our board of directors were to determine that a takeover proposal is not in the best interests of us or our stockholders, our

board of directors could cause shares of preferred stock to be issued without stockholder approval in one or more private offerings or other transactions that might dilute the voting or other rights of the proposed acquirer or insurgent stockholder or stockholder group. In this regard, our amended and restated certificate of incorporation grants our board of directors' broad power to establish the rights and preferences of authorized and unissued shares of preferred stock. The issuance of shares of preferred stock could decrease the amount of earnings and assets available for distribution to holders of shares of common stock. The issuance may also adversely affect the rights and powers, including voting rights, of these holders and may have the effect of delaying, deterring or preventing a change in control of us.

Anti-takeover effects of the Delaware general corporation law

Upon completion of this offering, we will be subject to the provisions of Section 203 of the Delaware General Corporation Law, or Section 203. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a 3-year period following the time that this stockholder becomes an interested stockholder, unless the business combination is approved in a prescribed manner. A "business combination" includes, among other things, a merger, asset or stock sale or other transaction resulting in a financial benefit to the interested stockholder. An "interested stockholder" is a person who, together with affiliates and associates, owns, or did own within the three years before the determination of interested stockholder status, 15% or more of the corporation's voting stock. Under Section 203, a business combination between a corporation and an interested stockholder is prohibited unless it satisfies one of the following conditions:

- before the stockholder became interested, the board of directors approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding, shares owned by persons who are directors and also officers, and employee stock plans, in some instances; or
- at or after the time the stockholder became interested, the business combination was approved by the board of directors of the corporation and authorized at an annual or special meeting of the stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock which is not owned by the interested stockholder.

NASDAQ Global Market Listing

We will apply to have our common stock listed on the NASDAQ Global Market under the trading symbol "AAOI."

Transfer Agent and Registrar

Continental Stock Transfer & Trust will act as the transfer agent and registrar for our common stock. The transfer agent and registrar's address is 17 Battery Place, 8th Floor, New York, New York 10004.

SHARES ELIGIBLE FOR FUTURE SALE

Before this offering, there was no public market for our common stock. Future sales of substantial amounts of common stock in the public market, or the perception that such sales may occur, could adversely affect the market price of our common stock. Although we have applied to have our common stock approved for quotation on the NASDAQ Global Market, we cannot assure you that there will be an active public market for our common stock.

Upon completion of this offering, we will have outstanding an aggregate of _____ shares of common stock, assuming the issuance of the _____ shares of common stock offered in this offering and no other exercise of outstanding options or warrants. Of these shares, all shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act, except for any shares purchased by our "affiliates," as that term is defined in Rule 144(a) under the Securities Act, whose sales would be subject to certain limitations and restrictions described below.

The remaining _____ shares of common stock held by existing stockholders were issued and sold by us in reliance on exemptions from the registration requirements of the Securities Act. Of these shares, _____ shares will be subject to "lock-up" agreements with the underwriters or us described below on the effective date of this offering. On the effective date of this offering, there will be _____ shares that are not subject to lock-up agreements and are eligible for sale pursuant to Rule 144. Upon expiration of the lock-up agreements 180 days after the effective date of this offering, _____ shares will become eligible for sale, subject in most cases to the limitations of Rule 144 and Rule 701. In addition, holders of stock options could exercise such options and sell certain of the shares issued upon exercise as described below.

<u>Days or date after date of this prospectus</u>	<u>Shares eligible for sale</u>	<u>Comment</u>
Upon effectiveness		Shares sold in the offering
Upon effectiveness		Freely tradable shares that may be sold under Rule 144(k) and are not subject to the lock-up
180 days		Lock-ups released, subject to extension; shares that may be sold under Rules 144 and 701

Lock-Up Agreements

We, and all directors and officers, and holders of substantially all of our outstanding stock and stock options (including the selling stockholders) have agreed that, subject to certain exceptions, without the prior written consent of Raymond James and Piper Jaffray, as representatives on behalf of the underwriters, we and they will not, during the period ending 180 days after the date of the final prospectus relating to this offering, dispose any shares of our stock or options, warrants or other securities with respect to our stock, enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our common stock, or file or cause to be filed any registration statement with the Securities and Exchange Commission relating to the offering of any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock (other than any registration statement on Form S-8). There are no agreements between Raymond James and Piper Jaffray, as representatives on behalf of the underwriters, our company

and any of our securityholders or affiliates releasing them from these lock-up agreements prior to the expiration of the 180-day period.

The agreements to not contain any pre-established conditions to the waiver by Raymond James and Piper Jaffray on behalf of the underwriters of any terms of the lock-up agreements. Any determination to release shares subject to the lock-up agreements would be based on a number of factors at the time of the determination, including but not necessarily limited to the market price of the common stock, the liquidity of the trading market for the common stock, general market conditions, the number of shares proposed to be sold and the timing, purpose and terms of the proposed sale.

Rule 144

In general, under Rule 144 as currently in effect, beginning 90 days after the effective date of the registration statement of which this prospectus is a part, a person who is not our affiliate and has not been our affiliate at any time during the preceding 90 days and who is not a party to a lock-up agreement as described above will be entitled to sell any shares of our common stock that such person has beneficially owned for at least six months, including the holding period of any prior owner other than one of our affiliates, without regard to manner of sale, volume limitations or notice provisions of Rule 144. These sales of our common stock by any such person would be subject to the availability of current public information about us if the shares to be sold were beneficially owned by such person for less than one year.

In addition, under Rule 144, a person may sell shares of our common stock acquired from us immediately upon the closing of this offering, without regard to volume limitations or the availability of public information about us, if:

- the person is not our affiliate and has not been our affiliate at any time during the preceding 90 days; and
- the person has beneficially owned the shares to be sold for at least one year, including the holding period of any prior owner other than one of our affiliates.

Beginning 90 days after the date of this prospectus, subject to the lock-up agreements described above, our affiliates who have beneficially owned shares of our common stock for at least six months, including the holding period of any prior owner other than one of our affiliates, will be entitled to sell within any three-month period a number of shares that does not exceed the greater of:

- 1% of the number of shares of our common stock then outstanding, which will equal approximately shares immediately after this offering; and
- the average weekly trading volume in our common stock on the NASDAQ Global Market during the four calendar weeks preceding the date of filing of a Notice of Proposed Sale of Securities Pursuant to Rule 144 with respect to the sale.

Sales under Rule 144 by our affiliates are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us.

Rule 701

Rule 701 of the Securities Act, as in effect on the date of this prospectus, permits resales of shares in reliance upon Rule 144 but without compliance with certain restrictions of Rule 144, including the holding period requirement. Most of our employees, executive officers, directors or consultants who purchased shares under a written compensatory plan or contract may be entitled to rely on the resale provisions of Rule 701, but all holders of Rule 701 shares are required to wait until 90 days after the date of this prospectus before selling their shares. All of the Rule 701 shares are subject to lock-up agreements as described under the heading "Underwriting" and will become eligible for sale at the expiration of those agreements.

Stock Options

We intend to file one or more registration statements on Form S-8 under the Securities Act to register all shares of common stock subject to outstanding stock options and common stock issued or issuable under our stock plans. We expect to file the registration statement covering shares offered pursuant to our stock plans shortly after the date of this prospectus, permitting the resale of such shares by non-affiliates in the public market without restriction under the Securities Act and the sale by affiliates in the public market, subject to applicable volume limitations.

Registration Rights

Upon the closing of this offering, the holders of approximately shares of our common stock will be eligible to exercise certain rights with respect to the registration of such shares under the Securities Act. See "Description of capital stock—Registration rights." Upon the effectiveness of a registration statement covering these shares, such shares would become freely tradable.

MATERIAL U.S. FEDERAL TAX CONSIDERATIONS FOR NON-U.S. HOLDERS

This section summarizes the material U.S. federal income and estate tax consequences of the ownership and disposition of our common stock by a non-U.S. holder. For purposes of this summary, a "non-U.S. holder" is any beneficial owner that for U.S. federal income tax purposes is not a U.S. person. The term "U.S. person" means:

- an individual citizen or resident of the U.S.;
- a corporation or entity treated as a corporation for U.S. federal income tax purposes, created or organized under the laws of the U.S. or any state, including the District of Columbia, or otherwise treated as such for U.S. federal income tax purposes;
- an estate whose income is subject to U.S. federal income tax regardless of source; or
- a trust (i) whose administration is subject to the primary supervision of a court within the U.S. and which has one or more U.S. persons who have authority to control all substantive decisions of the trust or (ii) which has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

Generally, an individual may be treated as a resident of the U.S. in any calendar year for U.S. federal income tax purposes by, among other ways, being present in the U.S. for at least 31 days in that calendar year and for an aggregate of at least 183 days during a three-year period ending in the current calendar year. For purposes of this calculation, such individual would count all of the days in which the individual was present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year. Residents are taxed for U.S. federal income tax purposes as if they were citizens of the U.S.

This summary does not consider the tax consequences for partnerships, entities classified as a partnership for U.S. federal income tax purposes, or persons who hold their interests through a partnership or other entity classified as a partnership for U.S. federal income tax purposes. If a partnership, including any entity treated as a partnership for U.S. federal income tax purposes, is a beneficial owner of common stock, the tax treatment of a partner in the partnership will depend upon the status of the partner and the activities of the partnership. Partnerships that are beneficial owners of our common stock, and partners in such partnerships, should consult their tax advisors regarding the tax consequences to them of the ownership and disposition of our common stock.

This summary applies only to non-U.S. holders who acquire our common stock pursuant to this offering and who hold our common stock as a capital asset (generally property held for investment). This summary generally does not address tax considerations that may be relevant to particular investors because of their specific circumstances, or because they are subject to special rules. Certain former U.S. citizens or long-term residents, controlled foreign corporations, passive foreign investment companies, corporations that accumulate earnings to avoid U.S. federal income tax, life insurance companies, tax-exempt organizations, dealers in securities or currencies, brokers, banks or other financial institutions, certain trusts, hybrid entities, pension funds and investors that hold our common stock as part of a hedge, straddle or conversion transaction are among those categories of potential investors that are subject to special rules not covered in this discussion. This summary does not address any U.S. federal gift tax consequences, or state or local or non-U.S. tax consequences. This summary does not provide a complete analysis of all potential tax considerations. The information provided below is based

on existing authorities. These authorities may change, or the Internal Revenue Service, or IRS, might interpret the existing authorities differently. In either case, the tax considerations of owning or disposing of common stock could differ from those described below.

INVESTORS CONSIDERING THE PURCHASE OF COMMON STOCK SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL INCOME AND ESTATE TAX LAWS TO THEIR PARTICULAR SITUATIONS AND THE CONSEQUENCES OF OTHER U.S. FEDERAL, STATE, OR LOCAL OR NON-U.S. LAWS AND ANY APPLICABLE TAX TREATIES.

Dividends

Payments of cash and other property that we make to our shareholders with respect to our common stock will constitute dividends to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent those dividends exceed our current and accumulated earnings and profits, the dividends will constitute a return of capital and will first reduce a holder's basis, but not below zero, and then will be treated as gain from the sale of stock.

The gross amount of any dividend (out of earnings and profits) paid to a non-U.S. holder of common stock generally will be subject to U.S. withholding tax at a rate of 30% unless the holder is entitled to an exemption from or reduced rate of withholding under an applicable income tax treaty. In order to receive an exemption or a reduced treaty rate, prior to the payment of a dividend, a non-U.S. holder must provide us with an IRS Form W-8BEN (or successor form) certifying qualification for the exemption or reduced rate.

Dividends received by a non-U.S. holder that are effectively connected with a U.S. trade or business conducted by the non-U.S. holder (and dividends attributable to a non-U.S. holder's permanent establishment in the U.S. if an income tax treaty applies) are exempt from this withholding tax. To obtain this exemption, prior to the payment of a dividend, a non-U.S. holder must provide us with an IRS Form W-8ECI (or successor form) properly certifying this exemption. Effectively connected dividends (or dividends attributable to a permanent establishment in the U.S. if an income tax treaty applies), although not subject to withholding tax, are taxed at the same graduated rates applicable to U.S. persons, net of certain deductions and credits. In addition, dividends received by a corporate non-U.S. holder that are effectively connected with a U.S. trade or business of the corporate non-U.S. holder (or dividends attributable to a corporate non-U.S. holder's permanent establishment in the U.S. if an income tax treaty applies) may also be subject to a branch profits tax at a rate of 30% (or such lower rate as may be specified by an applicable income tax treaty).

A non-U.S. holder who provides us with an IRS Form W-8BEN or an IRS Form W-8ECI will be required to periodically update such form.

A non-U.S. holder of common stock that is eligible for a reduced rate of withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts currently withheld if an appropriate claim for refund is timely filed with the IRS.

Gain on Disposition of Common Stock

A non-U.S. holder will generally not be subject to U.S. federal income tax on any gains realized on the sale, exchange or other disposition of common stock unless:

- the gain is effectively connected with a U.S. trade or business of the non-U.S. holder (or attributable to a permanent establishment in the U.S. if an income tax treaty applies), in which case the non-U.S. holder generally will be required to pay tax on the net gain derived from the sale under regular graduated U.S. federal income tax rates and, if the non-U.S. holder is a corporation, the branch profits tax may apply, at a 30% rate or such lower rate as may be specified by an applicable income tax treaty;
- the non-U.S. holder is an individual who is present in the U.S. for a period or periods aggregating 183 days or more during the calendar year in which the sale or disposition occurs and certain other conditions are met, in which case the non-U.S. holder will be required to pay a flat 30% tax (or such lower rate as may be specified by an applicable income tax treaty between the U.S. and such non-U.S. holder's country of residence) on the net gain derived from the disposition, which tax may be offset by U.S. source capital losses, if any, provided that the non-U.S. holder has timely filed U.S. federal income tax returns with respect to such losses; or
- our common stock constitutes a U.S. real property interest by reason of our status as a "U.S. real property holding corporation" for U.S. federal income tax purposes at any time within the shorter of the five-year period preceding the disposition or the holder's holding period for our common stock. We believe that we are not currently, and we are not likely to become, a "U.S. real property holding corporation" for U.S. federal income tax purposes.

If we become a U.S. real property holding corporation after this offering, so long as our common stock is regularly traded on an established securities market and continues to be so traded, a non-U.S. holder will not be subject to U.S. federal income tax on gain recognized from the sale, exchange or other disposition of shares of our common stock as a result of such status unless (i) such holder actually or constructively owned more than 5% of our common stock at any time during the shorter of (A) the five-year period preceding the disposition, or (B) the holder's holding period for our common stock, and (ii) we were a U.S. real property holding corporation at any time during such period when the more than 5% ownership test was met. If any gain on your disposition is taxable because we are a U.S. real property holding corporation and your ownership of our common stock exceeds 5%, you will be taxed on such disposition generally in the manner applicable to U.S. persons. Any such non-U.S. holder that owns or has owned, actually or constructively, more than 5% of our common stock is urged to consult that holder's own tax advisor with respect to the particular tax consequences to such holder for the gain from the sale, exchange or other disposition of shares of our common stock if we were to be or to become a U.S. real property holding corporation.

Backup Withholding and Information Reporting

Generally, we must report annually to the IRS the amount of dividends paid, the name and address of the recipient, and the amount, if any, of tax withheld. A similar report is sent to the recipient. Pursuant to tax treaties or other agreements, the IRS may make its reports available to tax authorities in the non-U.S. holder's country of residence.

Payments of dividends or of proceeds on the disposition of stock made to a non-U.S. holder may be subject to additional information reporting and backup withholding. Backup withholding will not apply if the non-U.S. holder establishes an exemption, for example, by properly certifying its non-U.S. person status on an IRS Form W-8BEN (or successor form). Notwithstanding the foregoing, backup withholding may apply if either we or our paying agent has actual knowledge, or reason to know, that the holder is a U.S. person.

Backup withholding is not an additional tax. Rather, the U.S. federal income tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a credit or refund may be obtained from the IRS, provided that the required information is furnished to the IRS in a timely manner.

Legislation Relating to Foreign Accounts

Under legislation enacted in 2010, a 30% U.S. federal withholding tax will be imposed on dividends on stock of U.S. corporations, and on the gross proceeds from the disposition of such stock, paid to a "foreign financial institution" (as specially defined for this purpose), unless such institution enters into an agreement with the U.S. Treasury to collect and provide to the U.S. Treasury substantial information regarding its U.S. account holders and certain account holders that are foreign entities with U.S. owners. A 30% U.S. federal withholding tax will also apply to dividends paid on stock of U.S. corporations and on the gross proceeds from the disposition of such stock paid to a non-financial foreign entity unless such entity provides the withholding agent with a certification that it does not have any substantial U.S. owners or a certification identifying the direct and indirect substantial U.S. owners of the entity. The withholding taxes described above generally will apply to dividend payments made after December 31, 2013 and payments of gross proceeds made after December 31, 2016. Under certain circumstances, a non-U.S. holder may be eligible for refunds or credits of such withholding taxes. Investors are urged to consult with their own tax advisors regarding the possible application of these rules to their investment in our common stock.

U.S. Federal Estate Tax

The estates of nonresident alien individuals are generally subject to U.S. federal estate tax on property with a U.S. situs. Because we are a U.S. corporation, our common stock will be U.S. situs property and therefore will be included in the taxable estate of a nonresident alien decedent. The U.S. federal estate tax liability of the estate of a nonresident alien may be affected by a tax treaty between the U.S. and the decedent's country of residence.

UNDERWRITING

Raymond James & Associates, Inc. and Piper Jaffray & Co. are acting as representatives of each of the underwriters named below. Subject to the conditions set forth in an underwriting agreement among us, the selling stockholders and the underwriters, we and the selling stockholders have severally agreed to sell to the underwriters, and each of the underwriters has agreed, severally and not jointly, to purchase from us and the selling stockholders the number of shares of our common stock set forth opposite its name below:

<u>Name</u>	<u>Number of Shares</u>
Raymond James & Associates, Inc.	
Piper Jaffray & Co.	
Cowen and Company, LLC	
Roth Capital Partners, LLC	
Total:	

The underwriters are offering the shares of common stock subject to their acceptance of the shares from us and the selling stockholders and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares of common stock offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the shares of common stock offered by this prospectus if any such shares are taken. However, the underwriters are not required to take or pay for the shares covered by the underwriters' over-allotment option described below. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated.

The underwriters initially propose to offer part of the shares of common stock directly to the public at the offering price listed on the cover page of this prospectus and part to certain dealers at that price less a concession not in excess of \$ per share. After the initial offering of the shares of common stock, the offering price and other selling terms may be changed by the underwriters. Sales of shares made outside of the U.S. may be made by affiliates of the underwriters.

Option to Purchase Additional Shares of Common Stock

We and the selling stockholders have granted the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to additional shares of common stock at the public offering price listed on the cover page of this prospectus, less underwriting discounts and commissions. To the extent the option is exercised, each underwriter will become obligated, subject to certain conditions, to purchase approximately the same percentage of the additional shares of common stock as the number listed next to the underwriter's name in the preceding table bears to the total number of shares of common stock listed next to the names of all underwriters in the preceding table. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with the offering of the shares of common stock offered by this prospectus.

Discounts and Expenses

The following table shows the per share and total public offering price, underwriting discounts and commissions, and proceeds before expenses to us and the selling stockholders. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase up to an additional shares of common stock.

	Per Share	Total No Exercise	Total Full Exercise
Initial public offering price	\$	\$	\$
Underwriting discounts and commissions to be paid by:			
Us			
The selling stockholders			
Proceeds, before expenses, to us			
Proceeds, before expenses, to selling stockholders			

The estimated offering expenses payable by us, exclusive of the underwriting discounts and commissions, are approximately \$.

Indemnification

We and the selling stockholders have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act.

Lock-Up Agreements

Subject to specified exceptions, we and all directors and officers, and holders of substantially all of our outstanding stock and stock options (including the selling stockholders) have agreed that, subject to certain exceptions, without the prior written consent of Raymond James and Piper Jaffray as representatives on behalf of the underwriters, we and they will not, during the period ending 180 days after the date of the final prospectus relating to this offering:

- offer, sell, contract to sell, pledge, grant any option to purchase, contract to purchase or purchase any option or contract to sell, grant any option, right or warrant, lend, make any short sale or otherwise transfer or dispose of, directly or indirectly, any shares of our stock or options, warrants or other securities with respect to our stock;
- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our common stock; or
- file or cause to be filed any registration statement with the Securities and Exchange Commission relating to the offering of any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock (other than any registration statement on Form S-8).

The preceding restrictions apply without regard to whether any such transaction described above is to be settled by delivery of common stock or other securities, in cash or otherwise. In addition, we and each such person agree that, without the prior written consent of the representatives, we and each such person will not, during the period ending 180 days after the

date of this prospectus, make any demand for, or exercise any right with respect to, the registration of any shares of common stock or any security convertible into or exercisable or exchangeable for common stock.

The restrictions described in the immediately preceding paragraph do not apply to:

- the sale of shares to the underwriters pursuant to the underwriting agreement;
- the grant or exercise of options pursuant to our existing stock option plans;
- transfers of shares of common stock or any security convertible into common stock as a bona fide gift;
- transfers of shares of common stock or any security convertible into common stock by will or intestate succession or to any trust for the direct or indirect benefit of the stockholder or immediate family of the stockholder; or
- the establishment of a trading plan designed to comply with Rule 10b5-1(c) under the Exchange Act for the transfer of shares of common stock;

provided that in the case of any transfer or distribution as described in the second, third or fourth bullet points above, (i) each recipient or transferee agrees to be subject to the restrictions described in the immediately preceding paragraph, and (ii) no public announcement or filing under the Exchange Act with respect to such transfer shall be required or voluntarily made during the restricted period under Section 16(a) of the Exchange Act reporting a reduction in beneficial ownership of shares of common stock (other than a filing on a Form 5, Schedule 13D or Schedule 13G (or 13D/A or 13G/A) made after the expiration of the restricted period referred to above).

The 180 day restricted period described in the preceding paragraph will be extended if, during any period that we are not an emerging growth company:

- during the last 17 days of the 180 day restricted period we issue an earnings release or material news event relating to us occurs, or
- prior to the expiration of the 180 day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180 day period, in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the announcement of the material news or material event.

Stabilization

Until this offering is completed, rules of the SEC may limit the ability of the underwriters and various selling group members to bid for and purchase the shares of our common stock. As an exception to these rules and in accordance with Regulation M under the Exchange Act, the underwriters may engage in activities that stabilize, maintain or otherwise affect the price of our common stock in order to facilitate the offering of the common stock, including: short sales; syndicate covering transactions; imposition of penalty bids; and purchases to cover positions created by short sales.

Stabilizing transactions may include making short sales of shares of our common stock, which involve the sale by the underwriters of a greater number of shares than it is required to purchase in this offering and purchasing shares of common stock from us by exercising the over-allotment option or in the open market to cover positions created by short sales. Short sales may be "covered" shorts, which are short positions in an amount not greater than the underwriters' over-allotment option referred to above, or may be "naked" shorts, which are short positions in excess of that amount.

Each underwriter may close out any covered short position either by exercising its over-allotment option, in whole or in part, or by purchasing shares of common stock in the open market after the distribution has been completed. In making this determination, each underwriter will consider, among other things, the price of shares of our common stock available for purchase in the open market compared to the price at which the underwriter may purchase shares of our common stock pursuant to the over-allotment option.

A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of shares of our common stock in the open market after pricing that could adversely affect investors who purchased in this offering. To the extent that the underwriters create a naked short position, they will purchase shares of our common stock in the open market to cover the position after the pricing of this offering.

The underwriters also may impose a penalty bid on selling group members. This means that if the underwriters purchase shares of our common stock in the open market in stabilizing transactions or to cover short sales, the underwriters can require the selling group members that sold those shares as part of this offering to repay the selling concession received by them.

As a result of these activities, the price of shares of our common stock may be higher than the price that otherwise might exist in the open market. If the underwriters commence these activities, they may discontinue them without notice at any time. The underwriters may carry out these transactions on the NASDAQ Global Market or otherwise.

The underwriters are not required to engage in these activities and may end any of these activities at any time.

Relationships

Certain of the underwriters and their affiliates may provide from time to time in the future certain commercial banking, financial advisory, investment banking and other services for us and such affiliates, and for the selling stockholders and their affiliates, in the ordinary course of their business, for which they will receive customary fees and commissions, as applicable, and reimbursement for out-of-pocket expenses. In addition, from time to time, certain of the underwriters and their affiliates may effect transactions for their own account or the account of customers, and hold on behalf of themselves or their customers, long or short positions in our debt or equity securities or loans, and may do so in the future.

Discretionary Accounts

The underwriters may confirm sales of the common stock offered by this prospectus to accounts over which they exercise discretionary authority but do not expect those sales to exceed 5% of the total number of shares of common stock offered by this prospectus.

Directed Shares Program

At our request, the underwriters have reserved up to 5% of the shares of common stock being offered by this prospectus (excluding the shares of common stock that may be issued upon the underwriters' exercise of their over-allotment option to purchase additional shares of common stock) for sale at the initial public offering price to our directors, officers, employees, business associates and other related persons. The sales will be made by Raymond James & Associates, Inc. through a directed shares program. It is not certain if these persons will choose to purchase all or any portion of these reserved shares, but any purchases they make will reduce the number of shares of common stock available for sale to the general public. Any reserved shares of common stock not so purchased will be offered by the underwriters to the general public on the same basis as the other shares of common stock offered by this prospectus. The individuals eligible to participate in the directed shares program must commit to purchase no later than before the opening of business on the day following the date of this prospectus. We and the selling stockholders have agreed to indemnify Raymond James & Associates, Inc. and the underwriters against certain liabilities and expenses in connection with the directed shares program, including liabilities under the Securities Act in connection with the sale of the reserved shares and for the failure of any participant to pay for its shares of common stock.

Listing

We expect to apply to list our common stock on the NASDAQ Global Market under the symbol "AAOI."

Determination of Initial Offering Price

Prior to this offering, there has been no public market for our common stock. Consequently, the initial public offering price will be determined by negotiations between us and the representatives. Among the factors considered in determining the initial public offering price will be our future prospects and those of our industry in general, our sales, earnings and certain other financial and operating information in recent periods, market prices of securities, and certain financial and operating information of companies engaged in activities similar to ours.

Electronic Prospectus

A prospectus in electronic format may be available on the Internet sites or through other online services maintained by one or more of the underwriters and selling group members participating in this offering, or by their affiliates. In those cases, prospective investors may view offering terms online and, depending upon the underwriter or the selling group member, prospective investors may be allowed to place orders online. The underwriters may agree with us to allocate a specific number of shares of common stock for sale to online brokerage account holders. Any such allocation for online distributions will be made by the underwriters on the same basis as other allocations.

Other than the prospectus in electronic format, the information on any underwriter's or any selling group member's website and any information contained in any other website maintained by the underwriters or any selling group member is not part of this prospectus or the registration statement of which this prospectus forms a part, has not been approved or endorsed by us or any underwriters or any selling group member in its capacity as underwriter or selling group member and should not be relied upon by investors.

Selling Restrictions

Other than in the U.S. and as described below, no action has been taken by us or the underwriters that would permit a public offering of the shares of common stock offered by this prospectus in any jurisdiction where action for that purpose is required. The shares of common stock offered by this prospectus may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisements in connection with the offer and sale of any such shares of common stock be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus comes are advised to inform themselves about and to observe any restrictions relating to the offering and the distribution of this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any shares of common stock offered by this prospectus in any jurisdiction in which such an offer or a solicitation is unlawful.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive, each a Member State, each underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Member State it has not made and will not make an offer of securities to the public in that Member State, except that it may, with effect from and including such date, make an offer of securities to the public in that Member State:

- at any time to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the book-running managers for any such offer; or
- at any time in any other circumstances which do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of the above, the expression "offer of securities to the public" in relation to any securities in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe for the securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in that Member State.

United Kingdom

This prospectus and any other material in relation to the shares described herein is only being distributed to, and is only directed at, (i) persons who are outside the United Kingdom,

(ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, or the Order, or (iii) high net worth entities, and other persons to whom it may be lawfully communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as relevant persons). The shares are only available to, and any invitation, offer or agreement to purchase or otherwise acquire such shares will be engaged in only with, relevant persons. This prospectus and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this prospectus or any of its contents.

LEGAL MATTERS

The validity of the common stock offered by this prospectus will be passed upon for us by DLA Piper LLP (US), Houston, Texas. Certain legal matters will be passed upon for the underwriters by Wilson Sonsini Goodrich & Rosati, Professional Corporation, Austin, Texas.

EXPERTS

The consolidated financial statements of Applied Optoelectronics, Inc. and its subsidiaries as of December 31, 2012 and 2011, and for each of the years in the three-year period ended December 31, 2012, included in this prospectus and elsewhere in the registration statement have been so included in reliance upon the report of Grant Thornton LLP, independent registered public accountants, upon the authority of said firm as experts in accounting and auditing in giving said report.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock we are offering by this prospectus. This prospectus does not contain all of the information included in the registration statement. For further information pertaining to us and our common stock, you should refer to the registration statement and to its exhibits. Whenever we make reference in this prospectus to any of our contracts, agreements or other documents, the references are not necessarily complete, and you should refer to the exhibits attached to the registration statement for copies of the actual contract, agreement or other document.

Upon the closing of the offering, we will be subject to the informational requirements of the Exchange Act and will file annual, quarterly and current reports, proxy statements and other information with the SEC. You can read our SEC filings, including the registration statement, over the Internet at the SEC's website at www.sec.gov. You may also read and copy any document we file with the SEC, including the registration statement of which this prospectus is a part, at its public reference facility at 100 F Street, N.E., Room 1580, Washington, D.C. 20549.

You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Applied Optoelectronics, Inc.:

We have audited the accompanying consolidated balance sheets of Applied Optoelectronics, Inc. (the Company) and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2012. These consolidated 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. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Applied Optoelectronics, Inc. and subsidiary as of December 31, 2012 and 2011 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

/s/ Grant Thornton LLP

Houston, Texas
May 21, 2013

Applied Optoelectronics, Inc. and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

	December 31,		March 31,	
	2012	2011	2013	Pro Forma 2013
			(unaudited)	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 10,723	\$ 1,768	\$ 8,577	\$ 8,577
Restricted cash	503	306	766	766
Accounts receivable—trade, net of allowance of \$59 and \$61, respectively	13,525	12,335	11,233	11,233
Notes receivable	1,034	—	8	8
Inventories	12,493	12,671	12,339	12,339
Prepaid expenses and other current assets	968	695	1,534	1,534
Total current assets	39,246	27,775	34,457	34,457
Property, plant and equipment, net of accumulated depreciation of \$24,967 and \$22,556, respectively	24,838	24,532	24,824	24,824
Land use rights, net	674	688	672	672
Intangible assets, net	795	651	796	796
Other assets, net	195	77	308	308
TOTAL ASSETS	\$ 65,748	\$ 53,723	\$ 61,057	\$ 61,057
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Current portion of notes payable and long-term debt	\$ 15,421	\$ 18,326	\$ 12,515	\$ 12,515
Short-term loan from shareholders	—	910	—	—
Accounts payable	6,913	7,792	6,591	6,591
Accrued liabilities	3,243	2,658	2,081	2,081
Total current liabilities	25,577	29,686	21,187	21,187
Notes payable and long-term debt, less current portion	9,163	3,361	9,549	9,549
TOTAL LIABILITIES	34,740	33,047	30,736	30,736
Stockholders' equity (deficit):				
Redeemable Convertible Preferred Stock and Convertible Preferred Stock; 172,200 shares authorized; 166,404 shares and 130,224 shares issued and outstanding at December 31, 2012 and 2011, respectively, no par value; 166,860 shares issued and outstanding, actual, at March 31, 2013 \$0.001 par value; and no shares issued and outstanding pro forma at March 31, 2013.	105,367	94,373	105,481	—
Common Stock; 300,000 shares authorized; 7,978, and 7,954 shares issued and outstanding at December 31, 2012 and 2011, respectively, no par value; 8,120 shares issued and outstanding, actual, at March 31, 2013 \$0.001 par value; and 268,920 shares issued and outstanding, pro forma, at March 31, 2013 \$0.001 par value.	1,074	1,069	1,103	106,584
Additional paid-in capital	4,468	4,234	4,569	4,569
Accumulated other comprehensive gain	2,016	1,972	2,079	2,079
Accumulated deficit	(81,917)	(80,972)	(82,911)	(82,911)
TOTAL STOCKHOLDERS' EQUITY	31,008	20,676	30,321	30,321
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 65,748	\$ 53,723	\$ 61,057	\$ 61,057

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

Applied Optoelectronics, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)

	Year ended December 31,			Three Months ended March 31,	
	2012	2011	2010	2013 (unaudited)	2012
Revenue, net	\$ 63,421	\$ 47,840	\$ 40,489	\$ 14,317	\$ 12,506
Cost of goods sold	44,492	34,468	27,539	9,732	8,393
Gross profit	18,929	13,372	12,950	4,585	4,113
Operating expenses					
Research and development	7,603	6,451	5,176	2,004	1,575
Sales and marketing	3,135	2,412	1,993	907	809
General and administrative	8,012	8,243	8,382	2,374	1,965
Asset impairment charges	—	—	492	—	—
Total operating expenses	18,750	17,106	16,043	5,285	4,349
Income (loss) from operations	179	(3,734)	(3,093)	(700)	(236)
Other income (expense)					
Interest expense	(1,381)	(1,338)	(906)	(306)	(376)
Other income (expense), net	257	(256)	619	12	89
Total other expense	(1,124)	(1,594)	(287)	(294)	(287)
Loss before income taxes	(945)	(5,328)	(3,380)	(994)	(523)
Income taxes	—	—	—	—	—
Net loss	\$ (945)	\$ (5,328)	\$ (3,380)	\$ (994)	\$ (523)
Net loss per share—basic and diluted, as revised	\$ (0.12)	\$ (0.67)	\$ (0.44)	\$ (0.12)	\$ (0.07)
Weighted average shares used to compute net loss per share, as revised:					
Basic and diluted	7,967,272	7,909,736	7,767,035	7,988,523	7,955,050
Pro forma net loss per share—basic and diluted (unaudited)	\$ (0.00)			\$ (0.00)	
Weighted average shares used to compute pro forma net loss per share (unaudited):					
Basic and diluted	251,406,466			268,957,053	

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

Applied Optoelectronics, Inc. and Subsidiaries**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS****(in thousands)**

	Year ended December 31,			Three Months ended March 31,	
	2012	2011	2010	2013 (unaudited)	2012
Net loss	\$ (945)	\$ (5,328)	\$ (3,380)	\$ (994)	\$ (523)
Foreign currency translation adjustment, net of tax of \$0, \$0 and \$0	44	434	4	63	42
Comprehensive loss	<u>\$ (901)</u>	<u>\$ (4,894)</u>	<u>\$ (3,376)</u>	<u>\$ (931)</u>	<u>\$ (481)</u>

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

Applied Optoelectronics, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
Years ended December 2010, 2011 and 2012 and the three months ended March 31, 2013
(in thousands)

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional paid-in capital</u>	<u>Accumulated deficit</u>	<u>Accumulated other comprehensive gain</u>	<u>Stockholders' equity</u>
	<u>Number of shares</u>	<u>Amount</u>	<u>Number of shares</u>	<u>Amount</u>				
December 31, 2009	123,547	\$ 90,424	7,763	\$ 1,048	\$ 2,891	\$ (72,264)	\$ 1,534	23,633
Preferred stock issued, net	—	—	—	—	—	—	—	—
Issuance of stock for consultancy service	—	—	64	3	—	—	—	3
Stock options exercised	—	—	6	1	—	—	—	1
Stock based compensation	—	—	—	—	780	—	—	780
Net loss	—	—	—	—	—	(3,380)	—	(3,380)
Foreign currency translation adjustment	—	—	—	—	—	—	4	4
December 31, 2010	123,547	90,424	7,833	1,052	3,671	(75,644)	1,538	21,041
Preferred stock issued, net	6,677	3,949	—	—	—	—	—	3,949
Issuance of stock for consultancy service	—	—	40	1	—	—	—	1
Stock options exercised	—	—	81	16	—	—	—	16
Stock based compensation	—	—	—	—	563	—	—	563
Net loss	—	—	—	—	—	(5,328)	—	(5,328)
Foreign currency translation adjustment	—	—	—	—	—	—	434	434
December 31, 2011	130,224	94,373	7,954	1,069	4,234	(80,972)	1,972	20,676
Preferred stock issued, net	36,180	10,994	—	—	—	—	—	10,994
Stock options exercised	—	—	24	5	—	—	—	5
Stock based compensation	—	—	—	—	161	—	—	161
Issuance of warrants	—	—	—	—	73	—	—	73
Net loss	—	—	—	—	—	(945)	—	(945)
Foreign currency translation adjustment	—	—	—	—	—	—	44	44
December 31, 2012	166,404	\$ 105,367	7,978	\$ 1,074	\$ 4,468	\$ (81,917)	\$ 2,016	\$ 31,008
Stock options exercised (unaudited)	—	—	142	29	—	—	—	29
Warrants exercised (unaudited)	456	114	—	—	—	—	—	114
Stock based compensation (unaudited)	—	—	—	—	101	—	—	101
Net loss (unaudited)	—	—	—	—	—	(994)	—	(994)
Foreign currency translation adjustment (unaudited)	—	—	—	—	—	—	63	63
March 31, 2013 (unaudited)	<u>166,860</u>	<u>\$ 105,481</u>	<u>8,120</u>	<u>\$ 1,103</u>	<u>\$ 4,569</u>	<u>\$ (82,911)</u>	<u>\$ 2,079</u>	<u>\$ 30,321</u>

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

Applied Optoelectronics, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,			Three Months ended March 31,	
	2012	2011	2010	2013	2012
	(unaudited)				
Operating activities:					
Net loss	\$ (945)	\$ (5,328)	\$ (3,380)	\$ (994)	\$ (523)
Adjustments to reconcile net loss to net cash used in operating activities:					
Provision for obsolete inventory	858	1,579	648	137	71
Impairment of long-lived assets	—	—	492	—	—
Depreciation and amortization	2,942	3,112	3,340	770	739
(Gain) loss on disposal of assets	36	80	(11)	1	36
Stock-based compensation and warrants expense	161	563	780	111	18
Changes in operating assets and liabilities:					
Accounts receivable	(1,158)	(4,498)	(2,103)	2,293	2,597
Notes receivable	(1,034)	—	—	1,027	—
Inventory	(538)	(1,578)	(3,674)	(52)	(313)
Other current assets	(261)	473	(151)	(866)	(436)
Accounts payable	(961)	1,534	(251)	(253)	(1,070)
Accrued liabilities	542	(62)	1,101	(853)	(100)
Net cash used in operating activities	<u>(358)</u>	<u>(4,125)</u>	<u>(3,209)</u>	<u>1,321</u>	<u>1,019</u>
Investing activities:					
Purchase of property, plant and equipment	(3,178)	(1,790)	(3,017)	(803)	(1,062)
Proceeds from disposal of equipment	138	387	37	—	138
Deposit and deferred charges	(41)	(1)	113	(122)	(41)
Purchase of intangible assets	(209)	(167)	(47)	(18)	(76)
Net cash used in investing activities	<u>(3,290)</u>	<u>(1,571)</u>	<u>(2,914)</u>	<u>(943)</u>	<u>(1,041)</u>
Financing activities:					
Proceeds from issuance of notes payable and long-term debt	845	—	391	—	—
Principal payments of long-term debt and notes payable	(707)	(245)	(434)	(64)	(62)
Proceeds from line of credit borrowings	19,305	16,760	12,385	9,554	925
Repayments from line of credit borrowings	(16,585)	(15,200)	(6,233)	(12,036)	(11)
Proceeds from shareholder loans	—	—	3,200	—	—
Repayments of shareholder loans	(150)	(1,200)	(793)	—	—
(Increase) decrease in restricted cash	(193)	(155)	455	(263)	(320)
Exercise of stock options	5	16	1	28	2
Exercise of warrants	—	—	—	114	—
Common stock issued for consultant services	—	1	3	—	—
Issuance of preferred stock, net	10,234	2,859	—	—	—
Net cash provided by financing activities	<u>12,754</u>	<u>2,836</u>	<u>8,975</u>	<u>(2,666)</u>	<u>534</u>
Effect of exchange rate changes on cash	(150)	136	(621)	142	39
Net increase (decrease) in cash	8,956	(2,724)	2,232	(2,146)	550
Cash and cash equivalents at beginning of year	1,767	4,492	2,260	10,723	1,966
Cash and cash equivalents at end of year	<u>\$ 10,723</u>	<u>\$ 1,768</u>	<u>\$ 4,492</u>	<u>\$ 8,577</u>	<u>\$ 2,516</u>
Supplemental disclosure of cash flow information:					
Cash paid for:					
Interest	\$ 1,469	\$ 1,392	\$ 737	\$ 136	\$ 233
Income taxes	—	1	2	1	—
Conversion of shareholders' loan to preferred stock	\$ 760	\$ 1,100	\$ —	\$ —	\$ —

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

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Information as of March 31, 2013 and 2012 is unaudited)

NOTE A—ORGANIZATION AND OPERATIONS

Applied Optoelectronics, Inc. ("AOI") (the "Company") was incorporated in the State of Texas on February 28, 1997. The Company is a leading, vertically integrated provider of fiber-optic networking solutions, primarily for three networking end-markets: cable television, fiber-to-the-home and internet data centers. The Company designs and manufactures a range of optical communications solutions at varying levels of integration, from components, subassemblies and modules to complete turn-key equipment.

Prime World International Holdings, Ltd. ("Prime World") is a wholly-owned subsidiary of the Company incorporated in the British Virgin Islands on January 13, 2006. Prime World is the parent company of Global Technology, Inc. ("Global"). Global was established in June 2002 in the People's Republic of China ("PRC") and was acquired by Prime World on March 30, 2006. The Company also operates a division, AOI—Taiwan, which is qualified to do business in Taiwan and primarily manufactures transceivers and performs research and development activities.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. *Basis of Presentation*

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

Unaudited Interim Consolidated Financial Information

The accompanying interim consolidated balance sheet as of March 31, 2013, and the consolidated statements of operations, comprehensive loss, and cash flows for the three months ended March 31, 2013 and 2012 and the consolidated statement of stockholders' equity for the three months ended March 31, 2013 and the related footnote disclosures are unaudited. These unaudited interim consolidated financial statements have been prepared in accordance with GAAP. In management's opinion, the unaudited interim consolidated financial statements have been prepared on the same basis as the audited financial statements and include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of the Company's statement of financial position as of March 31, 2013 and the Company's consolidated results of operations and cash flows for the three months ended March 31, 2013 and 2012. The results for the three months ended March 31, 2013 are not necessarily indicative of the results expected for the full fiscal year.

Unaudited Pro Forma Balance Sheet Information

Upon the completion of the Company's initial public offering (the "Offering"), all outstanding convertible preferred stock will automatically convert into shares of the Company's

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Information as of March 31, 2013 and 2012 is unaudited)

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

common stock. The unaudited pro forma balance sheet information gives effect to the conversion of the convertible preferred stock as if such conversion had occurred as of March 31, 2013.

2. *Use of Estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported. Actual results could differ from those estimates in the consolidated financial statements and accompanying notes. Significant estimates and assumptions that impact these financial statements relate to, among other things, allowance for doubtful accounts, inventory reserve, stock-based compensation expense, estimated useful lives of property and equipment, and taxes.

3. *Foreign Currency Translation*

All assets and liabilities of foreign subsidiaries are translated into U.S. dollars at the exchange rate as of the balance sheet date. Revenue and expense accounts are translated at weighted-average rates for the reporting period. Translation adjustments do not impact the results of operations and are reported as a separate component of stockholders' equity. Foreign currency transaction gains and losses are included in the consolidated statements of operations.

4. *Fair Value*

The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximate their historical fair values due to their short-term maturities.

5. *Cash and Cash Equivalents*

The Company considers all highly liquid securities with an original maturity of ninety days or less from the date of purchase to be cash equivalents. Cash in foreign accounts was approximately \$1.1 million and \$1.4 million at December 31, 2012 and 2011, respectively.

The Company maintains cash and cash equivalents at U.S. financial institutions for which the combined account balances in individual institutions may exceed Federal Deposit Insurance Corporation ("FDIC") insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage. As of December 31, 2012, approximately \$9.4 million of U.S. deposits were not covered by FDIC insurance. The Company has not experienced any losses and believes it is not exposed to any significant risk with such accounts.

6. *Restricted Cash/Compensating Balances*

The Company is required to maintain a minimum balance equal to 30% in 2012 and 10% in 2011 and 2010 of one of its lines of credit with a bank, as well as other restricted cash balances.

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Information as of March 31, 2013 and 2012 is unaudited)

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As of December 31, 2012 and 2011, the amount of restricted cash was \$0.5 million and \$0.3 million, respectively.

7. Accounts Receivable/Allowance for Doubtful Accounts

The Company carries its accounts receivable at the net amount that it estimates to be collectible. An allowance for uncollectable accounts is maintained through a charge against operations. The allowance is determined by management review of outstanding amounts per customer, historical payments and the aging of accounts.

8. Notes Receivable

The Company carries its notes receivable at face value or discounted value if the note is interest bearing. The maturity date of the notes receivable are all within one year of the original issuance date and are carried at face value.

9. Concentration of Credit Risk and Significant Customers

Financial instruments which potentially subject the Company to concentrations of credit risk include cash, cash equivalents and accounts receivable. The Company places all cash and cash equivalents with high-credit quality financial institutions.

The Company performs ongoing credit valuations of its customers' financial condition whenever deemed necessary and generally does not require deposits or collateral to support customer receivables. The historical amount of losses on uncollectible accounts has been within the Company's estimates. The Company's five largest customers represented an aggregate of 47%, 56% and 60% of total revenue for the years ended December 31, 2012, 2011 and 2010, respectively. The five largest receivable balances for customers represented an aggregate of 58%, and 71% of total accounts receivable at December 31, 2012 and 2011, respectively. For the years ended December 31, 2012 and 2011, Cisco Systems, Inc. and Biogenomics Corp. were the only customers that accounted for more than 10% of the Company's total revenue. In 2012, we earned revenue of \$21.2 million and \$7.1 million, from Cisco Systems, Inc. and Biogenomics Corp., respectively. In 2011, the Company earned \$12.8 million and \$5.6 million from Cisco Systems, Inc. and Biogenomics Corp., respectively.

10. Fair Value Accounting

The fair value measurement standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard characterizes inputs used in determining fair

Applied Optoelectronics, Inc. and Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Information as of March 31, 2013 and 2012 is unaudited)****NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

value according to a hierarchy that prioritized inputs based on the degree to which they are observable. The three levels of the fair value hierarchy are as follows:

Level 1—Inputs represent quoted prices in active markets for identical assets or liabilities.

Level 2—Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3—Inputs that are not observable from objective sources, such as management's internally developed assumptions used in pricing an asset or liability.

Assets and liabilities that are required to be fair valued on a recurring basis include money market funds, marketable securities, equity instruments and contingent consideration.

Money market funds are valued with Level 1 inputs, using quoted market prices, and are included in cash and cash equivalents on the Company's consolidated balance sheets.

11. Inventories

Inventories are stated at the lower of cost (average-cost method) or market. Work in process and finished goods includes materials, labor and allocated overhead. The Company assesses the valuation of its inventory on a periodic basis and provides write-offs for the value of estimated excess and obsolete inventory based on estimates of future demand.

12. Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and amortization. The Company calculates depreciation using the straight-line method over the following estimated useful lives:

	Useful lives
Buildings	20 - 40 years
Land Improvements	10 years
Machinery and equipment	3 - 20 years
Furniture and fixtures	1 - 8 years
Computer equipment and software	3 - 7 years
Leasehold improvements	The shorter of the life of the applicable lease or the useful life of the improvement
Transportation equipment	5 years

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Information as of March 31, 2013 and 2012 is unaudited)

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Major improvements are capitalized and expenditures for maintenance and repairs are expensed as incurred. Construction in progress represents property, plant and equipment under construction or being installed. Costs include original cost, installation, construction and other direct costs which include interest on borrowings used to finance the asset. Construction in progress is transferred to the appropriate fixed asset account and depreciation commences when the asset has been substantially completed and placed in service.

Land use rights allow the Company rights for 50 years to certain land in Ningbo, China on which the Company built a facility that included office space, manufacturing operations and employee dormitories. The land use rights are recorded at cost and are amortized on the straight-line basis over the useful life of the related contract. The land use rights expire on March 8, 2054.

13. Intangible Assets

Intangible assets consist of intellectual property that is stated at cost less accumulated amortization. As of December 31, 2012, the Company had 103 total patents issued. The costs incurred to obtain such patents have been capitalized and are being amortized over an estimated life of 20 years. The Company periodically evaluates its intangible assets to determine whether events or changes in circumstances indicate that a patent or trademark may not be applicable to the Company's current products or is no longer in use. If such a determination is made, the intangible asset is impaired and the remaining value of the patent or trademark will be expensed at that time.

14. Impairment of Long-Lived Assets

The Company accounts for impairment of long-lived assets in accordance with Accounting Standards Codification ("ASC") 360, *Property, Plant and Equipment*, ("ASC 360"). Long-lived assets consist primarily of property, plant and equipment. In accordance with ASC 360, the Company periodically evaluates long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company obtained appraisals on an asset by asset basis, and will recognize an impairment loss when the sum of the appraised values is less than the carrying amounts of such assets. The appraised values, based on reasonable and supportable assumptions and projections, require subjective judgments. Depending on the assumptions and estimates used, the appraised values projected in the evaluation of long-lived assets can vary within a range of outcomes. The appraisals consider the likelihood of possible outcomes in determining the best estimate for the value of the assets.

The measurement for such an impairment loss is then based on the fair value of the asset as determined by the appraisals. During 2010, the Company recorded a \$0.5 million noncash asset impairment charge on equipment with carrying values lower than estimated fair values.

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Information as of March 31, 2013 and 2012 is unaudited)

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

15. *Comprehensive Income*

ASC 220, *Comprehensive Income*, ("ASC 220") establishes rules for reporting and display of comprehensive income and its components. ASC 220 requires that unrealized gains and losses on the Company's foreign currency translation adjustments be included in comprehensive income.

16. *Stock-Based Compensation*

The Company accounts for share-based compensation in accordance with the provisions of ASC 718, *Compensation—Stock Compensation*. Share-based compensation expense is recognized based on the estimated grant date fair value, net of an estimated forfeiture rate, in order to recognize compensation cost for those shares expected to vest. Compensation cost is recognized on a straight-line basis over the vesting period of the options.

17. *Revenue Recognition*

The Company derives revenue from the manufacture and sale of fiber optic networking solutions. Revenue recognition follows the criteria of ASC 605, *Revenue Recognition*. Specifically, the Company recognizes revenue when persuasive evidence exists of an arrangement with a customer, usually in the form of a customer purchase order; delivery to a third party carrier has occurred; title and risk of loss have transferred to the customer; the price is fixed or determinable; collectability is reasonably assured and there are no uncertainties with respect to customer acceptance. The Company may offer units (samples) to current and potential customers at no charge for evaluation or qualification purposes. Such sample units are expensed as selling or research and development costs when shipped.

18. *Advertising Costs*

Advertising costs are charged to operations as incurred and amounted to approximately \$80,000, \$104,000 and \$78,000 for the years ended December 31, 2012, 2011 and 2010, respectively.

19. *Research and Development*

Research and development costs are charged to operations as incurred.

20. *Income Taxes*

The Company accounts for income taxes in accordance with the provisions of ASC 740, *Income Taxes*. The liability method is used to account for deferred income taxes. Under the liability method, deferred tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The realizability of

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Information as of March 31, 2013 and 2012 is unaudited)

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

deferred tax assets are evaluated annually and a valuation allowance is provided if it is unlikely that the deferred tax assets will not give rise to future benefits in the Company's tax returns.

Uncertain tax provisions are recorded at their net recognizable amount, based on the amount of tax, interest and penalties that management deems is more likely than not to be sustained upon settlement with the tax authorities in the domestic and international jurisdictions in which the Company operates. The Company records tax-related interest and penalties as a component of income tax expense.

21. Supplemental Cash Flow Information

During the years ended December 31, 2012 and 2011, \$0.8 million and \$1.1 million in aggregate principal amount of the convertible shareholder notes was converted by the holders, respectively. Upon conversion, 2,171,428 shares and 1,816,666 shares of Series G Preferred Stock were issued to the holders, respectively.

22. New Accounting Standards Adopted in this Report

ASU 2011-04. In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. This ASU represents the converged guidance of the FASB and the IASB on measuring fair value and for disclosing information about fair value measurements. The amendments in this ASU clarify the board of directors' intent about the application of existing fair value measurement and disclosure requirements and changes particular principles or requirements for measuring fair value and for disclosing information about fair value measurements. ASU 2011-04 is effective prospectively for interim and annual reporting periods beginning after December 15, 2011. The Company adopted the provisions of ASU 2011-04 on January 1, 2012, and the adoption of this standard did not have a material impact on the Company's financial position, results of operations or cash flows.

ASU 2011-05. In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. The amendments in this ASU allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. ASU 2011-05 should be applied retrospectively for interim and annual reporting periods beginning after December 15, 2011 with early adoption permitted. The Company early adopted the provisions of ASU 2011-05 during the fourth quarter of 2011, and the adoption of this standard did not have a material impact on the Company's financial position, results of operations, or cash flows.

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Information as of March 31, 2013 and 2012 is unaudited)

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASU 2011-12. In December 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendment to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. This ASU defers the guidance on whether to require entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement where net income is presented and the statement where other comprehensive income is presented for both interim and annual financial statements. ASU 2011-12 reinstated the requirements for the presentation of reclassifications that were in place prior to the issuance of ASU 2011-05 and did not change the effective date of ASU 2011-05. ASU 2011-12 should be applied consistently with ASU 2011-05; accordingly, this ASU is to be applied retrospectively for interim and annual reporting periods beginning after December 15, 2011, with early adoption permitted. The Company early adopted the provisions of ASU 2011-12 during the fourth quarter of 2011, and the adoption of this standard did not have a material impact on the Company's financial position, results of operations, or cash flows.

23. Subsequent Events

For the annual consolidated financial statements as of December 31, 2012 and for each of the three years then ended, the Company evaluated these consolidated financial statements and disclosures for subsequent events through April 4, 2013, the date they were initially available to be issued. For the interim consolidated financial statements as of March 31, 2013 and 2012, and for the three months then ended, and the revised annual financial statements, subsequent events were evaluated through May 21, 2013, the date the interim and revised annual financial statements were available to be issued.

NOTE C—EARNINGS PER SHARE

Basic net loss per share has been computed using the weighted-average number of shares of common stock outstanding during the period. Pro forma basic and diluted earnings per share includes all common stock and all shares of preferred stock as if converted to common equivalent shares using their conversion rate at the end of each period. Diluted net loss per share has been computed using the weighted-average number of shares of common stock and dilutive potential common shares from options and warrants outstanding during the period. In periods with net losses, normally dilutive shares become anti-dilutive. Therefore, basic and dilutive earnings per share are the same.

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE C—EARNINGS PER SHARE (Continued)

The financial statements have been revised for the calculation and presentation of basic and diluted loss per share for 2012, 2011 and 2010. The Company's disclosure originally presented basic and diluted loss per share including preferred shares on an "as converted basis" in determining the weighted average shares used for both basic and diluted loss per share. The preferred shares have the right to participate in the Company's earnings and dividends; however, since there is not a contractual obligation for the preferred shareholders to share in the Company's losses, the preferred shares should not be included in loss periods, as their effect is anti-dilutive. The Company has concluded this revised disclosure did not have a material effect on the original financial statements as historical loss per share is not meaningful given the magnitude of outstanding participating preferred shares relative to total equity on an as-if-converted basis. The preferred shares automatically convert to common shares upon consummation of a qualified public offering. For 2012 and the subsequent interim period, the Company has presented both basic and diluted loss per share excluding the preferred shares and also unaudited pro forma loss per share giving effect to the conversion of the preferred shares to common shares.

The following table presents the revised calculation of basic and diluted EPS:

	Years ended December 31,			Three months ended March 31,	
	2012	2011	2010	2013	2012
	(in thousands, except per share data)			(unaudited)	
Numerator:					
Net loss	\$ (945)	\$ (5,328)	\$ (3,380)	\$ (994)	\$ (523)
Denominator:					
Weighted-average shares used to compute net loss per share:					
Basic and diluted	7,967	7,910	7,767	7,989	7,955
Net loss per share—basic and diluted	\$ (0.12)	\$ (0.67)	\$ (0.44)	\$ (0.12)	\$ (0.07)

Pro Forma earnings per share (unaudited)

The following unaudited calculation of the numerator and denominator of basic and diluted EPS gives effect to the automatic conversion of all outstanding shares of the Company's convertible preferred stock (using the as if-converted method) into common stock as though the

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE C—EARNINGS PER SHARE (Continued)

conversion had occurred as of the beginning of the period or the original date of issuance, if later.

	Year ended December 31, 2012	Three months ended March 31, 2013
	(in thousands, except for per share data)	
Numerator:		
Net loss	\$ (945)	\$ (994)
Denominator:		
Number of shares used to compute net loss per share—basic and diluted:	7,968	7,989
Assumed conversion of preferred stock to common stock	243,438	260,279
Number of shares used to compute pro forma net loss per share—basic and diluted:	251,406	268,268
Pro forma net loss per share—basic and diluted	\$ (0.00)	\$ (0.00)

The following potentially dilutive securities were excluded from the computation of diluted net loss per share as their effect would have been antidilutive:

	2012	2011	2010
	(in thousands)		
Employee stock options	12,580	11,324	8,669
Warrants	2,868	3,670	2,186
Total	15,448	14,994	10,855

NOTE D—INVENTORIES

At December 31, 2012 and 2011, inventories consisted of the following:

	2012	2011
	(in thousands)	
Raw materials	\$ 4,755	\$ 6,410
Work in process	4,434	3,628
Finished goods	3,304	2,633
	\$ 12,493	\$ 12,671

For the years ended December 31, 2012, 2011 and 2010, the lower of cost or market adjustment expensed for inventory was \$0.9 million, \$1.6 million and \$0.6 million, respectively.

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE E—PROPERTY, PLANT AND EQUIPMENT

At December 31, 2012 and 2011, property, plant and equipment consisted of the following:

	2012	2011
	(in thousands)	
Land improvements	\$ 93	\$ —
Building and improvements	15,239	15,002
Machinery and equipment	29,977	27,698
Furniture and fixtures	739	738
Computer equipment and software	2,851	2,745
Transportation equipment	173	172
	<u>49,072</u>	<u>46,355</u>
Less accumulated depreciation and amortization	(24,967)	(22,556)
	<u>24,105</u>	<u>23,799</u>
Construction in progress	—	—
Land	733	733
Property, plant and equipment, net	<u>\$ 24,838</u>	<u>\$ 24,532</u>

For the years ended December 31, 2012, 2011 and 2010, depreciation expense of property, plant and equipment was \$2.9 million \$3.1 million and \$3.3 million, respectively.

NOTE F—INTANGIBLE ASSETS

At December 31, 2012 and 2011, intangible assets consisted of the following:

	2012		
	Gross amount	Accumulated amortization	Intangible assets, net
	(in thousands)		
Patents	\$ 1,509	\$ (718)	\$ 791
Trademarks	10	(6)	4
Total intangible assets	<u>\$ 1,519</u>	<u>\$ (724)</u>	<u>\$ 795</u>

	2011		
	Gross amount	Accumulated amortization	Intangible assets, net
	(in thousands)		
Patents	\$ 1,304	\$ (659)	\$ 645
Trademarks	10	(4)	6
Total intangible assets	<u>\$ 1,314</u>	<u>\$ (663)</u>	<u>\$ 651</u>

For the years ended December 31, 2012, 2011 and 2010, amortization expense for intangible assets, included in general and administrative expenses on the income statement, was \$60,000

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE F—INTANGIBLE ASSETS (Continued)

\$46,000 and \$41,000, respectively. The remaining weighted average amortization period for intangible assets is approximately 12 years.

At December 31, 2012, approximate amortization expense for intangible assets was as follows (in thousands):

2013	\$ 65
2014	65
2015	65
2016	65
2017	65
Thereafter	470
	<u>\$ 795</u>

NOTE G—FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents a summary of the Company's investments measured at fair value on a recurring basis as of December 31, 2012:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable remaining inputs (Level 2) (in thousands)		Significant unobservable inputs (Level 3)	Total
Assets:					
Cash and cash equivalents	\$ 10,723	\$ —	\$ —	\$ —	\$ 10,723
Restricted cash	503				503
Notes receivable	—	1,034		—	1,034
Total assets	<u>\$ 11,226</u>	<u>\$ 1,034</u>		<u>\$ —</u>	<u>\$ 12,260</u>

The following table presents a summary of the Company's investments measured at fair value on a recurring basis as of December 31, 2011:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable remaining inputs (Level 2) (in thousands)		Significant unobservable inputs (Level 3)	Total
Assets:					
Cash and cash equivalents	\$ 1,768	\$ —	\$ —	\$ —	\$ 1,768
Restricted cash	306				306
Notes receivable	—	—		—	—
Total assets	<u>\$ 2,074</u>	<u>\$ —</u>		<u>\$ —</u>	<u>\$ 2,074</u>

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE H—NOTES PAYABLE AND LONG-TERM DEBT

Notes payable and long-term debt consisted of the following:

	December 31,	
	2012	2011
	(in thousands)	
Term loan with a U.S. bank with monthly payments of principal and interest at prime plus 1.25% (floor rate: 4.5%), maturing May 3, 2014	\$ 141	\$ 241
Term loan with a U.S. bank with monthly payments of principal and interest at prime plus 1.25% (floor rate: 4.15%) or swap contract (fixed 5%), maturing May 3, 2014	3,181	3,287
Revolving line of credit with a U.S. bank up to \$10,500,000 with interest at prime plus 1.25% (floor rate: 4.5%), maturing November 15, 2013	8,637	7,176
Revolving line of credit with a China bank up to \$12,847,421 with interest at 110% of China Prime rate which ranged from 3.87% to 7.54% in 2012 with various maturity dates from February 2013 to March 2014	10,668	9,681
Bank acceptance notes issued to vendors with a zero percent interest rate, a 30% guarantee deposit of \$409, and maturity dates ranging from January 2013 to June 2013	1,521	662
Revolving line of credit with a China bank up to \$1,150,000 with interest at 7.54%, 125% of the China Prime rate in 2011	—	555
Note payable to a finance company due in monthly installments with 9% interest, maturing October 31, 2013	38	85
Note payable to a finance company due in monthly installments with 3.3% interest, maturing June 20, 2013	398	—
Total	24,584	21,687
Less current portion	15,421	18,326
Long term portion	\$ 9,163	\$ 3,361

The current portion of long-term debt is the amount payable within one year of the balance sheet date of December 31, 2012. The prime rate of interest was 3.25% on December 31, 2012 and 2011.

Maturities of notes payable and long-term debt are as follows for the future years ending December 31(in thousands):

2013	\$ 15,421
2014	9,163
Total outstanding	\$ 24,584

The U.S. bank loans and line of credit agreement require the Company to meet certain financial covenants including a minimum liquidity ratio, minimum quarterly earnings and debt service coverage requirements as well as maximum debt to tangible net worth ratio and reporting requirements. Collateral for the U.S. bank loans and line of credit includes substantially all of

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE H—NOTES PAYABLE AND LONG-TERM DEBT (Continued)

the assets of the Company. As of December 31, 2012, the Company was in compliance with all of its financial and operational covenants associated with these loans.

As of December 31, 2012, the Company had \$4.7 million of unused borrowing capacity.

In November 2012, the Company renewed its U.S. revolving line of credit of \$10.5 million with the same U.S. bank with a maturity date of November 15, 2013. The interest rate on this line of credit is the prime rate plus 1.25% or the floor rate 4.5%, whichever is higher.

In May 2011, the Company entered into an interest rate swap transaction contract for its real estate loan of \$3.4 million for a fixed rate of 5% expiring on May 5, 2013. A security deposit of \$60,000 was required for this swap contract. On December 31, 2012, the Company would pay \$11,000 in additional interest if it terminated such swap contract. The Company determines a mark-to-market valuation of its swap contract each period, and any changes in fair value is recognized in the statement of operations.

The Company issued the following warrants to the same U.S. bank in connection with the renewals of the loan in 2009, 2010 and 2012:

<u>Renewal year</u>	<u>Warrants issued</u> <small>(shares in thousands)</small>	<u>Security upon exercise</u>	<u>Initial exercise price</u>	<u>Expiration date</u>
2009	400	Preferred F	0.25	6/30/2014
2010	250	Preferred F	0.60	5/3/2013
2012	200	Preferred G	0.35	11/2/2017
Total	<u>850</u>			

The Company estimated the fair value of these warrants at the date of the grant using the Black-Scholes option-pricing model and records the expense over the vesting period of the warrants using the following assumptions:

<u>Issue date</u>	<u>Expected volatility</u>	<u>Risk free interest rate</u>	<u>Expected term (years)</u>
2009	70%	2.54%	5
2010	70%	3.66%	3
2012	70%	0.73%	5

As of December 31, 2012, the market value of the warrants amounted to \$33,431, of which \$8,707 was recorded as interest expense in 2012, representing the expense for the periods 2009 through 2012. No warrants were exercised during 2012, 2011 and 2010.

The Company estimated the fair value of these warrants at the date of the grant using the Black-Scholes option-pricing model and records the expense over the life of the warrants. As of December 31, 2012, the market value of the warrants amounted to \$33,431, of which \$8,707 was recorded as warrant expenses.

Applied Optoelectronics, Inc. and Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2012, 2011 and 2010****NOTE H—NOTES PAYABLE AND LONG-TERM DEBT (Continued)**

The Company, through its China subsidiary, established a bank line of credit for \$11.8 million and \$1.1 million with a China Bank as of December 31, 2012. The interest rate for this line of credit varies between 110% and 125% of the China prime rate. This credit line is a revolving line that is renewable by its anniversary. Collateral for the loans includes the land use rights, building and equipment located in China.

The Company entered into a 12-month equipment financing agreement of \$0.9 million with a Taiwan bank during 2012. The financing agreement required equipment collateral and a compensation deposit of \$50,000 that is included in restricted cash. The agreement requires monthly installment payments over 12 months and ends in June 2013. The financing agreement bears interest at the rate of 3.375%.

NOTE I—SHORT-TERM LOAN WITH SHAREHOLDERS

In 2010, the Company borrowed \$3.2 million from 12 shareholders under the terms of unsecured promissory note agreements. These notes bore an interest rate of 6% with maturity dates of 18 months from the effective dates of the notes originally maturing on October 21, 2011, but extended to December 31, 2012. The note holders were also issued warrants that expire by April 23, 2020, to purchase 1,536,000 shares of the Company's Series F Preferred Stock, with an exercise price of \$0.25 per share. As part of the loan maturity date extension, additional warrants to purchase 182,442 shares of the Company's Series G Preferred Stock were issued in 2011 with an exercise price of \$0.60 per share that expire on April 23, 2020.

In 2011, two of the note holders converted their respective notes into shares of Series G Preferred Stock and four of the notes were repaid in full. In 2012, five of the remaining note holders converted their respective notes into shares of Series G Preferred Stock and one of the notes was repaid. As of December 31, 2012, all principal and interest related to these notes had been fully satisfied.

The Company estimated the fair value of these warrants at the date of the grant using the Black-Scholes option-pricing model and records the expense over the life of the warrants using the following assumptions:

<u>Issue date</u>	<u>Expected volatility</u>	<u>Risk free interest rate</u>	<u>Expected term (years)</u>
2010	70%	3.66%	10
2011	70%	0.83%	10

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE I—SHORT-TERM LOAN WITH SHAREHOLDERS (Continued)

As of December 31, 2012, the market value of the warrants amounted to \$59,085, of which \$11,422 was recorded as interest expense in 2012, representing the expense for the periods 2010 through 2012. No warrants were exercised during 2010, 2011 and 2012.

NOTE J—ACCRUED LIABILITIES

Accrued liabilities consisted of the following as of December 31:

	<u>2012</u>	<u>2011</u>
	(in thousands)	
Accrued payroll	\$ 1,631	\$ 1,367
Accrued employee benefits	429	452
Accrued property taxes	167	173
Accrued interest	74	188
Accrued construction expenses	—	—
Advanced payments	189	25
Accrued commission	69	201
Accrued professional fees	22	—
Accrued other	662	252
	<u>\$ 3,243</u>	<u>\$ 2,658</u>

NOTE K—OTHER INCOME AND EXPENSE

Other income and expense consisted of the following as of December 31:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
	(in thousands)		
Interest income	\$ 26	\$ 15	\$ 34
Unrealized foreign exchange gain (loss)	217	(352)	406
Realized foreign exchange gain (loss)	(79)	83	88
Government subsidy income	92	77	71
Other non-operating gain	38	1	9
Gain (loss) on disposal of assets	(37)	(80)	11
	<u>\$ 257</u>	<u>\$ (256)</u>	<u>\$ 619</u>

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE L—INCOME TAXES

The sources of our income or loss from operations before income taxes were as follows:

	Year Ended December 31,		
	2012	2011	2010
Domestic	(3,077)	(3,513)	(2,144)
Foreign (loss) income	2,132	(1,815)	(1,236)
Total Income (loss)	<u>(945)</u>	<u>(5,328)</u>	<u>(3,380)</u>

Deferred income tax assets and liabilities result principally from net operating losses, different methods of recognizing depreciation, reserve for doubtful accounts, inventory reserves for obsolescence and accrued vacation, together with timing differences between book and tax reporting. At December 31, the net deferred tax assets and liabilities are comprised of the following approximate amounts:

	2012	2011
	(in thousands)	
NOL carryforward	\$ 22,673	\$ 21,797
Inventory reserves	389	305
Stock compensation	511	—
Fixed assets and intangibles	(1,582)	(1,664)
Impairment loss	(614)	(614)
Other	267	276
	<u>21,644</u>	<u>20,099</u>
Less valuation allowance	<u>(21,644)</u>	<u>(20,099)</u>
Deferred tax assets, net	<u>\$ —</u>	<u>\$ —</u>

The valuation allowance was established to reduce the deferred tax asset for the amounts that will more likely than not be realized. This reduction is primarily necessary due to the uncertainty of the Company's ability to utilize all of the net operating loss carry forwards. The valuation allowance increased approximately \$1.5 million, \$0.8 million and \$0.5 million in 2012, 2011 and 2010, respectively.

As of December 31, 2012 and 2011, and for the periods then ended, the Company had no uncertain tax positions.

The Company has a U.S. net operating loss carry forward of approximately \$66.7 million, which expires between 2020 and 2032. The Company also has U.S. research and development tax credits of \$1.5 million which expire between 2024 and 2032. Utilization of its net operating loss and tax credit carry-forwards may be subject to a substantial annual limitation due to the ownership change limitations set forth in Internal Revenue Code Section 382. Such an annual

Applied Optoelectronics, Inc. and Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2012, 2011 and 2010****NOTE L—INCOME TAXES (Continued)**

limitation could result in the expiration of the net operating loss and tax credit carry-forwards before utilization. The Company has a net operating loss carry-forward from its China operations of approximately \$5.4 million, which expires between 2013 and 2016.

The Company files income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. As of December 31, 2012, the Company's federal returns for the year ended December 31, 2009 through the current period are still open to examination. In addition, all of the net operating losses and research and development credit carry-forwards that may be utilized in future years are still subject to examination. The Company is not currently subject to U.S. federal, state and local, or non-U.S. income tax examinations by any tax authorities.

A reconciliation of the U.S. federal income tax rate of 34% for the years ended December 31, 2012, 2011 and 2010 to the Company's effective income tax rate follows:

	<u>2012</u>	<u>2011</u> <u>(in thousands)</u>	<u>2010</u>
Expected (benefit) taxes	\$ (293)	\$ (1,808)	\$ (1,158)
Non-deductible expenses	(760)	1,003	534
Increase in valuation allowance	1,545	845	523
Non-qualified stock options and other, net	(492)	(40)	101
Tax expense	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

The Company's wholly owned subsidiary, Prime World is a tax-exempt entity under the Income Tax Code of the British Virgin Islands.

The Company's wholly owned subsidiary, Global has enjoyed preferential tax concessions in China as a "high-tech enterprise." Pursuant to China's State Council's Regulations on Encouraging Investment in and Development, Global is entitled to full exemption from China's Foreign Enterprise Income Tax, or FEIT, for the first two years and a 50% reduction for the next three years, commencing from the first profit making year after offsetting all tax losses carried forward from the previous five years. In March 2007, China enacted the PRC Enterprise Income Tax Law, or EIT Law, under which, effective January 1, 2008, China adopted a uniform income tax rate of 25% for all enterprises (including foreign-invested enterprises) and cancelled several tax incentives enjoyed previously by foreign-invested enterprises. For foreign-invested enterprises like Global that were established before the promulgation of the EIT Law, a five-year transition period is provided during which reduced income tax rates will apply but will gradually be phased out. The Chinese government has not yet announced implementation measures for the transitional policy concerning such preferential tax rates, so the Company is unable at this time to estimate the financial impact of the new tax law on Global.

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE M—STOCK-BASED COMPENSATION

The Company issues stock options to employees, consultants and non-employee directors. There are four incentive share plans that have been approved by the board of directors: the 1998 Incentive Share Plan, the 2000 Incentive Share Plan, the 2004 Incentive Share Plan and the 2006 Incentive Share Plan. Stock option awards for each of the four plans generally vest over a four year period and have a maximum term of ten years.

Stock options under these plans have been granted at the fair market value on the date of the grant. Nonqualified and Incentive Stock Options may be granted from each of these plans. The fair market value of the Company's stock has been historically determined by the board of directors and beginning in 2007, with the assistance of a third party valuation specialist.

The 1998 Incentive Share Plan provides for awards of Stock Options, Stock Appreciation Rights, Restricted Stock, Performance Awards or Other Awards. Initially 2,000,000 shares of common stock were reserved for issuance under such plan and such amount was amended to 2,080,000 in June 2001. As of December 31, 2012, 115,850 shares were outstanding under this plan and there were no shares available to issue under this plan.

The 2000 Incentive Share Plan provides for awards of Stock Options, Stock Appreciation Rights, Restricted Stock, Performance Awards or Other Awards. Upon approval 3,604,100 shares of common stock were reserved for issuance under the plan. As of December 31, 2012, 632,586 shares were outstanding under this plan and there were no shares available to issue under this plan.

The 2004 Incentive Share Plan provides for awards of Stock Options, Stock Appreciation Rights, Restricted Stock, Performance Awards or Other Awards. Upon approval, 1,500,000 shares of common stock were reserved for issuance under the plan. As of December 31, 2012, 771,170 shares were outstanding under this plan and there were no shares available to issue under this plan.

The 2006 Incentive Share Plan provides for awards of Stock Options, Stock Appreciation Rights, Restricted Stock, Performance Awards or Other Awards. Initially 1,500,000 shares of common stock were reserved for issuance under the plan. In June 2008, the number of shares of common stock reserved for issuance under this plan was increased to 14,000,000. The plan was again amended to increase the reserved shares to 30,000,000 in November 2012. As of December 31, 2012, 11,060,044 shares were outstanding under this plan and there were 18,714,408 shares available to issue under this plan.

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE M—STOCK-BASED COMPENSATION (Continued)

The Company estimates the fair value of employee stock options at the date of the grant using the Black-Scholes option-pricing model with the following assumptions:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Expected volatility	70%	70%	74%
Risk free interest rate	1.01%	2.32%	1.72%
Expected term (years)	6.25	6.25	6.25
Expected dividend yield	—	—	—
Estimated forfeitures	10%	13%	13%

As there has been no market for the Company's common stock, the expected volatility for options granted to date was derived from an analysis of reported data for a peer group of companies that issued options with similar terms. The expected volatility has been determined using an average of the expected volatility reported by this peer group of companies. The Company uses a risk free interest rate based on the 10-year Treasury as reported during the period. The expected term of options has been determined utilizing the simplified method which calculates a simple average based on vesting period and option life. The Company does not anticipate paying dividends in the near future. Estimated forfeitures are based on historical experience and future work force projections.

Employee stock-based compensation expenses recognized for the years ended December 31, were as follows:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
	(in thousands)		
Cost of sales	\$ 7	\$ 35	\$ 61
Research and development	8	50	60
Sales and marketing	9	58	80
General and administrative	137	420	579
Total employee stock-based compensation expenses	\$ 161	\$ 563	\$ 780

Options have been granted to the Company's employees under the four incentive plans and generally become exercisable as to 25% of the shares on the first anniversary date following the date of grant and semi-annually thereafter. All options expire ten years after the date of grant. The Company has outstanding options to purchase 2,533,240 shares under the 1998 plan; 3,778,267 shares under the 2000 plan; 2,229,545 shares under the 2004 plan; and 16,985,327 shares under the 2006 plan.

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE M—STOCK-BASED COMPENSATION (Continued)

The following is a summary of option activity:

	Number of shares	Exercise price	Weighted average exercise price
	(in thousands, except price data)		
Outstanding, January 1, 2010	4,845	\$ 0.10 - \$1.88	\$ 0.1927
Granted	4,030	0.20	0.2000
Exercised	(7)	0.20	0.2000
Forfeited	(100)	0.20	0.2000
Expired	(99)	0.15 - 1.88	0.1946
Outstanding, December 31, 2010	8,669	0.10 - 0.25	0.1946
Exercisable, December 31, 2010	4,050	0.10 - 0.25	0.1885
Granted	3,715	0.20	0.2000
Exercised	(81)	0.10 - 0.20	0.2000
Forfeited	(756)	0.20	0.2000
Expired	(223)	0.15 - 0.20	0.1991
Outstanding, December 31, 2011	11,324	0.10 - 0.25	0.1959
Exercisable, December 31, 2011	5,417	0.10 - 0.25	0.1915
Granted	2,647	0.20	0.2000
Exercised	(23)	0.20 - 0.25	0.2097
Forfeited	(575)	0.20	0.2000
Expired	(793)	0.10 - 0.25	0.1767
Outstanding, December 31, 2012	12,580	0.10 - 0.25	0.1978
Exercisable, December 31, 2012	7,006	0.10 - 0.25	0.1960
Vested and expected to vest, December 31, 2012	11,891	0.10 - 0.25	0.1977
Granted (unaudited)	10,037	0.25	0.2500
Exercised (unaudited)	(142)	0.20	0.20
Forfeited (unaudited)	(190)	0.20 - 0.25	0.2071
Expired (unaudited)	(64)	0.20	0.20
Outstanding, March 31, 2013 (unaudited)	22,219	0.10 - 0.25	0.2213
Exercisable, March 31, 2013 (unaudited)	7,430	0.10 - 0.25	0.1963
Vested and expected to vest (unaudited)	19,759	0.10 - 0.25	0.2191

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE M—STOCK-BASED COMPENSATION (Continued)

The following table summarizes information about the options outstanding at December 31, 2012:

<u>Range of exercise prices</u>	<u>Number of shares outstanding</u>	<u>Weighted average remaining contractual life (years)</u>	<u>Weighted average exercise price</u>	<u>Aggregate intrinsic value</u>	<u>Number of shares exercisable</u>	<u>Weighted average remaining contractual life (years)</u>	<u>Weighted average exercise price</u>	<u>Aggregate intrinsic value</u>
				(in thousands, except price data)				
\$0.10 - \$0.165	556	1.67	\$ 0.135	\$ 64	556	1.67	\$ 0.135	\$ 64
0.20 - 0.25	12,023	7.68	0.201	593	6,450	6.92	0.201	314
Total	12,579	7.41	\$ 0.198	\$ 657	7,006	6.49	\$ 0.196	\$ 378

As of December 31, 2012, total compensation cost related to unvested stock options not yet recognized was \$0.4 million, which is expected to be expensed over a weighted-average period of 3.25 years.

As of March 31, 2013, total compensation cost related to unvested stock options not yet recognized was \$1.8 million, which is expected to be expensed over a weighted-average period of 3.62 years.

The aggregate intrinsic value of options outstanding and options exercisable as of December 31, 2012 and December 31, 2011 was \$0.7 million and \$0.4 million, respectively.

The number and weighted average fair value of options granted in 2012, 2011 and 2010 is as follows:

<u>2012</u>		<u>2011</u>		<u>2010</u>	
<u>Shares</u>	<u>Weighted average fair value</u>	<u>Shares</u>	<u>Weighted average fair value</u>	<u>Shares</u>	<u>Weighted average fair value</u>
		(shares in thousands)			
2,647	\$ 0.1642	3,715	\$ 0.0131	4,030	\$ 0.0144

NOTE N—STOCKHOLDERS' EQUITY

1. *Common Stock*

The Company has authorized the issuance of up to 300,000,000 shares of common stock, all of which have been designated voting common stock, under its Tenth Amended and Restated Articles of Incorporation (the "Restated Articles").

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE N—STOCKHOLDERS' EQUITY (Continued)

2. Convertible Preferred Stock

The Company has authorized the issuance of up to 200,000,000 shares of preferred stock under the Company's Restated Articles. The number of authorized, and issued shares and the conversion rate from a preferred share into a common share by series is as follows:

	Authorized shares	Issued shares	Carrying value	Conversion rate
	(in thousands, except for conversion rate)			
Series A (Redeemable)	4,900	4,806	\$ 7,105	1:3.1731
Series C	17,500	17,470	21,802	1:2.3106
Series D	11,800	11,414	14,184	1:2.5359
Series E	11,000	10,339	28,055	1:3.6186
Series F	82,000	79,518	19,278	1:1.2000
Series G	45,000	42,857	14,943	1:1.0000
	<u>172,200</u>	<u>166,404</u>	<u>\$ 105,367</u>	

The Company's Series A Preferred Stock may be redeemed at any time at the option of the Company's board by paying Series A shareholders a redemption price per share equal to the Series A purchase price of \$1.50 plus the quotient of (i) the retained earnings of the Company as of the last day of the month immediately preceding notice of redemption divided by (ii) the number of Series A Preferred Stock outstanding on the date such notice is mailed.

Except for Series A preferred shareholders, holders of preferred stock vote equally with shares of common stock on an as-converted basis on actions required by stockholders, other than as required by the Texas Business Organizations Code ("TBOC"). Holders of Series A Preferred do not have the right to vote on any action to be taken by the shareholders of the Company, except (a) to the extent a vote is required by the TBOC; or (b) with respect to certain other matters specified in the Restated Articles. In addition, each of the Series C, Series D, Series E, Series F and Series G have per-class voting rights similar to the class-voting rights for Series A Preferred Stock.

The Company's preferred shareholders are not entitled to receive dividends unless declared by the board of directors of the Company. Each share of preferred stock is convertible into common stock as shown in the conversion rate table above upon an initial public offering of the Company's common stock.

Each class of preferred stock provides to shareholders certain liquidation preferences upon any liquidation, dissolution or winding up of the Corporation. The Series G Preferred is senior to all other series of preferred stock, and the Series G liquidation preference is equal to the Series G purchase price plus a Series G preferential return equal to interest at prime rate plus one percent on the Series G purchase price, not to exceed the Series G purchase price, for a total

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE N—STOCKHOLDERS' EQUITY (Continued)

liquidation payment of up to two times the Series G purchase price. The Series F Preferred is senior to all other series of preferred stock other than Series G, and the Series F liquidation preference is equal to the Series F purchase price plus a Series F preferential return equal to interest at prime rate plus one percent on the Series F purchase price, not to exceed the Series F purchase price, for a total liquidation payment of up to two times the Series F purchase price. The Series E Preferred is senior to all other series of preferred stock other than Series F and G, and the Series E liquidation preference is equal to the Series E purchase price plus a Series E preferential return equal to interest at prime rate plus one percent on the Series E purchase price, not to exceed the Series E purchase price, for a total liquidation payment of up to two times the Series E purchase price. The Series D Preferred are senior to all other series of preferred stock other than Series E, F and G, and the Series D liquidation preference is equal to the Series D purchase price plus a Series D preferential return equal to interest at prime rate plus one percent on the Series D purchase price, not to exceed the Series D purchase price, for a total liquidation payment of up to two times the Series D purchase price. The Series A and C Preferred are junior to Series D, E, F and G. Series C holders are entitled to a first payment equal to the Series C purchase price. Then, the Series A liquidation preference is equal to the Series A purchase price plus a Series A preferential return equal to interest at prime rate plus one percent on the Series A purchase price, not to exceed the Series A purchase price, for a total liquidation payment of up to two times the Series A purchase price. The Series C Preferred are then entitled to a second payment junior to the Series A liquidation payment, which Series C Junior liquidation payment is equal to that amount paid or distributed to holders of Common Stock as if such share of Series C Preferred Stock were converted; provided that the amount distributed per share of Series C Preferred Stock will not exceed one half of the Series C purchase price.

The total liquidation value on an aggregated basis as of December 31, 2012 was \$127.8 million.

3. *Warrants*

As of December 31, 2012, the Company had the following warrants outstanding related to certain financing and consulting transactions:

<u>Issue date</u>	<u>Security upon exercise</u>	<u>Shares</u>	<u>Expiration date</u> (shares in thousands)	<u>Weighted average exercise price</u>
5/17/2011	Common	300	6/30/2014	\$ 0.20000
6/30/2009 to 5/3/2010	Preferred F	2,186	6/30/2014 to 4/23/2020	\$ 0.29003
12/31/2011 to 11/2/2012	Preferred G	382	5/3/2013 to 4/23/2020	\$ 0.46926
		<u>2,868</u>		

In March 2013, 456,000 of the Preferred F Warrants were exercised.

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE N—STOCKHOLDERS' EQUITY (Continued)

The Company estimated the fair value of these warrants at the date of the grant using the Black-Scholes option-pricing model and records the expense over the vesting period of the warrants. The Company recorded expense of \$21,000 in 2012 related to the issuance of these warrants based upon the following assumptions:

<u>Issue date</u>	<u>Expected volatility</u>	<u>Risk free interest rate</u>	<u>Expected term (years)</u>
2009	70%	2.54%	5
2010	70%	3.66%	3
2011	70%	0.83% to 3.12%	3 to 10
2012	70%	0.73%	5

As of December 31, 2012, the market value of the warrants amounted to \$94,000, of which \$21,000 was recorded as interest expense in 2012, representing the expense for the periods 2009 through 2012. No warrants were exercised during 2010, 2011 and 2012.

As of March 31, 2013, the Company had outstanding warrants to purchase:

- 300,000 shares of its common stock with an exercise price of \$0.20 per share. This warrant expires upon the closing of the Offering. If this warrant has not been exercised prior to such expiration date, then the warrant shall be deemed to have been automatically exercised by "cashless" conversion pursuant to the terms of the warrant.
- 1,080,000 shares of its Series F preferred stock with an exercise price of \$0.25 per share. These warrants expire upon the closing of the Offering. If these warrants have not been exercised prior to such expiration date, then the warrants shall be deemed to have been automatically exercised by "cashless" conversion pursuant to the terms of the warrants.
- 650,000 shares of its Series F preferred stock with a weighted average exercise price of \$0.38462 per share. If these warrants have not been exercised prior to the closing of the Offering, then, pursuant to their terms, the warrants shall automatically adjust to be exercisable for an aggregate of 780,011 shares of common stock at a weighted average exercise price of \$0.32051 per share.
- 182,442 shares of its Series G preferred stock with an exercise price of \$0.60 per share. These warrants expire upon the closing of the Offering. If these warrants have not been exercised prior to such expiration date, then the warrants shall be deemed to have been automatically exercised by "cashless" conversion pursuant to the terms of the warrants.
- 200,000 shares of its Series G preferred stock with an exercise price of \$0.35 per share. If this warrant has not been exercised prior to closing of the Offering, then pursuant to its terms, the warrant shall automatically adjust to be exercisable for 200,000 shares of common stock at \$0.35 per share.

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE O—SEGMENT AND GEOGRAPHIC INFORMATION

The Company operates in one reportable segment. The Company's Chief Executive Officer, who is considered to be the chief operating decision maker, manages the Company's operations as a whole and reviews financial information presented on a consolidated basis, accompanied by information about product revenue, for purposes of evaluating financial performance and allocating resources.

The following tables set forth the Company's revenue and asset information by geographic region. Revenue is classified based on the location of product manufacturing plants. Long-lived assets in the tables below comprise only property, plant, equipment and intangible assets (in thousands):

	For the year ended December 31,			For the three months ended March 31,	
	2012	2011	2010	2013	2012
	(unaudited)				
	(in thousands)				
Revenues:					
United States	\$ 12,192	\$ 18,767	\$ 13,273	\$ 2,696	\$ 2,663
Taiwan	15,200	6,547	10,018	5,942	3,293
China	36,029	22,526	17,198	5,680	6,550
Total	\$ 63,421	\$ 47,840	\$ 40,489	\$ 14,317	\$ 12,506
	For the year ended December 31,			For the three months ended March 31,	
	2012	2011	2010	2013	2012
	(unaudited)				
	(in thousands)				
Long-lived assets:					
United States	\$ 8,966	\$ 9,457	\$ 10,430	\$ 8,808	\$ 9,295
Taiwan	3,719	2,325	2,633	3,690	3,062
China	13,595	14,052	13,784	13,793	13,739
Total	\$ 26,280	\$ 25,834	\$ 26,847	\$ 26,291	\$ 26,096

The Company serves three primary markets, the CATV, FTTH and internet data center markets. Of the Company's total revenues in 2012, the Company earned \$49.8 million, or 78.6%, from the CATV market, \$5.3 million, or 8.3%, from the internet data center market, \$3.7 million, or 5.8%, from the FTTH market, and \$4.6 million, or 7.3%, from other markets.

NOTE P—MAJOR CUSTOMERS

The Company currently derives its revenues from customers in the United States and throughout the rest of the world. Generally, the Company does not require deposits or other collateral to support customer receivables. The Company performs an initial and periodic credit

Applied Optoelectronics, Inc. and Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2012, 2011 and 2010****NOTE P—MAJOR CUSTOMERS (Continued)**

evaluation of its customers and maintains an allowance for uncollectible accounts for potential uncollectible accounts. The historical amount of losses on uncollectible accounts has been within the Company's estimates. The Company's five largest customers represented an aggregate of 47%, 56% and 60% of revenue for the years ended December 31, 2012, 2011 and 2010, respectively. The five largest receivable balances for customers represented an aggregate of 58%, 71% and 55% of total accounts receivable at December 31, 2012 and 2011 and March 31, 2013, respectively.

NOTE Q—EMPLOYEE BENEFIT PLANS

On August 1, 2000, the Company established a 401(k) profit sharing plan covering employees meeting certain age and service requirements. The plan provides for discretionary Company contributions to be allocated based on the employee's eligible contributions. The Company made no contributions to the 401(k) plan for the years ended December 31, 2012, 2011 and 2010.

Employees of Global participate in a state-mandated social security program in China. Under this program, pension costs are recorded on the basis of required monthly contributions to employees' individual accounts during their service periods. Under the regulations of the People's Republic of China, Global is required to make fixed contributions to a fund, which is under the administration of the local labor departments. Employees of AOI—Taiwan participate in a pension program under the Taiwan Labor Pension Act. Pension expense for Global was \$244,000, \$206,000 and \$188,000 in 2012, 2011 and 2010, respectively. Pension expense for AOI—Taiwan was \$168,000, \$123,000 and \$92,000 in 2012, 2011 and 2010, respectively.

NOTE R—COMMITMENTS AND CONTINGENCIES**1. Commitments**

The Company conducts part of its operations from leased facilities and also leases equipment. Rent expense was \$0.5 million, \$0.4 million and \$0.6 million for the years ended December 31, 2012, 2011 and 2010, respectively.

At December 31, 2012, the approximate minimum rental commitments under noncancellable leases in excess of one year that expire at varying dates through 2015 were as follows:

<u>Year ending December 31,</u>	<u>Amount</u> <u>(in thousands)</u>
2013	\$ 521
2014	167
2015	9
	<u>\$ 697</u>

Applied Optoelectronics, Inc. and Subsidiaries**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****December 31, 2012, 2011 and 2010****NOTE R—COMMITMENTS AND CONTINGENCIES (Continued)****2. Employment Agreements and Consultancy Agreements**

The Company has entered into employment and indemnification agreements with its CEO and CSO. These agreements provide that if their employment is terminated as a result of a change of control of the Company, or if their employment is terminated for certain other reasons set forth in the agreements, the Company will be required to pay a severance payment in an amount equal to their annual base salary, and other additional compensation due under the terms of the agreements.

The Company had entered into a consulting agreement with one of its shareholders for a period of two years from July 2009 to June 2011. The agreement provided that a consulting service fee would be paid to the consultant upon delivery of stipulated services. The Company paid \$150,000 and \$350,000 of consulting services fees to the consultant in 2011 and 2010, respectively.

In 2012, the Company entered into consulting agreements with two of its shareholders and board members for a period of one year from June 2012 to June 2013. The agreements provide that a consulting fee will be paid to the consultants upon delivery of stated services. The Company paid \$25,000 of consulting service fees to the consultants in 2012.

3. Contingencies

The Company may be party to litigation, claims or assessments in the ordinary course of business. Management is not aware of any of these matters that would have a material effect on the financial condition, results of operations or cash flows of the Company.

NOTE S—RELATED PARTY TRANSACTIONS

The Company had the following related parties' activities with its shareholders:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
		(in thousands)	
Interest expense	\$ 36	\$ 176	\$ 169
Consulting service fees	25	150	350
Note payable	—	910	3,200
Interest payable	—	122	150

NOTE T—SUBSEQUENT EVENTS

As of March 15, 2013, the Company renewed and extended \$6.0 million of its line of credit for an additional one year term with a China based bank. In addition, the Company also repaid \$2.1 million of loans and bank acceptance notes subsequent to year-end.

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE T—SUBSEQUENT EVENTS (Continued)

On April 12, 2013, the board of directors of the Company approved and adopted the 2013 Long-Term Incentive Plan, subject to approval by the Company's stockholders, which will become effective immediately prior to the closing of this offering.

On March 25, 2013, the Company was converted from a Texas corporation to a Delaware corporation.

On January 18, 2013, the Company's board of directors granted stock options for 10,037,000 shares of the Company's common stock to various employees of the Company. The stock options have an exercise price of \$0.25 per share and vest over a four year period from date of grant.

On April 11, 2013, the loans with East West Bank with an outstanding principal balance of \$9.6 million were extended and now mature on November 15, 2014.

In connection with the loan renewal with East West Bank, on April 11, 2013, the Company extended the expiration date of the warrant to purchase 250,000 shares of Series F preferred stock, held by East West Bank, to May 3, 2014.

shares



Common Stock

PROSPECTUS

RAYMOND JAMES

PIPER JAFFRAY

COWEN AND COMPANY

ROTH CAPITAL PARTNERS

, 2013

PART II**INFORMATION NOT REQUIRED IN THE PROSPECTUS****Item 13. Other Expenses of Issuance And Distribution**

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, payable by registrant in connection with the sale of common stock being registered. All amounts are estimates except the SEC registration fee and the FINRA filing fee.

SEC registration fee	\$ 6,820
FINRA filing fee	\$ 8,000
NASDAQ Global Market listing fee	\$ 150,000
Printing and mailing costs	\$ *
Legal fees and expenses	\$ *
Accounting fees and expenses	\$ *
Blue Sky fees and expenses	\$ *
Directors and officers insurance	\$ *
Transfer agent and registrar fees	\$ *
Miscellaneous expenses	\$ *
Total Expenses	\$ *

* To be completed by amendment.

Item 14. Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law (the "DGCL") authorizes a corporation to indemnify its directors and officers against liabilities arising out of actions, suits and proceedings to which they are made or threatened to be made a party by reason of the fact that they have served or are currently serving as a director or officer to a corporation. The indemnity may cover expenses (including attorneys' fees) judgments, fines and amounts paid in settlement actually and reasonably incurred by the director or officer in connection with any such action, suit or proceeding. Section 145 permits corporations to pay expenses (including attorneys' fees) incurred by directors and officers in advance of the final disposition of such action, suit or proceeding. In addition, Section 145 provides that a corporation has the power to purchase and maintain insurance on behalf of its directors and officers against any liability asserted against them and incurred by them in their capacity as a director or officer, or arising out of their status as such, whether or not the corporation would have the power to indemnify the director or officer against such liability under Section 145.

We have adopted provisions in our amended and restated certificate of incorporation and amended and restated bylaws to be in effect immediately prior to the closing of this offering that limit or eliminate the personal liability of our directors to the fullest extent permitted by the DGCL, as it now exists or may in the future be amended. Consequently, a director will not be personally liable to us or our stockholders for monetary damages or breach of fiduciary duty as a director, except for liability for:

- any breach of the director's duty of loyalty to us or our stockholders;

- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- any unlawful payments related to dividends or unlawful stock purchases, redemptions or other distributions; or
- any transaction from which the director derived an improper personal benefit.

These limitations of liability do not alter director liability under the federal securities laws and do not affect the availability of equitable remedies such as an injunction or rescission.

In addition, our amended and restated bylaws provide that:

- we will indemnify our directors, officers and, in the discretion of our board of directors, certain employees to the fullest extent permitted by the DGCL, as it now exists or may in the future be amended; and
- we will advance reasonable expenses, including attorneys' fees, to our directors and, in the discretion of our board of directors, to our officers and certain employees, in connection with legal proceedings relating to their service for or on behalf of us, subject to limited exceptions.

We have entered into indemnification agreements with each of our directors and certain of our executive officers. These agreements provide that we will indemnify each of our directors and certain of our executive officers to the fullest extent permitted by Delaware law.

We also maintain general liability insurance which covers certain liabilities of our directors and officers arising out of claims based on acts or omissions in their capacities as directors or officers, including liabilities under the Securities Act.

Item 15. Recent Sales of Unregistered Securities

In the three completed fiscal years preceding the filing of this registration statement, we have issued the following securities that were not registered under the Securities Act:

(a) Issuances of Capital Stock.

On December 31, 2011, we issued and sold an aggregate of 6,676,916 shares of Series G preferred stock to twenty-five investors, at a price of \$0.60 per share, in the initial closing of our Series G private placement. On September 7, 2012, we issued and sold an additional 31,410,977 shares of Series G preferred stock to fifty-four investors, at a price of \$0.35 per share, in the second closing of our Series G private placement. As a result of the second closing of our Series G private placement, we agreed to amend the per share price of the initial closing of our Series G private placement from \$0.60 per share to \$0.35 per share and, as a result an additional 4,769,215 shares of Series G preferred stock was issued to the investors of the initial closing of our Series G private placement. As a result, a total of 42,857,108 shares of Series G preferred stock was issued by our company.

No underwriters were used in the foregoing transactions. All sales of securities described above were made in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act (and/or Regulation D promulgated thereunder) of the Securities Act for transactions by a registrant not involving a public offering. All of the foregoing securities are deemed restricted securities for the purposes of the Securities Act.

Upon the completion of this offering, each share of redeemable Series A preferred stock will convert into _____ shares of common stock, each share of Series C preferred stock will convert into _____ shares of common stock, each share of Series D preferred stock will convert into _____ shares of common stock, each share of Series E preferred stock will convert into _____ shares of common stock, each share of Series F preferred stock will convert into _____ shares of common stock, and each share of Series G preferred stock will convert into _____ shares of common stock.

(b) Grants and Exercises of Stock Options.

From January 1, 2010 through April 30, 2013, we have granted stock options to purchase an aggregate of 20,535,700 shares of common stock with exercise prices ranging from \$0.20 to \$0.30 per share, to employees, officers, directors, consultants pursuant to our stock option plans. 253,506 shares of options have been exercised for consideration aggregating \$50,426.20 from January 1, 2010 through April 30, 2013. The issuance of common stock upon exercise of the options was exempt either pursuant to Rule 701, as a transaction pursuant to a compensatory benefit plan, or pursuant to Section 4(2) of the Securities Act or Regulation S of the Securities Act, as a transaction by a registrant not involving a public offering. The shares of common stock issued upon exercise of options are deemed restricted securities for the purposes of the Securities Act.

(c) Issuances and Exercises of Warrants

On May 3, 2010, we issued a warrant to our U.S. lender to purchase 250,000 shares of Series F preferred stock, with an exercise price of \$0.60 per share and an expiration date of May 3, 2013. On April 11, 2013, the expiration date of this warrant was extended until May 3, 2014. On November 2, 2012, we issued warrants to our U.S. lender to purchase 200,000 shares of Series G preferred stock, with an exercise price of \$0.35 per share and an expiration date equal to thirty days after the expiration of the initial lock-up period agreed to between our company and its underwriters in connection with this offering. As of April 30, 2013, none of the warrants described above have been exercised.

From February 3, 2010 through April 23, 2010, we issued warrants to 11 individuals and entities to purchase 1,536,000 shares of Series F preferred stock issued in connection with promissory notes we entered into with such individuals and entities. The exercise price of the warrants is \$0.25 and expires upon the closing of this offering. As of April 30, 2013, warrants have been exercised for 138,000 shares of Series F preferred stock.

On May 17, 2011, we issued warrants to Alliance Management Consulting Co. Ltd. to purchase 300,000 shares of our common stock in partial consideration of certain services provided to us. The exercise price of the warrants is \$0.20 per share and expire upon the closing of this offering. As of April 30, 2013, none of the warrants described above have been exercised.

On December 31, 2011, we issued warrants to purchase 1,001,536 shares of Series G preferred stock, with an exercise price of \$0.60 per share in connection with the initial closing of our Series G private placement, to the investors of the initial closing of our Series G private placement. However, the warrants were terminated as a result of the second closing of our Series G private placement in which we agreed to amend the per share price of the initial closing of our Series G Private Placement from \$0.60 per share to \$0.35 per share. As of April 30, 2013, none of the warrants described above have been exercised.

On December 31, 2011, we issued warrants to eight individuals and entities to purchase 182,442 shares of Series G preferred stock in connection with eight promissory notes we entered

into with such individuals and entities. The exercise price of the warrants is \$0.60 and expire upon closing of this offering. As of April 30, 2013, warrants have been exercised for 33,333 shares of Series G preferred stock.

No underwriters were used in the foregoing transactions. All sales of securities described above were made in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act (and/or Regulation D promulgated thereunder) of the Securities Act for transactions by a registrant not involving a public offering. All of the foregoing securities are deemed restricted securities for the purposes of the Securities Act.

Item 16. Exhibits and Financial Statement Schedules

(a) Exhibits

See the Exhibit Index on the page immediately following the signature page for a list of exhibits filed as part of this registration statement on Form S-1, which Exhibit Index is incorporated herein by reference.

(b) Financial Statement Schedules

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes thereto.

Item 17. Undertakings

The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreements certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described in Item 14 of this registration statement, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this amendment to the registration statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Houston, State of Texas, on May , 2013.

APPLIED OPTOELECTRONICS, INC.

By:

Chih-Hsiang (Thompson) Lin,
President and Chief Executive Officer

POWER OF ATTORNEY

We, the undersigned directors of Applied Optoelectronics, Inc. (the "Company"), hereby severally constitute and appoint Chih-Hsiang (Thompson) Lin and James L. Dunn, Jr., and each of them singly, our true and lawful attorneys, with full power, and to each of them singly, to sign for us and in our names in the capacities indicated below, any and all pre-effective and post-effective amendments to this registration statement, and any registration statement filed pursuant to Rule 462(b) under the Securities Act of 1933, as amended, in connection with the registration under the Securities Act of 1933, as amended, of our equity securities, and to file or cause to be filed the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys, and each of them singly, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as each of them might or could do in person, and hereby ratifying and confirming all that said attorneys, and each of them, or their substitute or substitutes, shall do or cause to be done by virtue of this Power of Attorney.

Pursuant to the requirements of the Securities Act of 1933, this amendment to the registration statement has been signed by the following persons in the capacities and on the dates indicated.

Signature

Date

Chih-Hsiang (Thompson) Lin,
President, Chief Executive Officer and Director
(principal executive officer)

James L. Dunn, Jr.,
Chief Financial Officer
(principal financial officer and
principal accounting officer)

Signature

Date

Juen-Sheng (Andrew) Kang,
Chairman of the Board of Directors

William H. Yeh,
Director

Richard B. Black,
Director

Alex Ignatiev,
Director

Alan Moore,
Director

Min-Chu (Mike) Chen,
Director

EXHIBIT INDEX

Number	Description
1.1*	Form of Underwriting Agreement
3.1**	Certificate of Incorporation of the registrant, as currently in effect
3.2	Form of Amended and Restated Certificate of Incorporation of the registrant, to be filed immediately prior to the closing of this offering with the Delaware Secretary of State
3.3**	Bylaws of the registrant, as currently in effect
3.4	Form of Amended and Restated Bylaws of the registrant, to be in effect immediately prior to the closing of this offering
4.1**	Form of Registration Rights Agreement
4.2**	Form of Stockholders' Agreement
5.1*	Opinion of DLA Piper LLP (US)
10.1**	Form of Indemnification Agreement between the registrant each of its Directors and certain of its Executive Officers
10.2**	1998 Incentive Share Plan
10.3.1	Form of Stock Option Agreement under 1998 Incentive Share Plan
10.3.2	Form of Stock Option Agreement under 1998 Incentive Share Plan
10.4**	2000 Incentive Share Plan
10.5.1	Form of Stock Option Agreement under 2000 Incentive Share Plan
10.5.2	Form of Stock Option Agreement under 2000 Incentive Share Plan
10.6**	2004 Incentive Share Plan
10.7	Form of Stock Option Agreement under 2004 Incentive Share Plan
10.8**	2006 Incentive Share Plan
10.9	Form of Stock Option Agreement under 2006 Incentive Share Plan
10.10	2013 Equity Incentive Plan
10.11	Form of Restricted Stock Award Agreement under 2013 Equity Incentive Plan
10.12	Form of Restricted Stock Unit Award Agreement under 2013 Equity Incentive Plan
10.13	Form of Stock Appreciation Right Award Agreement under 2013 Equity Incentive Plan
10.14	Form of Notice of Stock Option Award and Stock Option Award Agreement under 2013 Equity Incentive Plan
10.15	Lease Agreement effective May 1, 2012 between the registrant and 12808 W. Airport, LLC
10.16	First Amendment to Lease Agreement effective June 15, 2012 between the registrant and 12808 W. Airport, LLC
10.17	Translation of Chinese lease agreement dated January 10, 2012 between the registrant and Admiral Overseas Corporation for space on 4F, NO.700, Jhongheng Rd., Jhonghe District, New Taipei City 23552, Taiwan (R.O.C.)
10.18	Translation of Chinese lease agreement dated April 1, 2012 between the registrant and Admiral Overseas Corporation for space on 6-7F, NO.700, Jhongheng Rd., Jhonghe District, New Taipei City 23552, Taiwan (R.O.C.)

<u>Number</u>	<u>Description</u>
10.19	Amended and Restated Loan and Security Agreement effective May 20, 2009 between registrant and United Commercial Bank
10.20**	First Amendment to Amended and Restated Loan and Security Agreement effective May 3, 2010 between the registrant and East West Bank (as successor in interest to United Commercial Bank)
10.21**	Second Amendment to Amended and Restated Loan and Security Agreement effective October 28, 2010 between the registrant and East West Bank
10.22**	Third Amendment to Amended and Restated Loan and Security Agreement effective December 6, 2010 between the registrant and East West Bank
10.23**	Fourth Amendment to Amended and Restated Loan and Security Agreement effective May 5, 2011 between the registrant and East West Bank
10.24**	Fifth Amendment to Amended and Restated Loan and Security Agreement effective November 30, 2011 between the registrant and East West Bank
10.25**	Sixth Amendment to Amended and Restated Loan and Security Agreement effective March 29, 2012 between the registrant and East West Bank
10.26**	Seventh Amendment to Amended and Restated Loan and Security Agreement effective June 29, 2012 between the registrant and East West Bank
10.27**	Eighth Amendment to Amended and Restated Loan and Security Agreement effective November 2, 2012 between the registrant and East West Bank
10.27.1	Ninth Amendment to Amended and Restated Loan and Security Agreement effective April 11, 2013 between the registrant and East West Bank
10.28	Translation of Chinese form of RMB Working Capital Loan Agreement between the Global Technology Inc. and China Construction Bank
10.29**	Employment Agreement regarding Change of Control or Separation of Service between the registrant and Chih-Hsiang (Thompson) Lin, dated January 28, 2007
10.29.1	Amended and Restated Employment Agreement regarding Change of Control or Separation of Service between the registrant and Chih-Hsiang (Thompson) Lin, dated April 16, 2013
10.30**	Employment Agreement regarding Change of Control or Separation of Service between the registrant and Stefan J. Murry, dated January 28, 2007
10.31**	Employment Agreement regarding Change of Control or Separation of Service between the registrant and Shu-Hua (Joshua) Yeh, dated June 1, 2012
10.32	Employment Agreement between the registrant and James L. Dunn, Jr., dated April 16, 2013
10.33	Employment Agreement between the registrant and Hung-Lun (Fred) Chang, dated April 16, 2013
21.1**	Subsidiaries of the registrant
23.1*	Consent of Grant Thornton LLP
23.2*	Consent of DLA Piper LLP (US) (included in Exhibit 5.1)
24.1	Power of Attorney (see page II-5 to this registration statement on Form S-1)

* To be filed by amendment.

** Included with prior confidential submission.

AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
APPLIED OPTOELECTRONICS, INC.

A Delaware corporation

Applied Optoelectronics, Inc., a corporation organized and existing under the laws of the State of Delaware (the “**Corporation**”), hereby certifies as follows:

1. The name of the Corporation is Applied Optoelectronics, Inc. The date of the filing of its original Certificate of Incorporation with the Secretary of State of the State of Delaware was March 25, 2013 (the “**Original Certificate**”). The name under which the Corporation filed the Original Certificate was Applied Optoelectronics, Inc.
2. This Amended and Restated Certificate of Incorporation (the “**Certificate**”) amends, restates and integrates the provisions of the Original Certificate, as it has been subsequently amended (the “**Amended and Restated Certificate**”), and was duly adopted in accordance with the provisions of Sections 228, 242 and 245 of the General Corporation Law of the State of Delaware (the “**DGCL**”).
3. The text of the Amended and Restated Certificate is hereby amended and restated in its entirety to provide as herein set forth in full.

ARTICLE I

The name of the Corporation is Applied Optoelectronics, Inc.

ARTICLE II

The address of the Corporation’s registered office in the State of Delaware is The Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle, Delaware 19801. The name of its registered agent at such address is The Corporation Trust Company.

ARTICLE III

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the DGCL.

ARTICLE IV
CAPITAL STOCK

The total number of shares of capital stock which the Corporation shall have authority to issue is 50,000,000, of which (i) 45,000,000 shares shall be a class designated as common stock, par value \$0.001 per share (the “**Common Stock**”), and (ii) 5,000,000 shares shall be a class

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designated as undesignated preferred stock, par value \$0.001 per share (the “**Undesignated Preferred Stock**”).

Except as otherwise provided in any certificate of designations of any series of Undesignated Preferred Stock, the number of authorized shares of the class of Common Stock or Undesignated Preferred Stock may from time to time be increased or decreased (but not below the number of shares of such class outstanding) by the affirmative vote of the holders of a majority in voting power of the outstanding shares of capital stock of the Corporation irrespective of the provisions of Section 242(b)(2) of the DGCL.

The powers, preferences and rights of, and the qualifications, limitations and restrictions upon, each class or series of stock shall be determined in accordance with, or as set forth below in, this Article IV.

A. COMMON STOCK

Subject to all the rights, powers and preferences of the Undesignated Preferred Stock and except as provided by law or in this Certificate (or in any certificate of designations of any series of Undesignated Preferred Stock):

(a) the holders of the Common Stock shall have the exclusive right to vote for the election of directors of the Corporation (the “**Directors**”) and on all other matters requiring stockholder action, each outstanding share entitling the holder thereof to one vote on each matter properly submitted to the stockholders of the Corporation for their vote; provided, however, that, except as otherwise required by law, holders of Common Stock, as such, shall not be entitled to vote on any amendment to this Certificate (or on any amendment to a certificate of designations of any series of Undesignated Preferred Stock) that alters or changes the powers, preferences, rights or other terms of one or more outstanding series of Undesignated Preferred Stock if the holders of such affected series of Undesignated Preferred Stock are entitled to vote, either separately or together with the holders of one or more other such series, on such amendment pursuant to this Certificate (or pursuant to a certificate of designations of any series of Undesignated Preferred Stock) or pursuant to the DGCL;

(b) dividends may be declared and paid or set apart for payment upon the Common Stock out of any assets or funds of the Corporation legally available for the payment of dividends, but only when and as declared by the Board of Directors or any authorized committee thereof; and

(c) upon the voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the net assets of the Corporation shall be distributed pro rata to the holders of the Common Stock.

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B. UNDESIGNATED PREFERRED STOCK

The Board of Directors or any authorized committee thereof is expressly authorized, to the fullest extent permitted by law, to provide by resolution or resolutions for, out of the unissued shares of Undesignated Preferred Stock, the issuance of the shares of Undesignated Preferred Stock in one or more series of such stock, and by filing a certificate of designations pursuant to applicable law of the State of Delaware, to establish or change from time to time the number of shares of each such series, and to fix the designations, powers, including voting powers, full or limited, or no voting powers, preferences and the relative, participating, optional or other special rights of the shares of each series and any qualifications, limitations and restrictions thereof.

ARTICLE V STOCKHOLDER ACTION

1. Action without Meeting. Any action required or permitted to be taken by the stockholders of the Corporation at any annual or special meeting of stockholders of the Corporation must be effected at a duly called annual or special meeting of stockholders and may not be taken or effected by a written consent of stockholders in lieu thereof.

2. Special Meetings. Except as otherwise required by statute and subject to the rights, if any, of the holders of any series of Undesignated Preferred Stock, special meetings of the stockholders of the Corporation may be called only by the Board of Directors acting pursuant to a resolution approved by the affirmative vote of a majority of the Directors then in office, and special meetings of stockholders may not be called by any other person or persons. Only those matters set forth in the notice of the special meeting may be considered or acted upon at a special meeting of stockholders of the Corporation.

ARTICLE VI DIRECTORS

1. General. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors except as otherwise provided herein or required by law.

2. Election of Directors. Election of Directors need not be by written ballot unless the By-laws of the Corporation (the “By-laws”) shall so provide.

3. Number of Directors; Term of Office. The number of Directors of the Corporation shall be fixed solely and exclusively by resolution duly adopted from time to time by the Board of Directors. The Directors, other than those who may be elected by the holders of any series of Undesignated Preferred Stock, shall be classified, with respect to the term for which they severally hold office, into three classes. The initial Class I Directors shall serve for a term expiring at the annual meeting of stockholders to be held in 2014, the initial Class II Directors shall serve for a term expiring at the annual meeting of stockholders to be held in 2015, and the initial Class III Directors shall serve for a term expiring at the annual meeting of stockholders to be held in 2016. At each annual meeting of stockholders, Directors elected to succeed those Directors whose terms expire shall be elected for a term of office to expire at the third

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succeeding annual meeting of stockholders after their election. Notwithstanding the foregoing, the Directors elected to each class shall hold office until their successors are duly elected and qualified or until their earlier resignation, death or removal.

Notwithstanding the foregoing, whenever, pursuant to the provisions of Article IV of this Certificate, the holders of any one or more series of Undesignated Preferred Stock shall have the right, voting separately as a series or together with holders of other such series, to elect Directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of this Certificate and any certificate of designations applicable to such series.

4. Vacancies. Subject to the rights, if any, of the holders of any series of Undesignated Preferred Stock to elect Directors and to fill vacancies in the Board of Directors relating thereto, any and all vacancies in the Board of Directors, however occurring, including, without limitation, by reason of an increase in the size of the Board of Directors, or the death, resignation, disqualification or removal of a Director, shall be filled solely and exclusively by the affirmative vote of a majority of the remaining Directors then in office, even if less than a quorum of the Board of Directors, and not by the stockholders. Any Director appointed in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of Directors in which the new directorship was created or the vacancy occurred and until such Director’s successor shall have been duly elected and qualified or until his or her earlier resignation, death or removal. Subject to the rights, if any, of the holders of any series of Undesignated Preferred Stock to elect Directors, when the number of Directors is increased or decreased, the Board of Directors shall, subject to Article VI.3 hereof, determine the class or classes to which the increased or decreased number of Directors shall be apportioned; provided, however, that no decrease in the number of Directors shall shorten the term of any incumbent Director. In the event of a vacancy in the Board of Directors, the remaining Directors, except as otherwise provided by law, shall exercise the powers of the full Board of Directors until the vacancy is filled.

5. Removal. Subject to the rights, if any, of any series of Undesignated Preferred Stock to elect Directors and to remove any Director whom the holders of any such series have the right to elect, any Director (including persons elected by Directors to fill vacancies in the Board of Directors) may be removed from office (i) only with cause and (ii) only by the affirmative vote of the holders of 66 2/3% or more of the outstanding shares of capital stock then entitled to vote at an election of Directors. At least forty-five (45) days prior to any annual or special meeting of stockholders at which it is proposed that any Director be removed from office, written notice of such proposed removal and the alleged grounds thereof shall be sent to the Director whose removal will be considered at the meeting.

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ARTICLE VII LIMITATION OF LIABILITY

A Director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a Director, except for liability (a) for any breach of the Director’s duty of loyalty to the Corporation or its stockholders, (b) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (c) under Section 174 of the DGCL or (d) for any transaction from which the Director derived an improper personal benefit. If the DGCL is amended after the effective date of this Certificate to authorize corporate action further eliminating or limiting the

personal liability of Directors, then the liability of a Director of the Corporation shall be eliminated or limited to the fullest extent permitted by the DGCL, as so amended.

Any amendment, repeal or modification of this Article VII by either of (i) the stockholders of the Corporation or (ii) an amendment to the DGCL, shall not adversely affect any right or protection existing at the time of such amendment, repeal or modification with respect to any acts or omissions occurring before such amendment, repeal or modification of a person serving as a Director at the time of such amendment, repeal or modification.

ARTICLE VIII
EXCLUSIVE JURISDICTION OF DELAWARE COURTS

Unless the Corporation consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Corporation, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of the Corporation to the Corporation or the Corporation's stockholders, (iii) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law or the Corporation's Certificate of Incorporation or By-laws, or (iv) any action asserting a claim against the Corporation governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in shares of capital stock of the Corporation shall be deemed to have notice of and consented to the provisions of this Article VIII.

ARTICLE IX
AMENDMENT OF BY-LAWS

1. Amendment by Directors. Except as otherwise provided by law, the By-laws of the Corporation may be amended or repealed by the Board of Directors by the affirmative vote of a majority of the Directors then in office.

2. Amendment by Stockholders. The By-laws of the Corporation may be amended or repealed at any annual meeting of stockholders, or special meeting of stockholders called for such purpose, by the affirmative vote of at least 66 2/3% of the outstanding shares of capital stock entitled to vote on such amendment or repeal, voting together as a single class; provided, however, that if the Board of Directors recommends that stockholders approve such amendment or repeal at such meeting of stockholders, such amendment or repeal shall only require the

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affirmative vote of the majority of the outstanding shares of capital stock entitled to vote on such amendment or repeal, voting together as a single class.

ARTICLE X
AMENDMENT OF CERTIFICATE OF INCORPORATION

The Corporation reserves the right to amend or repeal this Certificate in the manner now or hereafter prescribed by statute and this Certificate, and all rights conferred upon stockholders herein are granted subject to this reservation. Whenever any vote of the holders of capital stock of the Corporation is required to amend or repeal any provision of this Certificate, and in addition to any other vote of holders of capital stock that is required by this Certificate or by law, such amendment or repeal shall require the affirmative vote of the majority of the outstanding shares of capital stock entitled to vote on such amendment or repeal, and the affirmative vote of the majority of the outstanding shares of each class entitled to vote thereon as a class, at a duly constituted meeting of stockholders called expressly for such purpose; provided, however, that the affirmative vote of not less than 66 2/3% of the outstanding shares of capital stock entitled to vote on such amendment or repeal, and the affirmative vote of not less than 66 2/3% of the outstanding shares of each class entitled to vote thereon as a class, shall be required to amend or repeal any provision of Article V, Article VI, Article VII, Article VIII, Article IX or Article X of this Certificate.

THIS AMENDED AND RESTATED CERTIFICATE OF INCORPORATION is executed as of this day of , 2013.

Chih-Hsiang (Thompson) Lin,
Chief Executive Officer and President

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AMENDED AND RESTATED
BY-LAWS
OF
APPLIED OPTOELECTRONICS, INC.

(the “Corporation”)

ARTICLE I

Stockholders

SECTION 1. Annual Meeting. The annual meeting of stockholders (any such meeting being referred to in these By-laws as an “Annual Meeting”) shall be held at the hour, date and place within or without the United States which is fixed by the Board of Directors, which time, date and place may subsequently be changed at any time by vote of the Board of Directors. If no Annual Meeting has been held for a period of thirteen (13) months after the Corporation’s last Annual Meeting, a special meeting in lieu thereof may be held, and such special meeting shall have, for the purposes of these By-laws or otherwise, all the force and effect of an Annual Meeting. Any and all references hereafter in these By-laws to an Annual Meeting or Annual Meetings also shall be deemed to refer to any special meeting(s) in lieu thereof.

SECTION 2. Notice of Stockholder Business and Nominations.

(a) Annual Meetings of Stockholders.

(1) Nominations of persons for election to the Board of Directors of the Corporation and the proposal of other business to be considered by the stockholders may be brought before an Annual Meeting (i) by or at the direction of the Board of Directors or (ii) by any stockholder of the Corporation who was a stockholder of record at the time of giving of notice provided for in this By-law, who is entitled to vote at the meeting, who is present (in person or by proxy) at the meeting and who complies with the notice procedures set forth in this By-law as to such nomination or business. For the avoidance of doubt, the foregoing clause (ii) shall be the exclusive means for a stockholder to bring nominations or business properly before an Annual Meeting (other than matters properly brought under Rule 14a-8 or Rule 14a-11 (or any successor rules) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), and such stockholder must comply with the notice and other procedures set forth in Article I, Section 2(a)(2) and (3) of this By-law to bring such nominations or business properly before an Annual Meeting. In addition to the other requirements set forth in this By-law, for any proposal of business to be considered at an Annual Meeting, it must be a proper subject for action by stockholders of the Corporation under Delaware law.

(2) For nominations or other business to be properly brought before an Annual Meeting by a stockholder pursuant to clause (ii) of Article I, Section 2(a) (1) of this By-law, the stockholder must (i) have given Timely Notice (as defined below) thereof in writing to the Secretary of the Corporation, (ii) have provided any updates or supplements to such notice at the times and in the forms required by this By-law and (iii) together with the beneficial owner(s), if any, on whose

behalf the nomination or business proposal is made, have acted in accordance with the representations set forth in the Solicitation Statement (as defined below) required by this By-law. To be timely, a stockholder’s written notice shall be received by the Secretary at the principal executive offices of the Corporation not later than the close of business on the ninetieth (90th) day nor earlier than the close of business on the one hundred twentieth (120th) day prior to the one-year anniversary of the preceding year’s Annual Meeting; provided, however, that in the event the Annual Meeting is first convened more than thirty (30) days before or more than sixty (60) days after such anniversary date, or if no Annual Meeting were held in the preceding year, notice by the stockholder to be timely must be received by the Secretary of the Corporation not later than the close of business on the later of the ninetieth (90th) day prior to the scheduled date of such Annual Meeting or the tenth (10th) day following the day on which public announcement of the date of such meeting is first made (such notice within such time periods shall be referred to as “Timely Notice”). Notwithstanding anything to the contrary provided herein, for the first Annual Meeting following the initial public offering of common stock of the Corporation, a stockholder’s notice shall be timely if received by the Secretary at the principal executive offices of the Corporation not later than the close of business on the later of the ninetieth (90th) day prior to the scheduled date of such Annual Meeting or the tenth (10th) day following the day on which public announcement of the date of such Annual Meeting is first made or sent by the Corporation. Such stockholder’s Timely Notice shall set forth:

(A) as to each person whom the stockholder proposes to nominate for election or reelection as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act (including such person’s written consent to being named in the proxy statement as a nominee and to serving as a director if elected);

(B) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting, and any material interest in such business of each Proposing Person (as defined below);

(C) (i) the name and address of the stockholder giving the notice, as they appear on the Corporation’s books, and the names and addresses of the other Proposing Persons (if any) and (ii) as to each Proposing Person, the following information: (a) the class or series and number of all shares of capital stock of the Corporation which are, directly or indirectly, owned beneficially or of record by such Proposing Person or any of its affiliates or associates (as such terms are defined in Rule 12b-2 promulgated under the Exchange Act), including any shares of any class or series of capital stock of the Corporation as to which such Proposing Person or any of its affiliates or associates has a right to acquire beneficial ownership at any time in the future, (b) all Synthetic Equity Interests (as defined below) in which such Proposing Person or any of its affiliates or associates, directly or indirectly, holds an interest including a description of the material terms of each such Synthetic Equity Interest, including without limitation, identification of the counterparty to each such Synthetic Equity Interest and disclosure, for each such Synthetic Equity Interest, as to (x) whether or not such Synthetic Equity Interest conveys any voting rights, directly or indirectly, in such shares to such Proposing Person, (y) whether or not such Synthetic Equity Interest is required to be, or is capable of being, settled through delivery of such

shares and (z) whether or not such Proposing Person and/or, to the extent known, the counterparty to such Synthetic Equity Interest has entered into other transactions that hedge or mitigate the economic effect of such Synthetic Equity Interest, (c) any proxy (other than a revocable proxy given in response to a public proxy solicitation made pursuant to, and in accordance with, the Exchange Act), agreement, arrangement, understanding or relationship pursuant to which such Proposing Person has or shares a right to, directly or indirectly, vote any shares of any class or series of capital stock of the Corporation, (d) any rights to dividends or other distributions on the shares of any class or series of capital stock of the Corporation, directly or indirectly, owned beneficially by such Proposing Person that are separated or separable from the underlying shares of the Corporation, and (e) any performance-related fees (other than an asset based fee) that such Proposing Person, directly or indirectly, is entitled to based on any increase or decrease in the value of shares of any class or series of capital stock of the Corporation or any Synthetic Equity Interests (the disclosures to be made pursuant to the foregoing clauses (a) through (e) are referred to, collectively, as “**Material Ownership Interests**”) and (iii) a description of the material terms of all agreements, arrangements or understandings (whether or not in writing) entered into by any Proposing Person or any of its affiliates or associates with any other person for the purpose of acquiring, holding, disposing or voting of any shares of any class or series of capital stock of the Corporation;

(D) (i) a description of all agreements, arrangements or understandings by and among any of the Proposing Persons, or by and among any Proposing Persons and any other person (including with any proposed nominee(s)), pertaining to the nomination(s) or other business proposed to be brought before the meeting of stockholders (which description shall identify the name of each other person who is party to such an agreement, arrangement or understanding), and (ii) identification of the names and addresses of other stockholders (including beneficial owners) known by any of the Proposing Persons to support such nominations or other business proposal(s), and to the extent known the class and number of all shares of the Corporation’s capital stock owned beneficially or of record by such other stockholder(s) or other beneficial owner(s); and

(E) a statement whether or not the stockholder giving the notice and/or the other Proposing Person(s), if any, will deliver a proxy statement and form of proxy to holders of, in the case of a business proposal, at least the percentage of voting power of all of the shares of capital stock of the Corporation required under applicable law to approve the proposal or, in the case of a nomination or nominations, at least the percentage of voting power of all of the shares of capital stock of the Corporation reasonably believed by such Proposing Person to be sufficient to elect the nominee or nominees proposed to be nominated by such stockholder (such statement, the “**Solicitation Statement**”).

For purposes of this Article I of these By-laws, the term “**Proposing Person**” shall mean the following persons: (i) the stockholder of record providing the notice of nominations or business proposed to be brought before a stockholders’ meeting, and (ii) the beneficial owner(s), if different, on whose behalf the nominations or business proposed to be brought before a stockholders’ meeting is made. For purposes of this Section 2 of Article I of these By-laws, the term “**Synthetic Equity Interest**” shall mean any transaction, agreement or arrangement (or series of transactions, agreements or arrangements), including, without limitation, any derivative, swap, hedge, repurchase or so-called “stock borrowing” agreement or arrangement, the purpose

or effect of which is to, directly or indirectly: (a) give a person or entity economic benefit and/or risk similar to ownership of shares of any class or series of capital stock of the Corporation, in whole or in part, including due to the fact that such transaction, agreement or arrangement provides, directly or indirectly, the opportunity to profit or avoid a loss from any increase or decrease in the value of any shares of any class or series of capital stock of the Corporation, (b) mitigate loss to, reduce the economic risk of or manage the risk of share price changes for, any person or entity with respect to any shares of any class or series of capital stock of the Corporation, (c) otherwise provide in any manner the opportunity to profit or avoid a loss from any decrease in the value of any shares of any class or series of capital stock of the Corporation, or (d) increase or decrease the voting power of any person or entity with respect to any shares of any class or series of capital stock of the Corporation.

(3) A stockholder providing Timely Notice of nominations or business proposed to be brought before an Annual Meeting shall further update and supplement such notice, if necessary, so that the information (including, without limitation, the Material Ownership Interests information) provided or required to be provided in such notice pursuant to this By-law shall be true and correct as of the record date for the meeting and as of the date that is ten (10) business days prior to such Annual Meeting, and such update and supplement shall be received by the Secretary at the principal executive offices of the Corporation not later than the close of business on the fifth (5th) business day after the record date for the Annual Meeting (in the case of the update and supplement required to be made as of the record date), and not later than the close of business on the eighth (8th) business day prior to the date of the Annual Meeting (in the case of the update and supplement required to be made as of ten (10) business days prior to the meeting).

(4) Notwithstanding anything in the second sentence of Article I, Section 2(a)(2) of this By-law to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Corporation is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the Corporation at least ten (10) days before the last day a stockholder may deliver a notice of nomination in accordance with the second sentence of Article I, Section 2(a)(2), a stockholder’s notice required by this By-law shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be received by the Secretary of the Corporation not later than the close of business on the tenth (10th) day following the day on which such public announcement is first made by the Corporation.

(b) General.

(1) Only such persons who are nominated in accordance with the provisions of this By-law or in accordance with Rule 14a-11 under the Exchange Act shall be eligible for election and to serve as directors and only such business shall be conducted at an Annual Meeting as shall have been brought before the meeting in accordance with the provisions of this By-law or in accordance with Rule 14a-8 under the Exchange Act. The Board of Directors or a designated committee thereof shall have the power to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the provisions of this By-law. If neither the Board of Directors nor such designated committee makes a determination as to whether any stockholder proposal or nomination was made in accordance with the provisions of this By-law, the presiding officer of the Annual Meeting shall have the power and duty to determine whether the stockholder proposal or nomination was made in accordance with

the provisions of this By-law. If the Board of Directors or a designated committee thereof or the presiding officer, as applicable, determines that any stockholder proposal or nomination was not made in accordance with the provisions of this By-law, such proposal or nomination shall be disregarded and shall not be presented for action at the Annual Meeting.

(2) Except as otherwise required by law, nothing in this Article I, Section 2 shall obligate the Corporation or the Board of Directors to include in any proxy statement or other stockholder communication distributed on behalf of the Corporation or the Board of Directors information with respect to any nominee for director or any other matter of business submitted by a stockholder.

(3) Notwithstanding the foregoing provisions of this Article I, Section 2, if the nominating or proposing stockholder (or a qualified representative of the stockholder) does not appear at the Annual Meeting to present a nomination or any business, such nomination or business shall be disregarded, notwithstanding that proxies in respect of such vote may have been received by the Corporation. For purposes of this Article I, Section 2, to be considered a qualified representative of the proposing stockholder, a person must be authorized by a written instrument executed by such stockholder or an electronic transmission delivered by such stockholder to act for such stockholder as proxy at the meeting of stockholders and such person must produce such written instrument or electronic transmission, or a reliable reproduction of the written instrument or electronic transmission, to the presiding officer at the meeting of stockholders.

(4) For purposes of this By-law, “**public announcement**” shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(5) Notwithstanding the foregoing provisions of this By-law, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this By-law. Nothing in this By-law shall be deemed to affect any rights of (i) stockholders to have nominations or proposals included in the Corporation’s proxy statement pursuant to Rule 14a-8 or Rule 14a-11 (or any successor rules), as applicable, under the Exchange Act and, to the extent required by such rule, have such nominations or proposals considered and voted on at an Annual Meeting or (ii) the holders of any series of Undesignated Preferred Stock to elect directors under specified circumstances.

SECTION 3. Special Meetings.

(a) Except as otherwise required by statute and subject to the rights, if any, of the holders of any series of Undesignated Preferred Stock, special meetings of the stockholders of the Corporation may be called only by the Board of Directors acting pursuant to a resolution approved by the affirmative vote of a majority of the Directors then in office.

(b) Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting by or at the direction of the Board of Directors. The notice of such special meeting shall include the purpose for which the meeting is called. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected (a) by or at the direction of the Board of Directors or (b) provided that the Board of Directors has determined that directors shall be elected at such

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meeting, by any stockholder who is a stockholder of record of the Corporation at the time of giving of notice provided for in this paragraph, who shall be entitled to vote at the meeting, who is present (in person or by proxy) at the meeting and who complies with the notice and other procedures (including the content of such notice and the procedures to update and supplement such notice) applicable to nominations at Annual Meetings set forth in Article I, Section 2 of these By-laws; provided, however, that for such notice to be considered timely for purposes of this Section 3, such notice shall have been received by the Secretary at the principal executive offices of the Corporation no later than the close of business on the later of the ninetieth (90th) day prior to the scheduled date of such special meeting or the tenth (10th) day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. If the Corporation calls a special meeting of stockholders for the purpose of electing one or more directors to the Board of Directors, the provisions of Article I, Section 2 of these By-laws applicable to director nominations at an Annual Meeting shall apply to this Section 3 as if such special meeting were an Annual Meeting (subject to the proviso included in the immediately preceding sentence). A person shall not be eligible for election or reelection as a director at a special meeting unless the person is nominated (i) by or at the direction of the Board of Directors or (ii) by a stockholder of record in accordance with the notice and other procedures set forth in this Article I.

(c) For the avoidance of doubt, notwithstanding the foregoing provisions of this Section 3, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to matters set forth in this Section 3. Nothing in this Section 3 shall be deemed to affect any rights of (i) stockholders to have proposals included in the Corporation’s proxy statement pursuant to Rule 14a-8 (or any successor rule) under the Exchange Act and, to the extent required by such rule, have such proposals considered and voted on at a special meeting of stockholders or (ii) the holders of any series of Undesignated Preferred Stock to elect directors under specified circumstances.

(d) Notwithstanding anything contained in this Section 3 to the contrary, if the proposing stockholder or its qualified representative (as such term is defined in Article I, Section 2(b)(3) of these By-Laws) does not appear at the special meeting of stockholders of the Corporation to present a nomination, such nomination shall be disregarded, notwithstanding that proxies in respect of such vote may have been received by the Corporation.

SECTION 4. Notice of Meetings; Adjournments.

(a) A notice of each Annual Meeting stating the hour, date and place, if any, of such Annual Meeting and the means of remote communication, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such meeting, shall be given not less than ten (10) days nor more than sixty (60) days before the Annual Meeting, to each stockholder entitled to vote thereat by delivering such notice to such stockholder or by mailing it, postage prepaid, addressed to such stockholder at the address of such stockholder as it appears on the Corporation’s stock transfer books. Without limiting the manner by which notice may otherwise be given to stockholders, any notice to stockholders may be given by electronic transmission in the manner provided in Section 232 of the Delaware General Corporation Law (“**DGCL**”).

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(b) Notice of all special meetings of stockholders shall be given in the same manner as provided for Annual Meetings, except that the notice of all special meetings shall state the purpose or purposes for which the meeting has been called.

(c) Notice of an Annual Meeting or special meeting of stockholders need not be given to a stockholder if a waiver of notice is executed, or waiver of notice by electronic transmission is provided, before or after such meeting by such stockholder or if such stockholder attends such meeting, unless such attendance is for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting was not lawfully called or convened.

(d) The Board of Directors may postpone and reschedule any previously scheduled Annual Meeting or special meeting of stockholders and any record date with respect thereto, regardless of whether any notice or public disclosure with respect to any such meeting has been sent or made pursuant to Section 2 of this Article I of these By-laws or otherwise. In no event shall the public announcement of an adjournment, postponement or rescheduling of any previously scheduled meeting of stockholders commence a new time period for the giving of a stockholder's notice under this Article I of these By-laws.

(e) When any meeting is convened, the presiding officer may adjourn the meeting if (i) no quorum is present for the transaction of business, (ii) the Board of Directors determines that adjournment is necessary or appropriate to enable the stockholders to consider fully information which the Board of Directors determines has not been made sufficiently or timely available to stockholders, or (iii) the Board of Directors determines that adjournment is otherwise in the best interests of the Corporation. When any Annual Meeting or special meeting of stockholders is adjourned to another hour, date or place, notice need not be given of the adjourned meeting other than an announcement at the meeting at which the adjournment is taken of the hour, date and place, if any, to which the meeting is adjourned and the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such adjourned meeting; provided, however, that if the adjournment is for more than thirty (30) days from the meeting date, or if after the adjournment a new record date is fixed for the adjourned meeting, notice of the adjourned meeting and the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such adjourned meeting shall be given to each stockholder of record entitled to vote thereat and each stockholder who, by law or under the Certificate of Incorporation of the Corporation (as the same may hereafter be amended and/or restated, the "**Certificate**") or these By-laws, is entitled to such notice.

SECTION 5. Quorum. A majority of the shares entitled to vote, present in person or represented by proxy, shall constitute a quorum at any meeting of stockholders. If less than a quorum is present at a meeting, the holders of voting stock representing a majority of the voting power present at the meeting or the presiding officer may adjourn the meeting from time to time, and the meeting may be held as adjourned without further notice, except as provided in Section 4 of this Article I. At such adjourned meeting at which a quorum is present, any business may be transacted which might have been transacted at the meeting as originally noticed. The stockholders present at a duly constituted meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

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SECTION 6. Voting and Proxies. Stockholders shall have one vote for each share of stock entitled to vote owned by them of record according to the stock ledger of the Corporation as of the record date, unless otherwise provided by law or by the Certificate. Stockholders may vote either (i) in person, (ii) by written proxy or (iii) by a transmission permitted by Section 212(c) of the DGCL. Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission permitted by Section 212(c) of the DGCL may be substituted for or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission. Proxies shall be filed in accordance with the procedures established for the meeting of stockholders. Except as otherwise limited therein or as otherwise provided by law, proxies authorizing a person to vote at a specific meeting shall entitle the persons authorized thereby to vote at any adjournment of such meeting, but they shall not be valid after final adjournment of such meeting. A proxy with respect to stock held in the name of two or more persons shall be valid if executed by or on behalf of any one of them unless at or prior to the exercise of the proxy the Corporation receives a specific written notice to the contrary from any one of them.

SECTION 7. Action at Meeting. When a quorum is present at any meeting of stockholders, any matter before any such meeting (other than an election of a director or directors) shall be decided by a majority of the votes properly cast for and against such matter, except where a larger vote is required by law, by the Certificate or by these By-laws. Any election of directors by stockholders shall be determined by a plurality of the votes properly cast on the election of directors.

SECTION 8. Stockholder Lists. The Secretary or an Assistant Secretary (or the Corporation's transfer agent or other person authorized by these By-laws or by law) shall prepare and make, at least ten (10) days before every Annual Meeting or special meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for a period of at least ten (10) days prior to the meeting in the manner provided by law. The list shall also be open to the examination of any stockholder during the whole time of the meeting as provided by law.

SECTION 9. Presiding Officer. The Board of Directors shall designate a representative to preside over all Annual Meetings or special meetings of stockholders, provided that if the Board of Directors does not so designate such a presiding officer, then the Chairman of the Board, if one is elected, shall preside over such meetings. If the Board of Directors does not so designate such a presiding officer and there is no Chairman of the Board or the Chairman of the Board is unable to so preside or is absent, then the Chief Executive Officer, if one is elected, shall preside over such meetings, provided further that if there is no Chief Executive Officer or the Chief Executive Officer is unable to so preside or is absent, then the President shall preside over such meetings. The presiding officer at any Annual Meeting or special meeting of stockholders shall have the power, among other things, to adjourn such meeting at any time and from time to time, subject to Sections 4 and 5 of this Article I. The order of business and all other matters of procedure at any meeting of the stockholders shall be determined by the presiding officer.

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SECTION 10. Inspectors of Elections. The Corporation shall, in advance of any meeting of stockholders, appoint one or more inspectors to act at the meeting and make a written report thereof. The Corporation may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of stockholders, the presiding officer shall appoint one or more inspectors to act at the meeting. Any inspector may, but need not, be an officer, employee or agent of the Corporation. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his or her ability. The inspectors shall perform such duties as are required by the DGCL, including the counting of all votes and ballots. The inspectors may appoint or retain other persons or entities to assist the inspectors in the performance of the duties of the inspectors. The presiding officer may review all determinations made by the inspectors, and in so doing the presiding officer shall be entitled to exercise his or her sole judgment and discretion and he or she shall not be bound by any determinations made by the inspectors. All determinations by the inspectors and, if applicable, the presiding officer, shall be subject to further review by any court of competent jurisdiction.

ARTICLE II

Directors

SECTION 1. Powers. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors except as otherwise provided by the Certificate or required by law.

SECTION 2. Number and Terms. The number of directors of the Corporation shall be fixed solely and exclusively by resolution duly adopted from time to time by the Board of Directors. The directors shall hold office in the manner provided in the Certificate.

SECTION 3. Qualification. No director need be a stockholder of the Corporation.

SECTION 4. Vacancies. Vacancies in the Board of Directors shall be filled in the manner provided in the Certificate.

SECTION 5. Removal. Directors may be removed from office only in the manner provided in the Certificate.

SECTION 6. Resignation. A director may resign at any time by giving written notice to the Chairman of the Board, if one is elected, the President or the Secretary. A resignation shall be effective upon receipt, unless the resignation otherwise provides.

SECTION 7. Regular Meetings. The regular annual meeting of the Board of Directors shall be held, without notice other than this Section 7, on the same date and at the same place as the Annual Meeting following the close of such meeting of stockholders. Other regular meetings of the Board of Directors may be held at such hour, date and place as the Board of Directors may by resolution from time to time determine and publicize by means of reasonable notice given to any director who is not present at the meeting at which such resolution is adopted.

SECTION 8. Special Meetings. Special meetings of the Board of Directors may be called, orally or in writing, by or at the request of a majority of the directors, the Chairman of the

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Board, if one is elected, or the President. The person calling any such special meeting of the Board of Directors may fix the hour, date and place thereof.

SECTION 9. Notice of Meetings. Notice of the hour, date and place of all special meetings of the Board of Directors shall be given to each director by the Secretary or an Assistant Secretary, or in case of the death, absence, incapacity or refusal of such persons, by the Chairman of the Board, if one is elected, or the President or such other officer designated by the Chairman of the Board, if one is elected, or the President. Notice of any special meeting of the Board of Directors shall be given to each director in person, by telephone, or by facsimile, electronic mail or other form of electronic communication, sent to his or her business or home address, at least twenty-four (24) hours in advance of the meeting, or by written notice mailed to his or her business or home address, at least forty-eight (48) hours in advance of the meeting. Such notice shall be deemed to be delivered when hand-delivered to such address, read to such director by telephone, deposited in the mail so addressed, with postage thereon prepaid if mailed, dispatched or transmitted if sent by facsimile transmission or by electronic mail or other form of electronic communications. A written waiver of notice signed before or after a meeting by a director and filed with the records of the meeting shall be deemed to be equivalent to notice of the meeting. The attendance of a director at a meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting at the beginning of the meeting to the transaction of any business because such meeting is not lawfully called or convened. Except as otherwise required by law, by the Certificate or by these By-laws, neither the business to be transacted at, nor the purpose of, any meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting.

SECTION 10. Quorum. At any meeting of the Board of Directors, a majority of the total number of directors shall constitute a quorum for the transaction of business, but if less than a quorum is present at a meeting, a majority of the directors present may adjourn the meeting from time to time, and the meeting may be held as adjourned without further notice. Any business which might have been transacted at the meeting as originally noticed may be transacted at such adjourned meeting at which a quorum is present. For purposes of this section, the total number of directors includes any unfilled vacancies on the Board of Directors.

SECTION 11. Action at Meeting. At any meeting of the Board of Directors at which a quorum is present, the vote of a majority of the directors present shall constitute action by the Board of Directors, unless otherwise required by law, by the Certificate or by these By-laws.

SECTION 12. Action by Consent. Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting if all members of the Board of Directors consent thereto in writing or by electronic transmission and the writing or writings or electronic transmission or transmissions are filed with the records of the meetings of the Board of Directors. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form. Such consent shall be treated as a resolution of the Board of Directors for all purposes.

SECTION 13. Manner of Participation. Directors may participate in meetings of the Board of Directors by means of conference telephone or other communications equipment by means of which all directors participating in the meeting can hear each other, and participation in

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a meeting in accordance herewith shall constitute presence in person at such meeting for purposes of these By-laws.

SECTION 14. Presiding Director. The Board of Directors shall designate a representative to preside over all meetings of the Board of Directors, provided that if the Board of Directors does not so designate such a presiding director or such designated presiding director is unable to so preside or is absent, then the Chairman of the Board, if one is elected, shall preside over all meetings of the Board of Directors. If both the designated presiding director, if one is so designated, and the Chairman of the Board, if one is elected, are unable to preside or are absent, the Board of Directors shall designate an alternate representative to preside over a meeting of the Board of Directors.

SECTION 15. Committees. The Board of Directors, by vote of a majority of the directors then in office, may elect one or more committees, including, without limitation, a Compensation Committee, a Nominating & Corporate Governance Committee and an Audit Committee, and may delegate thereto some or all of its powers except those which by law, by the Certificate or by these By-laws may not be delegated. Except as the Board of Directors may otherwise determine, any such committee may make rules for the conduct of its business, but unless otherwise provided by the Board of Directors or in such rules, its business shall be conducted so far as possible in the same manner as is provided by these By-laws for the Board of Directors. All members of such committees shall hold such

offices at the pleasure of the Board of Directors. The Board of Directors may abolish any such committee at any time. Any committee to which the Board of Directors delegates any of its powers or duties shall keep records of its meetings and shall report its action to the Board of Directors.

SECTION 16. Compensation of Directors. Directors shall receive such compensation for their services as shall be determined by a majority of the Board of Directors, or a designated committee thereof.

ARTICLE III

Officers

SECTION 1. Enumeration. The officers of the Corporation shall consist of a President, a Treasurer, a Secretary and such other officers, including, without limitation, a Chairman of the Board of Directors, a Chief Executive Officer, a Chief Financial Officer and one or more Vice Presidents (including Executive Vice Presidents or Senior Vice Presidents), Assistant Vice Presidents, Assistant Treasurers and Assistant Secretaries, as the Board of Directors may determine.

SECTION 2. Election. At the regular annual meeting of the Board of Directors following the Annual Meeting, the Board of Directors shall elect the President, the Treasurer and the Secretary. Other officers may be elected by the Board of Directors at such regular annual meeting of the Board of Directors or at any other regular or special meeting.

SECTION 3. Qualification. No officer need be a stockholder or a director. Any person may occupy more than one office of the Corporation at any time.

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SECTION 4. Tenure. Except as otherwise provided by the Certificate or by these By-laws, each of the officers of the Corporation shall hold office until the regular annual meeting of the Board of Directors following the next Annual Meeting and until his or her successor is elected and qualified or until his or her earlier resignation or removal.

SECTION 5. Resignation. Any officer may resign by delivering his or her written resignation to the Corporation addressed to the President or the Secretary, and such resignation shall be effective upon receipt, unless the resignation otherwise provides.

SECTION 6. Removal. Except as otherwise provided by law, the Board of Directors may remove any officer with or without cause by the affirmative vote of a majority of the directors then in office.

SECTION 7. Absence or Disability. In the event of the absence or disability of any officer, the Board of Directors may designate another officer to act temporarily in place of such absent or disabled officer.

SECTION 8. Vacancies. Any vacancy in any office may be filled for the unexpired portion of the term by the Board of Directors.

SECTION 9. President. The President shall, subject to the direction of the Board of Directors, have such powers and shall perform such duties as the Board of Directors may from time to time designate.

SECTION 10. Chairman of the Board. The Chairman of the Board, if one is elected, shall have such powers and shall perform such duties as the Board of Directors may from time to time designate.

SECTION 11. Chief Executive Officer. The Chief Executive Officer, if one is elected, shall have such powers and shall perform such duties as the Board of Directors may from time to time designate.

SECTION 12. Vice Presidents and Assistant Vice Presidents. Any Vice President (including any Executive Vice President or Senior Vice President) and any Assistant Vice President shall have such powers and shall perform such duties as the Board of Directors or the Chief Executive Officer may from time to time designate.

SECTION 13. Treasurer and Assistant Treasurers. The Treasurer shall, subject to the direction of the Board of Directors and except as the Board of Directors or the Chief Executive Officer may otherwise provide, have general charge of the financial affairs of the Corporation and shall cause to be kept accurate books of account. The Treasurer shall have custody of all funds, securities, and valuable documents of the Corporation. He or she shall have such other duties and powers as may be designated from time to time by the Board of Directors or the Chief Executive Officer. Any Assistant Treasurer shall have such powers and perform such duties as the Board of Directors or the Chief Executive Officer may from time to time designate.

SECTION 14. Secretary and Assistant Secretaries. The Secretary shall record all the proceedings of the meetings of the stockholders and the Board of Directors (including committees of the Board of Directors) in books kept for that purpose. In his or her absence from

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any such meeting, a temporary secretary chosen at the meeting shall record the proceedings thereof. The Secretary shall have charge of the stock ledger (which may, however, be kept by any transfer or other agent of the Corporation). The Secretary shall have custody of the seal of the Corporation, and the Secretary, or an Assistant Secretary shall have authority to affix it to any instrument requiring it, and, when so affixed, the seal may be attested by his or her signature or that of an Assistant Secretary. The Secretary shall have such other duties and powers as may be designated from time to time by the Board of Directors or the Chief Executive Officer. In the absence of the Secretary, any Assistant Secretary may perform his or her duties and responsibilities. Any Assistant Secretary shall have such powers and perform such duties as the Board of Directors or the Chief Executive Officer may from time to time designate.

SECTION 15. Other Powers and Duties. Subject to these By-laws and to such limitations as the Board of Directors may from time to time prescribe, the officers of the Corporation shall each have such powers and duties as generally pertain to their respective offices, as well as such powers and duties as from time to time may be conferred by the Board of Directors or the Chief Executive Officer.

ARTICLE IV

Capital Stock

SECTION 1. Certificates of Stock. Each stockholder shall be entitled to a certificate of the capital stock of the Corporation in such form as may from time to time be prescribed by the Board of Directors. Such certificate shall be signed by the Chairman of the Board, the President, the Chief Executive Officer or a Vice President, and by the Chief Financial Officer, the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary. The Corporation seal and the signatures by the Corporation's officers, the transfer agent or the registrar may be facsimiles. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed on such certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he or she were such officer, transfer agent or registrar at the time of its issue. Every certificate for shares of stock which are subject to any restriction on transfer and every certificate issued when the Corporation is authorized to issue more than one class or series of stock shall contain such legend with respect thereto as is required by law. Notwithstanding anything to the contrary provided in these Bylaws, the Board of Directors of the Corporation may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares (except that the foregoing shall not apply to shares represented by a certificate until such certificate is surrendered to the Corporation), and by the approval and adoption of these Bylaws the Board of Directors has determined that all classes or series of the Corporation's stock may be uncertificated, whether upon original issuance, re-issuance, or subsequent transfer.

SECTION 2. Transfers. Subject to any restrictions on transfer and unless otherwise provided by the Board of Directors, shares of stock that are represented by a certificate may be transferred on the books of the Corporation by the surrender to the Corporation or its transfer agent of the certificate theretofore properly endorsed or accompanied by a written assignment or power of attorney properly executed, with transfer stamps (if necessary) affixed, and with such proof of the authenticity of signature as the Corporation or its transfer agent may reasonably

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require. Shares of stock that are not represented by a certificate may be transferred on the books of the Corporation by submitting to the Corporation or its transfer agent such evidence of transfer and following such other procedures as the Corporation or its transfer agent may require.

SECTION 3. Record Holders. Except as may otherwise be required by law, by the Certificate or by these By-laws, the Corporation shall be entitled to treat the record holder of stock as shown on its books as the owner of such stock for all purposes, including the payment of dividends and the right to vote with respect thereto, regardless of any transfer, pledge or other disposition of such stock, until the shares have been transferred on the books of the Corporation in accordance with the requirements of these By-laws.

SECTION 4. Record Date. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date: (a) in the case of determination of stockholders entitled to vote at any meeting of stockholders, shall, unless otherwise required by law, not be more than sixty (60) nor less than ten (10) days before the date of such meeting and (b) in the case of any other action, shall not be more than sixty (60) days prior to such other action. If no record date is fixed: (i) the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held; and (ii) the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

SECTION 5. Replacement of Certificates. In case of the alleged loss, destruction or mutilation of a certificate of stock of the Corporation, a duplicate certificate may be issued in place thereof, upon such terms as the Board of Directors may prescribe.

ARTICLE V

Indemnification

SECTION 1. Definitions. For purposes of this Article:

(a) "**Corporate Status**" describes the status of a person who is serving or has served (i) as a Director of the Corporation, (ii) as an Officer of the Corporation, (iii) as a Non-Officer Employee of the Corporation, or (iv) as a director, partner, trustee, officer, employee or agent of any other corporation, partnership, limited liability company, joint venture, trust, employee benefit plan, foundation, association, organization or other legal entity which such person is or was serving at the request of the Corporation. For purposes of this Section 1(a), a Director, Officer or Non-Officer Employee of the Corporation who is serving or has served as a director, partner, trustee, officer, employee or agent of a Subsidiary shall be deemed to be serving at the request of the Corporation. Notwithstanding the foregoing, "Corporate Status" shall not include the status of a person who is serving or has served as a director, officer, employee or agent of a constituent corporation absorbed in a merger or consolidation transaction with the Corporation

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with respect to such person's activities prior to said transaction, unless specifically authorized by the Board of Directors or the stockholders of the Corporation;

(b) "**Director**" means any person who serves or has served the Corporation as a director on the Board of Directors of the Corporation;

(c) "**Disinterested Director**" means, with respect to each Proceeding in respect of which indemnification is sought hereunder, a Director of the Corporation who is not and was not a party to such Proceeding;

(d) "**Expenses**" means all attorneys' fees, retainers, court costs, transcript costs, fees of expert witnesses, private investigators and professional advisors (including, without limitation, accountants and investment bankers), travel expenses, duplicating costs, printing and binding costs, costs of preparation of demonstrative evidence and other courtroom presentation aids and devices, costs incurred in connection with document review, organization, imaging and computerization, telephone charges, postage, delivery service fees, and all other disbursements, costs or expenses of the type customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in, settling or otherwise participating in, a Proceeding;

(e) "**Liabilities**" means judgments, damages, liabilities, losses, penalties, excise taxes, fines and amounts paid in settlement;

(f) **“Non-Officer Employee”** means any person who serves or has served as an employee or agent of the Corporation, but who is not or was not a Director or Officer;

(g) **“Officer”** means any person who serves or has served the Corporation as an officer of the Corporation appointed by the Board of Directors of the Corporation;

(h) **“Proceeding”** means any threatened, pending or completed action, suit, arbitration, alternate dispute resolution mechanism, inquiry, investigation, administrative hearing or other proceeding, whether civil, criminal, administrative, arbitratative or investigative; and

(i) **“Subsidiary”** shall mean any corporation, partnership, limited liability company, joint venture, trust or other entity of which the Corporation owns (either directly or through or together with another Subsidiary of the Corporation) either (i) a general partner, managing member or other similar interest or (ii) (A) fifty percent (50%) or more of the voting power of the voting capital equity interests of such corporation, partnership, limited liability company, joint venture or other entity, or (B) fifty percent (50%) or more of the outstanding voting capital stock or other voting equity interests of such corporation, partnership, limited liability company, joint venture or other entity.

SECTION 2. Indemnification of Directors and Officers.

(a) Subject to the operation of Section 4 of this Article V of these By-laws, each Director and Officer shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the DGCL, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than such law permitted the Corporation to provide prior to such amendment), and to the extent authorized in this Section 2.

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(1) Actions, Suits and Proceedings Other than By or In the Right of the Corporation. Each Director and Officer shall be indemnified and held harmless by the Corporation against any and all Expenses and Liabilities that are incurred or paid by such Director or Officer or on such Director's or Officer's behalf in connection with any Proceeding or any claim, issue or matter therein (other than an action by or in the right of the Corporation), which such Director or Officer is, or is threatened to be made, a party to or participant in by reason of such Director's or Officer's Corporate Status, if such Director or Officer acted in good faith and in a manner such Director or Officer reasonably believed to be in or not opposed to the best interests of the Corporation and, with respect to any criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful.

(2) Actions, Suits and Proceedings By or In the Right of the Corporation. Each Director and Officer shall be indemnified and held harmless by the Corporation against any and all Expenses that are incurred by such Director or Officer or on such Director's or Officer's behalf in connection with any Proceeding or any claim, issue or matter therein by or in the right of the Corporation, which such Director or Officer is, or is threatened to be made, a party to or participant in by reason of such Director's or Officer's Corporate Status, if such Director or Officer acted in good faith and in a manner such Director or Officer reasonably believed to be in or not opposed to the best interests of the Corporation; provided, however, that no indemnification shall be made under this Section 2(a)(2) in respect of any claim, issue or matter as to which such Director or Officer shall have been finally adjudged by a court of competent jurisdiction to be liable to the Corporation, unless, and only to the extent that, the Court of Chancery or another court in which such Proceeding was brought shall determine upon application that, despite adjudication of liability, but in view of all the circumstances of the case, such Director or Officer is fairly and reasonably entitled to indemnification for such Expenses that such court deems proper.

(3) Survival of Rights. The rights of indemnification provided by Section 2 shall continue as to a Director or Officer after he or she has ceased to be a Director or Officer and shall inure to the benefit of his or her heirs, executors, administrators and personal representatives.

(4) Actions by Directors or Officers. Notwithstanding the foregoing, the Corporation shall indemnify any Director or Officer seeking indemnification in connection with a Proceeding initiated by such Director or Officer only if such Proceeding (including any parts of such Proceeding not initiated by such Director or Officer) was authorized in advance by the Board of Directors of the Corporation, unless such Proceeding was brought to enforce such Officer's or Director's rights to indemnification or, in the case of Directors, advancement of Expenses under these By-laws in accordance with the provisions set forth herein.

SECTION 3. Indemnification of Non-Officer Employees. Subject to the operation of Section 4 of this Article V of these By-laws, each Non-Officer Employee may, in the discretion of the Board of Directors of the Corporation, be indemnified by the Corporation to the fullest extent authorized by the DGCL, as the same exists or may hereafter be amended, against any or all Expenses and Liabilities that are incurred by such Non-Officer Employee or on such Non-Officer Employee's behalf in connection with any threatened, pending or completed Proceeding, or any claim, issue or matter therein, which such Non-Officer Employee is, or is threatened to be made, a party to or participant in by reason of such Non-Officer Employee's Corporate Status, if such Non-Officer Employee acted in good faith and in a manner such Non-Officer Employee

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reasonably believed to be in or not opposed to the best interests of the Corporation and, with respect to any criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful. The rights of indemnification provided by this Section 3 shall exist as to a Non-Officer Employee after he or she has ceased to be a Non-Officer Employee and shall inure to the benefit of his or her heirs, personal representatives, executors and administrators. Notwithstanding the foregoing, the Corporation may indemnify any Non-Officer Employee seeking indemnification in connection with a Proceeding initiated by such Non-Officer Employee only if such Proceeding was authorized in advance by the Board of Directors of the Corporation.

SECTION 4. Determination. Unless ordered by a court, no indemnification shall be provided pursuant to this Article V to a Director, to an Officer or to a Non-Officer Employee unless a determination shall have been made that such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation and, with respect to any criminal Proceeding, such person had no reasonable cause to believe his or her conduct was unlawful. Such determination shall be made by (a) a majority vote of the Disinterested Directors, even though less than a quorum of the Board of Directors, (b) a committee comprised of Disinterested Directors, such committee having been designated by a majority vote of the Disinterested Directors (even though less than a quorum), (c) if there are no such Disinterested Directors, or if a majority of Disinterested Directors so directs, by independent legal counsel in a written opinion, or (d) by the stockholders of the Corporation.

SECTION 5. Advancement of Expenses to Directors Prior to Final Disposition.

(a) The Corporation shall advance all Expenses incurred by or on behalf of any Director in connection with any Proceeding in which such Director is involved by reason of such Director's Corporate Status within thirty (30) days after the receipt by the Corporation of a written statement from such Director requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by such Director and shall be preceded or accompanied by an undertaking by or on behalf of such Director to repay any Expenses so advanced if it shall ultimately be determined that such Director is not entitled to be indemnified against such Expenses. Notwithstanding the foregoing, the Corporation shall advance all Expenses incurred by or on behalf of any Director seeking advancement of expenses hereunder in connection with a Proceeding initiated by such Director only if such Proceeding (including any parts of such Proceeding not initiated by such Director) was (i) authorized by the Board of Directors of the Corporation, or (ii) brought to enforce such Director's rights to indemnification or advancement of Expenses under these By-laws.

(b) If a claim for advancement of Expenses hereunder by a Director is not paid in full by the Corporation within thirty (30) days after receipt by the Corporation of documentation of Expenses and the required undertaking, such Director may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and if successful in whole or in part, such Director shall also be entitled to be paid the expenses of prosecuting such claim. The failure of the Corporation (including its Board of Directors or any committee thereof, independent legal counsel, or stockholders) to make a determination concerning the permissibility of such advancement of Expenses under this Article V shall not be a defense to an action brought by a Director for recovery of the unpaid amount of an advancement claim and

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shall not create a presumption that such advancement is not permissible. The burden of proving that a Director is not entitled to an advancement of expenses shall be on the Corporation.

(c) In any suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the Corporation shall be entitled to recover such expenses upon a final adjudication that the Director has not met any applicable standard for indemnification set forth in the DGCL.

SECTION 6. Advancement of Expenses to Officers and Non-Officer Employees Prior to Final Disposition.

(a) The Corporation may, at the discretion of the Board of Directors of the Corporation, advance any or all Expenses incurred by or on behalf of any Officer or any Non-Officer Employee in connection with any Proceeding in which such person is involved by reason of his or her Corporate Status as an Officer or Non-Officer Employee upon the receipt by the Corporation of a statement or statements from such Officer or Non-Officer Employee requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by such Officer or Non-Officer Employee and shall be preceded or accompanied by an undertaking by or on behalf of such person to repay any Expenses so advanced if it shall ultimately be determined that such Officer or Non-Officer Employee is not entitled to be indemnified against such Expenses.

(b) In any suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the Corporation shall be entitled to recover such expenses upon a final adjudication that the Officer or Non-Officer Employee has not met any applicable standard for indemnification set forth in the DGCL.

SECTION 7. Contractual Nature of Rights.

(a) The provisions of this Article V shall be deemed to be a contract between the Corporation and each Director and Officer entitled to the benefits hereof at any time while this Article V is in effect, in consideration of such person's past or current and any future performance of services for the Corporation. Neither amendment, repeal or modification of any provision of this Article V nor the adoption of any provision of the Certificate of Incorporation inconsistent with this Article V shall eliminate or reduce any right conferred by this Article V in respect of any act or omission occurring, or any cause of action or claim that accrues or arises or any state of facts existing, at the time of or before such amendment, repeal, modification or adoption of an inconsistent provision (even in the case of a proceeding based on such a state of facts that is commenced after such time), and all rights to indemnification and advancement of Expenses granted herein or arising out of any act or omission shall vest at the time of the act or omission in question, regardless of when or if any proceeding with respect to such act or omission is commenced. The rights to indemnification and to advancement of expenses provided by, or granted pursuant to, this Article V shall continue notwithstanding that the person has ceased to be a director or officer of the Corporation and shall inure to the benefit of the estate, heirs, executors, administrators, legatees and distributees of such person.

(b) If a claim for indemnification hereunder by a Director or Officer is not paid in full by the Corporation within sixty (60) days after receipt by the Corporation of a written claim for

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indemnification, such Director or Officer may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim, and if successful in whole or in part, such Director or Officer shall also be entitled to be paid the expenses of prosecuting such claim. The failure of the Corporation (including its Board of Directors or any committee thereof, independent legal counsel, or stockholders) to make a determination concerning the permissibility of such indemnification under this Article V shall not be a defense to an action brought by a Director or Officer for recovery of the unpaid amount of an indemnification claim and shall not create a presumption that such indemnification is not permissible. The burden of proving that a Director or Officer is not entitled to indemnification shall be on the Corporation.

(c) In any suit brought by a Director or Officer to enforce a right to indemnification hereunder, it shall be a defense that such Director or Officer has not met any applicable standard for indemnification set forth in the DGCL.

SECTION 8. Non-Exclusivity of Rights. The rights to indemnification and to advancement of Expenses set forth in this Article V shall not be exclusive of any other right which any Director, Officer, or Non-Officer Employee may have or hereafter acquire under any statute, provision of the Certificate or these By-laws, agreement, vote of stockholders or Disinterested Directors or otherwise.

SECTION 9. Insurance. The Corporation may maintain insurance, at its expense, to protect itself and any Director, Officer or Non-Officer Employee against any liability of any character asserted against or incurred by the Corporation or any such Director, Officer or Non-Officer Employee, or arising out of any such person's Corporate Status, whether or not the Corporation would have the power to indemnify such person against such liability under the DGCL or the provisions of this Article V.

SECTION 10. Other Indemnification. The Corporation's obligation, if any, to indemnify or provide advancement of Expenses to any person under this Article V as a result of such person serving, at the request of the Corporation, as a director, partner, trustee, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise shall be reduced by any amount such person may collect as indemnification or advancement of Expenses from such other corporation, partnership, joint venture, trust, employee benefit plan or enterprise (the "**Primary Indemnitor**"). Any indemnification or advancement of Expenses under this Article V owed by the Corporation as a result of a person serving, at the request of the Corporation, as a director, partner, trustee, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise shall only be in excess of, and shall be secondary to, the indemnification or advancement of Expenses available from the applicable Primary Indemnitor(s) and any applicable insurance policies.

ARTICLE VI

Miscellaneous Provisions

SECTION 1. Fiscal Year. The fiscal year of the Corporation shall be determined by the Board of Directors.

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SECTION 2. Seal. The Board of Directors shall have power to adopt and alter the seal of the Corporation.

SECTION 3. Execution of Instruments. All deeds, leases, transfers, contracts, bonds, notes and other obligations to be entered into by the Corporation in the ordinary course of its business without director action may be executed on behalf of the Corporation by the Chairman of the Board, if one is elected, the President, the Chief Executive Officer, the Chief Financial Officer or the Treasurer or any other officer, employee or agent of the Corporation as the Board of Directors or the executive committee of the Board may authorize.

SECTION 4. Voting of Securities. Unless the Board of Directors otherwise provides, the Chairman of the Board, if one is elected, the President or the Treasurer may waive notice of and act on behalf of the Corporation, or appoint another person or persons to act as proxy or attorney in fact for the Corporation with or without discretionary power and/or power of substitution, at any meeting of stockholders or shareholders of any other corporation or organization, any of whose securities are held by the Corporation.

SECTION 5. Resident Agent. The Board of Directors may appoint a resident agent upon whom legal process may be served in any action or proceeding against the Corporation.

SECTION 6. Corporate Records. The original or attested copies of the Certificate, By-laws and records of all meetings of the incorporators, stockholders and the Board of Directors and the stock transfer books, which shall contain the names of all stockholders, their record addresses and the amount of stock held by each, may be kept outside the State of Delaware and shall be kept at the principal office of the Corporation, at an office of its counsel, at an office of its transfer agent or at such other place or places as may be designated from time to time by the Board of Directors.

SECTION 7. Certificate. All references in these By-laws to the Certificate shall be deemed to refer to the Amended and Restated Certificate of Incorporation of the Corporation, as amended and/or restated and in effect from time to time.

SECTION 8. Amendment of By-laws.

(a) Amendment by Directors. Except as provided otherwise by law, these By-laws may be amended or repealed by the Board of Directors by the affirmative vote of a majority of the directors then in office.

(b) Amendment by Stockholders. These By-laws may be amended or repealed at any Annual Meeting, or special meeting of stockholders called for such purpose in accordance with these By-Laws, by the affirmative vote of at least 66 2/3% of the outstanding shares entitled to vote on such amendment or repeal, voting together as a single class; provided, however, that if the Board of Directors recommends that stockholders approve such amendment or repeal at such meeting of stockholders, such amendment or repeal shall only require the affirmative vote of the majority of the outstanding shares entitled to vote on such amendment or repeal, voting together as a single class. Notwithstanding the foregoing, stockholder approval shall not be required unless mandated by the Certificate, these By-laws, or other applicable law.

SECTION 9. Notices. If mailed, notice to stockholders shall be deemed given when deposited in the mail, postage prepaid, directed to the stockholder at such stockholder's address

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as it appears on the records of the Corporation. Without limiting the manner by which notice otherwise may be given to stockholders, any notice to stockholders may be given by electronic transmission in the manner provided in Section 232 of the DGCL.

SECTION 10. Waivers. A written waiver of any notice, signed by a stockholder or director, or waiver by electronic transmission by such person, whether given before or after the time of the event for which notice is to be given, shall be deemed equivalent to the notice required to be given to such person. Neither the business to be transacted at, nor the purpose of, any meeting need be specified in such a waiver.

Adopted May 1, 2013 and effective as of _____, 2013.

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**APPLIED OPTOELECTRONICS, INC.
1998 INCENTIVE SHARE PLAN**

**STOCK OPTION AGREEMENT
(INCENTIVE AND NONQUALIFIED STOCK OPTIONS)**

Pursuant to this Stock Option Agreement (the “**Agreement**”), having an effective date of the Grant Date (defined below), Applied Optoelectronics, Inc. (the “**Company**”) has granted you (the “**Participant**”) a Stock Option (“**Option**”) under its 1998 Incentive Share Plan, as amended (the “**Plan**”), to purchase the number of shares of the Company’s Common Stock at the exercise price indicated below. Undefined terms in this Agreement are defined in the Plan.

The details of your Option are as follows:

PARTICIPANT:

ADDRESS:

TOTAL OPTION SHARES:

PURCHASE PRICE PER SHARE:

GRANT DATE:

FIRST VESTING DATE:

FIRST VESTING DATE NUMBER OF SHARES:

SUBSEQUENT VESTING DATE NUMBER OF SHARES:

EXPIRATION DATE:

TYPE OF STOCK OPTION:

- (CHECK ONE)
- INCENTIVE STOCK OPTION
 - NONQUALIFIED STOCK OPTION

1. GRANT OF OPTION. The Company hereby grants to you an option (the “**Option**”) to purchase the total number of shares of Common Stock set forth above at the Purchase Price Per Share set forth above (the “**Purchase Price**”), subject to all of the terms and conditions of this Agreement and the Plan. If designated as an Incentive Stock Option above, the Option is intended to qualify as an “incentive stock option” within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the “**Code**”). However, the Company shall have no liability in the event it is determined that such Option fails to qualify as such. If this Option is designated as an Incentive Stock Option and all or any portion of this Option fails to qualify as such, the portion that fails to qualify as an Incentive Stock Option shall be treated as a Nonqualified Stock Option.

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2. EXERCISE PERIOD/VESTING SCHEDULE.

(a) “**Company Person**” means the Company or a Subsidiary. “**Continuous Service**” means that the applicable Participant’s service with a Company Person, whether as an employee, director or consultant, is not interrupted or terminated. Such Participant’s Continuous Service will not be deemed to have terminated merely because of a change in the capacity in which such Participant renders service to a Company Person as an employee, consultant or director or a change in the Company Person for which such Participant renders such service, provided that there is no interruption or termination of such Participant’s Continuous Service. For example, a change in status from an employee of the Company to a consultant of a Subsidiary or a director will not constitute an interruption of Continuous Service. The Committee or the chief executive officer of the Company, in that party’s sole discretion, may determine whether Continuous Service will be considered interrupted in the case of any leave of absence approved by that party, including sick leave, military leave or any other personal leave.

(b) Provided that you continue to provide Continuous Service to any Company Person throughout the specified period, the Option shall vest and become exercisable as to portions of the shares as follows: _____ on the First Vesting Date, with the remainder vesting in equal portions of _____ each at the end of each _____ periods (each such period, a “**Vesting Period**”) of the _____ period following the First Vesting Date (each such date, a “**Vesting Date**”). Each Vesting Date shall be on the same day of the month as that of the First Vesting Date, or on the last day of the month in cases where the day of the month of the First Vesting Date is beyond the end of the month of the respective Vesting Date. Subject to the limitations contained herein, your Option will vest as set forth herein, provided that vesting will cease upon the termination of your Continuous Service, and further provided that this vesting schedule is subject to Sections 4 and 7 hereof.

3. NUMBER OF SHARES AND EXERCISE PRICE. The number of shares of Common Stock subject to your Option and the Purchase Price may be adjusted from time to time in accordance with the Plan.

4. [CHANGE IN CONTROL.

- (a) If Participant is an employee (“**Employee**”), the Option hereby granted shall become immediately and fully exercisable, irrespective of the limitations set forth in Section 2 above, provided that the Employee has been in Continuous Employment since the Grant Date of said Option and as long as this Option has not already expired or been forfeited, upon the occurrence of both: (a) a Change in Control; and (b) termination of the Employee’s Employment on or after the date of a Change in Control either (i) by the Company for any reason other than for Cause, or (ii) by the Employee for Good Reason.

- (b) **“Cause”** shall mean cause as defined in any employment agreement between the Employee and the Company or any Subsidiary in effect at the time of the Employee’s termination of Employment or, in the absence of any such employment agreement, any of the following: (i) conviction of the Employee by a court of competent jurisdiction of any felony or a crime involving moral turpitude; (ii) the Employee’s knowing failure or refusal

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to follow reasonable instructions of the Board or the Employee’s supervisor or reasonable policies, standards and regulations of the Company or any Subsidiary; (iii) the Employee’s continued failure or refusal to faithfully and diligently perform the usual, customary duties of his Employment with the Company or any Subsidiary; or (iv) the Employee’s conduct is detrimental to the reputation, character, business or standing of the Company or any Subsidiary.

- (c) **“Good Reason”** shall mean if, without the written consent of the Employee, (i) the Employee is assigned duties (or has his or her duties diminished in a fashion) materially inconsistent with his or her position, duties, responsibilities and status with the Company and its Subsidiaries as of the time of a Change in Control; (ii) the Company or any of its Subsidiaries materially reduces the aggregate compensation or incentive package of the Employee as in effect at the time of a Change in Control; (iii) the Company or any of its Subsidiaries reduces the benefit package for health and welfare benefit plans, pension and 401(k) plans of the Employee, as in effect at the time of the Change in Control, except for changes in the benefit package applicable to all employees of the Company or its Subsidiaries; or (iv) the Company takes any other action which materially and adversely changes the conditions or prerequisites of the Employee’s Employment as in effect as of the time of the Change in Control (provided that no material or adverse change shall be deemed to have occurred solely on account of a change in the individual(s) in the office or on the board of directors to whom the Employee reports). The Employee shall give notice of any termination of the Employee’s Employment for Good Reason due to any of the events described above by delivery of written notice thereof to the Company within 120 days after the first occurrence of the event giving rise to such Good Reason.
- (d) **“Employment”** shall mean employment with a Company Person. **“Continuous Employment”** means Continuous Service as an employee of a Company Person.]

5. **METHOD OF PAYMENT.** This Option may be exercised, in whole or in part, by giving written notice of exercise to the Company specifying the number of shares of Common Stock to be purchased. Such notice shall be accompanied by the payment in full of the Option Purchase Price. [Such payment shall be made: (a) in cash; (b) to the extent authorized by the Committee, by surrender of shares of Common Stock previously owned by the holder of the Option; (c) following an Initial Public Offering, through simultaneous sale through a broker of shares acquired on exercise, as permitted under Regulation T of the Federal Reserve Board; (d) through additional methods prescribed by the Committee; or (e) by a combination of any such methods as permitted by the Committee. Your subsequent transfer or disposition of any shares acquired upon exercise of an Option will be subject to any Federal and state laws then applicable.]

6. **WHOLE SHARES.** You may exercise your Option only for whole shares of Common Stock.

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7. **SECURITIES LAW COMPLIANCE.** Notwithstanding anything to the contrary contained herein, you may not exercise your Option unless the shares of Common Stock issuable upon such exercise are then registered under the Securities Act or, if such shares of Common Stock are not then so registered, the Committee has determined that such exercise and issuance would be exempt from the registration requirements of the Securities Act. The exercise of your Option must also comply with other applicable laws and regulations governing your Option, and you may not exercise your Option if the Committee determines that such exercise would not be in material compliance with such laws and regulations.

8. **TERM.** The term of your Option commences on the Grant Date and expires upon the EARLIEST of the following:

- (a) three months after the termination of your Continuous Service for any reason other than your Disability or death, provided that if during any part of such three month period your Option is not exercisable solely because of the condition set forth in the preceding paragraph relating to “Securities Law Compliance,” your Option will not expire until the earlier of the Expiration Date or until it has been exercisable for an aggregate period of three months after the termination of your Continuous Service;
- (b) twelve months after the termination of your Continuous Service due to your Disability;
- (c) twelve months after your death if you die either during your Continuous Service or within three months after your Continuous Service terminates;
- (d) the Expiration Date set forth in the schedule on the first page of this Agreement; or
- (e) upon a forfeiture of the Option pursuant to the Plan or this Agreement.

If your Option is an Incentive Stock Option, note that, to obtain the federal income tax advantages associated with an Incentive Stock Option, the Code requires (1) that at all times beginning on the Grant Date and ending on the day three months before the date of your Option’s exercise, you must be an employee of a Company Person, except in the event of your death or Disability; and (2) you may generally not dispose of shares of the Common Stock issued upon exercise of your Option within two years after the Grant Date of this Option or within one year after such shares of Common Stock are transferred upon exercise of your Option. The Company has provided for extended exercisability of your Option under certain circumstances for your benefit but there is no guarantee that your Option will necessarily be treated as an Incentive Stock Option if you exercise your Option more than three months after the date your employment terminates, except in the case of death or Disability, even if you continue to provide services to a Company Person as a consultant or director after your employment.

9. **EXERCISE.**

(a) As a condition to the exercise of the Option or any portion thereof, you or any other person entitled to exercise the Option shall enter into a written joinder to the Shareholder’s Agreement dated on or about _____, as it may be hereafter amended. You may exercise the vested portion of your Option during its term by delivering a notice of exercise (in a form designated by the Company) together with the Purchase Price to the

Secretary of the Company, or to such other person as the Company may designate, during regular business hours, together with such additional documents as the Company may then reasonably require, including a written joinder to the Shareholder's Agreement as specified above.

(b) By exercising your Option you agree that, as a condition to any exercise of your Option, the Company may require you to enter into an arrangement providing for the payment by you to the Company of any tax withholding obligation of the Company arising because of (1) the exercise of your Option, (2) the lapse of any substantial risk of forfeiture to which the shares of Common Stock are subject at the time of exercise, or (3) the disposition of shares of Common Stock acquired upon such exercise.

(c) If your Option is an Incentive Stock Option, by exercising your Option you agree that you will notify the Company in writing within 15 days after the date of any disposition of any of the shares of the Common Stock issued upon exercise of your Option that occurs within two years after the Grant Date of this Option or within one year after such shares of Common Stock are transferred upon exercise of your Option.

10. **TRANSFERABILITY.** Your Option is not transferable, except by will or by the laws of descent and distribution. If your Option is an Incentive Stock Option, it is exercisable during your life only by you. If it is a Nonqualified Stock Option, it is exercisable during your life only by you or your guardian or legal representative.

11. **OPTION NOT A SERVICE CONTRACT.** Your Option is not an employment or service contract, and nothing in your Option shall be deemed to create in any way whatsoever any obligation on your part to continue in the employ or Continuous Service of a Company Person, or of any Company Person to continue your employment. In addition, nothing in your Option shall obligate any Company Person, its shareholders, boards of directors, officers or employees to continue any relationship that you might have as a director or consultant for any Company Person.

12. **WITHHOLDING OBLIGATIONS.**

(a) At the time you exercise your Option, in whole or in part, or at any time thereafter as requested by the Company, you hereby authorize withholding from payroll and any other amounts payable to you, and otherwise agree to make adequate provision for (including by means of a "cashless exercise" pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board to the extent permitted by the Company), any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company or a Subsidiary, if any (but not in excess of the minimum withholding requirements), which arise in connection with your Option.

(b) Upon your request and subject to approval by the Company, in its sole discretion, and compliance with any applicable conditions or restrictions of law, the Company may withhold from fully vested shares of Common Stock otherwise issuable to you upon the exercise of your Option a number of whole shares of Common Stock having a Fair Market Value, determined by the Committee as of the date of exercise, not in excess of the minimum amount of tax required to be withheld by law. If the date of determination of any tax withholding obligation is deferred to a date later than the date of exercise of your Option, share withholding pursuant to the preceding sentence shall not be permitted unless you make a proper and timely

election under Section 83(b) of the Code, covering the aggregate number of shares of Common Stock acquired upon such exercise with respect to which such determination is otherwise deferred, to accelerate the determination of such tax withholding obligation to the date of exercise of your Option. Notwithstanding the filing of such election, shares of Common Stock shall be withheld solely from fully vested shares of Common Stock determined as of the date of exercise of your Option that are otherwise issuable to you upon such exercise. Any adverse consequences to you arising in connection with such share withholding procedure shall be your sole responsibility.

(c) You may not exercise your Option unless the tax withholding obligations of the Company and/or any Affiliate are satisfied. Accordingly, you may not be able to exercise your Option when desired even though your Option is vested, and the Company shall have no obligation to issue a certificate for such shares of Common Stock or release such shares of Common Stock.

13. **FORFEITURE AND REPURCHASE OF OPTION SHARES**

(a) **"Forfeiture Event"** means a serious breach of conduct by a Participant (including, without limitation, any conduct prejudicial to or in conflict with any Company Person) or any activity of a Participant who is an Employee in competition with any of the businesses of any Company Person during a time period of nine (9) months after termination of Participant's Service, or a termination of employment for Cause. Said activity in competition includes activity during a time period of nine (9) months after termination of Participant's Service in which the Employee (i) works, performs work for hire, consults, is self employed or otherwise employed, either directly or indirectly, in a business competing with or acting against any Company Person's interest; or (ii) causes or solicits others to work, performs work for hire, consults, or be self employed or otherwise employed, either directly or indirectly, in a business competing with or acting against any Company Person's interest. The determination of whether a Forfeiture Event has occurred will be determined by the Committee in good faith and in its sole discretion.

(b) **Forfeiture.** If a Forfeiture Event occurs, the Committee may cancel any outstanding Award granted to such Participant, in whole or in part, whether or not vested. Such cancellation will be effective as of the date specified by the Committee. This [Section 13\(b\)](#) will have no application following a Change of Control.

(c) **Repurchase of Option Shares.** If a Forfeiture Event occurs, the Company shall have the absolute right to purchase all or any portion of the Option Shares owned by such Employee (the **"Repurchase Shares"**), by electing to purchase all or any portion of the Repurchase Shares any time during a time period of nine (9) months after the Forfeiture Event or termination of Participant's Service, whichever is later, by giving written notice of such exercise to the Employee. The purchase price per share of the Repurchase Shares shall be the Fair Market Value of such shares. If the Company elects to purchase any or all of such Repurchase Shares, it shall be obligated to purchase, and the Employee shall be obligated to sell to the Company, such Repurchase Shares and said sale and purchase shall be closed within 30 days thereafter at the offices of the Company. Such sale shall be effected by the Employee's (or heirs' or legal representatives') delivery to the Company and/or other purchasing shareholders of a certificate or certificates evidencing the Repurchased Shares, duly endorsed for transfer to the Company and/or other purchasing shareholders, against payment to the Employee (or his or her heirs or

legal representatives) by the Company and/or other purchasing shareholders of the Purchase Price for each Repurchased Share.

14. NOTICES. Any notices provided for in this Agreement or the Plan shall be given in writing and shall be deemed effectively given upon receipt or, in the case of notices delivered by mail by the Company to you, five days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company.

15. GOVERNING PLAN DOCUMENT. Your Option is subject to all the provisions of the Plan, the provisions of which are hereby made a part of your Option, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. If there is any conflict between the provisions of this Agreement and those of the Plan, the provisions of the Plan shall control.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Grant Date.

APPLIED OPTOELECTRONICS, INC.

By: _____
Name: _____
Title: _____

ACCEPTED AND AGREED TO:

By: _____

By executing this Agreement, you acknowledge receipt of a copy of the Plan.

APPLIED OPTOELECTRONICS, INC.

Incentive Stock Option Agreement

Applied Optoelectronics, Inc., a Texas corporation (the “Company”), hereby grants as of the _____, to _____ (the “Employee”), an option (the “Stock Option”) to purchase a maximum of _____ shares (the “Option Shares”) of its Common Stock, with no par value (“Common Stock”), at the price of _____ per share (the “Option Price”), on the terms and conditions contained in this Incentive Stock Option Agreement (the “Agreement”):

1. **1998 Incentive Share Plan.** This Stock Option is granted pursuant to and is governed by the Company’s 1998 Incentive Share Plan (the “Plan”) and, unless otherwise defined herein, capitalized terms used herein shall have the same meaning ascribed to such terms in the Plan. Determinations made in connection with this Stock Option pursuant to the Plan shall be governed by the Plan as it exists on this date.

2. **Grant as Incentive Stock Option: Other Options.** This Stock Option is intended to qualify as an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended (the “Code”). This Stock Option is in addition to any other options heretofore or hereafter granted to the Employee by the Company, but a duplicate original of this instrument shall not constitute the grant of another option.

3. **Vesting of Option if Employment Continues.** For the purpose of determining the vesting of the Stock Option granted hereunder, the vesting date will start on _____, (the “Vesting Date”) and this Stock Option will vest over _____ years. Subject to the earlier expiration of this Stock Option as herein provided and further subject to the continued employment of Employee by the Company, this Stock Option may be exercised, by written notice to the Company, at any time and from time to time after the date of execution hereof, but this Stock Option shall not be exercisable for more than the aggregate number of shares of Common Stock offered by this Stock Option as set forth opposite the following applicable Exercise Dates:

<u>Exercise Date</u>	<u>Number of Shares Purchasable</u>

Notwithstanding the foregoing, (i) upon the occurrence of any Change in Control (as defined in the Plan), all Stock Options granted hereunder shall become immediately exercisable, and (ii) in accordance with and subject to the provisions of the Plan, the Board may, in its discretion, amend the vesting schedule and accelerate the date that any installment of this Stock Option becomes exercisable.

Subject to the earlier termination of this Stock Option as provided herein, this Stock Option shall be for a period of _____ years and shall not, under any circumstances, be exercisable after _____ (the “Option Expiration Date”).

4. **Termination of Employment.** If the Employee ceases to be employed by the Company for any reason other than by reason of death or Disability or Retirement, no further vesting shall occur, and this Stock Option shall terminate (and may no longer be exercised) on the earlier of ninety (90) days after the date of such termination or the Option Expiration Date; provided, however, that if the Employee’s employment is terminated as a result of a Change in Control, any remaining Stock Options hereunder shall become exercisable.

5. **Death, Disability.**

(a) **Death:** If the Employee dies while in the employ of the Company or during any period under Section 4 or Section 5(b) during which the Employee has the right to exercise this Stock Option, this Stock Option may be exercised, to the extent otherwise exercisable on the date of his or her death, by the Employee’s estate, personal representative or beneficiary to whom this Stock Option has been assigned pursuant to Section 10, at any time on or before the earlier of (i) the date which is twelve (12) months after the date of the Employee’s death or (ii) the Option Expiration Date. Except as otherwise provided with respect to a Change in Control, the Employee’s estate, personal representative, or beneficiary to whom this Stock Option has been assigned shall not be entitled to purchase any shares in excess of the number of shares which the Employee was vested and entitled to purchase under Section 3 at the time of the Employee’s death.

(b) **Disability or Retirement:** If the Employee ceases to be employed by the Company by reason of his or her Disability or Retirement (as defined in the Plan), this Stock Option may be exercised, to the extent otherwise exercisable on the date of the termination of his or her employment, at any time on or before the earlier of (i) the date which is twelve (12) months after the date of such termination or (ii) the Option Expiration Date. Except as otherwise provided with respect to a Change in Control, the Employee shall not be entitled to purchase any shares in excess of the number of shares which the Employee is vested and entitled to purchase under Section 3 as of the date the Employee’s employment so terminates.

6. **Partial Exercise.** This Stock Option may be exercised in part at any time and from time to time within the above limits, except that this Stock Option may not be exercised for a fraction of a share unless such exercise is with respect to the final installment of stock subject to this Stock Option and cash in lieu of a fractional share must be paid to permit the Employee to exercise completely such final installment. Any fractional share with respect to which an installment of this Stock Option cannot be exercised because of the limitation contained in the preceding sentence shall remain subject to this Stock Option and shall be available for later purchase by the Employee in accordance with the terms hereof.

7. **Payment of Price.** The option price may only be paid in cash or by check. The option price of the Option Shares as to which this Stock Option is exercised shall be paid in full at the time of exercise.

8. **Restrictions on Resale.** Option Shares may not be transferred without the Company’s written consent except by will, by the laws of descent and distribution and in accordance with the provisions of Section 17, if applicable. Option Shares will be subject to significant restrictions on transfer and will be deemed to be “restricted securities” for purposes of the Securities Act. Accordingly, the Option Shares must be sold in compliance with the registration requirements of the Applicable Legal Requirements or an exemption therefrom. Consistent with the terms of the Plan, the Company may, as a condition precedent to the exercise of this Stock Option, require an opinion of counsel, satisfactory to the Company, to the effect that the issuance of the Option Shares will not be in

violation of the Applicable Legal Requirements. Further, the Company may place legends on any certificates evidencing the Option Shares and issue stop transfer orders with respect thereto as the Company may deem necessary or advisable to assure compliance with the Applicable Legal Requirements.

9. **Method of Exercising Option.** Subject to the terms and conditions of this Agreement, this Stock Option may be exercised by written notice to the Company at its principal executive office. Such notice shall state the election to exercise this Stock Option and the number of Option Shares for which it is being exercised and shall be signed by the person or persons so exercising this Stock Option. Such notice shall be accompanied by payment of the full purchase price of such shares, in cash or check, and the Company shall deliver a certificate or certificates representing such shares as soon as practicable after the notice shall be received. Such certificate or certificates shall be registered in the name of the person or persons so exercising this Stock Option (or if this Stock Option shall be exercised by the Employee and if the Employee shall so request in the notice exercising this Stock Option, shall be registered in the name of the Employee and another person jointly, with right of survivorship). In the event this option shall be exercised, pursuant to Section 5 hereof, by any person or persons other than the Employee, such notice shall be accompanied by appropriate proof of the right of such person or persons to exercise this Stock Option.

10. **Stock Option Not Transferable.** This Stock Option is not transferable or assignable except by will or by the laws of descent and distribution. During the Employee's lifetime only the Employee can exercise this Stock Option.

11. **No Obligation To Exercise Stock Option.** The grant and acceptance of this Stock Option imposes no obligation on the Employee to exercise it.

12. **No Right to Continued Employment.** Neither the Plan, this Agreement, nor the grant of this Stock Option shall confer upon or be construed as giving the Employee any right to remain in the employ of the Company.

13. **No Rights as Stockholder until Exercise.** The Employee shall have no rights as a shareholder with respect to the Option Shares until such time as: (i) the Employee has exercised this

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Stock Option by delivering a notice of exercise and has paid in full the purchase price for the shares so exercised in accordance with Section 9, and (ii) a certificate evidencing the Option Shares has been issued to the Employee. Except as is expressly provided in the Plan with respect to certain changes in the capitalization of the Company, no adjustment shall be made for dividends or similar rights for which the record date is prior to such date of exercise.

14. **Capital Changes and Business Successions.** The Plan contains provisions covering the treatment of Stock Options in a number of contingencies such as stock splits and mergers. Provisions in the Plan for adjustment with respect to stock subject to Stock Options and the related provisions with respect to successors to the business of the Company are hereby made applicable hereunder and are incorporated herein by reference.

15. **Early Disposition.** Subject to the provisions of Section 17, the Employee agrees to notify the Company in writing immediately after the Employee transfers any Option Shares, if such transfer occurs on or before the later of (a) the date which is two years after the date of this Agreement or (b) the date which is one year after the date the Employee acquired such Option Shares. The Employee also agrees to provide the Company with any information concerning any such transfer required by the Company for tax purposes.

16. **Withholding Taxes.** If the Company in its discretion determines that it is obligated to withhold any tax in connection with the exercise of this Stock Option, or in connection with the transfer of, or the lapse of restrictions on, any Common Stock or other property acquired pursuant to this Stock Option, the Employee hereby agrees that the Company may withhold from the Employee's wages or other remuneration the appropriate amount of tax. At the discretion of the Company, the amount required to be withheld may be withheld in cash from such wages or other remuneration or in kind from the Common Stock or other property otherwise deliverable to the Employee on exercise of this Stock Option. The Employee further agrees that the Company may require the Employee to make a cash payment to the Company if the Company determines that (i) the wages or other remuneration available for withholding are insufficient to satisfy the withholding obligation of the Company, or (ii) additional amounts should be withheld by the Company to satisfy the withholding obligation of the Company.

17. **Right of First Refusal.**

(a) **Primary Right of First Refusal by Company:** If the Employee desires to transfer all or any part of the Option Shares to any person other than the Company or other Shareholders (an "Offeror"), the Employee shall: (i) obtain in writing an irrevocable and unconditional bona fide offer (the "Offer") for the purchase thereof from the Offeror; and (ii) give written notice (the "Option Notice") to the Company and other Shareholders setting forth the Employee's desire to transfer such shares, which Option Notice shall be accompanied by a photocopy of the Offer and shall set forth at least the name and address of the Offeror and the price and terms of the Offer. Upon receipt of the Option Notice, the Company shall have an option to purchase any or all of such Option Shares (the "Offered Shares") specified in the Option Notice, such option to be exercisable by giving, within days after receipt of the Option Notice, written notice of such exercise to the Employee. If the Company elects to purchase any or all of such Offered

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Shares, it shall be obligated to purchase, and the Employee shall be obligated to sell to the Company, such Offered Shares and said sale and purchase shall be closed within days thereafter.

(b) **Secondary Right of First Refusal by Other Shareholders:** If the Company provides written notice of its intent not to exercise its right of first refusal or otherwise fails to exercise its right of first refusal to purchase all of the Offered Shares before the expiration of the -day period set forth in Section 17(a), the other Shareholders of the Company shall have an option for a period of days following the date of the receipt of the Company's written notice to acquire all or any part of such Offered Shares not otherwise purchased by the Company. If one or more other shareholders gives written notice to the Company and the Offeror that such shareholder exercises his option to purchase such Offered Shares, then such Offered Shares shall be allocated among the other Shareholders as they may agree or, if the other shareholders fail to reach such an agreement, the Offered Shares shall be allocated among the exercising shareholders in the ratio each exercising shareholder's number of shares of Common Stock bears to the total number of shares of Common Stock owned by all other Shareholders exercising their option pursuant to this Section 17(b). To the extent any other shareholders elect to exercise their right of first refusal under this Section 17(b), such shareholder shall provide written notice of such exercise to the Employee and the Company within such -day period. If any other shareholders elect to purchase any or all of such Offered Shares, such shareholder shall be obligated to purchase, and the Employee shall be obligated to sell to such shareholders, such Offered Shares and said sale and purchase shall be closed within days thereafter.

(c) **Purchase Price:** The total purchase price to be paid by the Company or other Shareholders for the Offered Shares shall be the lower of (i) the purchase price set forth in the Option Notice, or (ii) the purchase price determined pursuant to Section 18 (d).

(d) **Sale of Offered Shares to Offeror:** The Employee may, for _____ days after the expiration of the option periods as set forth in Sections 17(a) and (b) above, sell to the Offeror, pursuant to the terms of the Offer, any or all of such Offered Shares not purchased or agreed to be purchased by the Company or the other Shareholders; provided, however, that the Employee shall not sell such Offered Shares to such Offeror unless such Offeror shall execute an agreement with the Company pursuant to which such Offeror agrees to be subject to the restrictions set forth in this Section 17. In no event shall the Employee sell or transfer any Offered Shares to the Offeree without (i) making all required filings with, and obtaining any required approval from, any applicable governmental or other regulatory authority which the Company shall, in its sole discretion, determine to be necessary or advisable, and (ii) otherwise complying with the Applicable Legal Requirements regarding any transfer or sale of the Offered Shares. If any or all of such Offered Shares are not sold pursuant to an Offer within the time permitted above, the unsold Offered Shares shall remain subject to the terms of this Section 17.

(e) **Adjustments for Changes in Capital Structure:** If there shall be any change in the Common Stock of the Company through merger, consolidation, reorganization, recapitalization, stock dividend, stock split, combination or exchange of shares, or the like, the restrictions contained in Section 8 and this Section 17 shall apply with equal force to additional and/or substitute securities, if any, received by the Employee in exchange for, or by virtue of his or

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her ownership of, Option Shares, except as otherwise determined by the Board of Directors of the Company.

(f) **Failure to Deliver Option Shares:** If the Employee fails or refuses to deliver on a timely basis duly endorsed certificates representing Offered Shares to be sold to the Company or the other Shareholders pursuant to this Section 17, the Company shall have the right to establish a special account in the name, and for the benefit of, the Employee and deposit the purchase price for such Offered Shares in such special account, giving notice of such deposit to the Employee, whereupon such Offered Shares shall be deemed to have been purchased by the Company and/or the other Shareholders. All such monies shall be held for the benefit of the Employee. The Company may place a legend on any certificates for Option Shares delivered to the Employee reflecting the restrictions on transfer provided in Section 8 hereof and this Section 17.

18. **Repurchase of Option Shares.**

(a) If (i) the Employee's employment with the Company is terminated by either the Employee or the Company and the Employee is found in violation of the signed Employee Agreement or works, performs work for hire, consults, is self employed or otherwise employed, either directly or indirectly or (ii) causes or solicits others to work, performs work for hire, consults, or be self employed or otherwise employed, either directly or indirectly, in a business competing with or acting against the Company's interest, the Company and other shareholders shall have the absolute right to purchase all of the Option Shares owned by such Employee (the "Repurchase Shares") in accordance with the option time periods and notice procedures provided for with respect to the purchase of the Offered Shares as set forth in Section 17(a) and (b) above. Only under the conditions set forth in this section shall the provisions set forth in 17(a) and 17(b) be extended to cover a time period of nine (9) months after the termination of Employee's employment during which time the Company will have the first right to elect to purchase all or any portion of the Repurchase Shares.

(b) The purchase price (the "Purchase Price") per share of the Repurchased Shares under this Section 18 shall be the Fair Value of such shares as described in Section 18(d) below.

(c) If the Company and/or the other shareholders exercise their option to purchase the Repurchased Shares, the closing of the sale of the Repurchased Shares shall be made at the offices of the Company on or before the 30th day following the expiration of the Company's and other shareholder's options as provided in Section 18(a). Such sale shall be effected by the Employee's (or heirs' or legal representatives') delivery to the Company and/or other purchasing shareholders of a certificate or certificates evidencing the Repurchased Shares, duly endorsed for transfer to the Company and/or other purchasing shareholders, against payment to the Employee (or his or her heirs or legal representatives) by the Company and/or other purchasing shareholders of the Purchase Price for each Repurchased Share.

(d) For purposes of this Agreement, "Fair Value" shall mean: (i) if the Company's Common Stock is not then publicly traded on a national securities exchange or in the Nasdaq over-the-counter inter-dealer quotation system, the value per share as determined in good faith by the Board of Directors, either pursuant to the most recent grant of an incentive stock option

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under the Company's Plan, or as is established in good faith by the Board of Directors, or (ii) if the Company's Common Stock is then publicly traded, "Fair Value" shall mean the average of the bid and asked price in the over-the-counter market as reported by Nasdaq or, if the Common Stock is then traded on a national securities exchange, or traded in the Nasdaq National Market, the average of the high and low sale prices quoted on such exchange or market system for the 20 consecutive trading days preceding the date of termination of the Employee's employment with the Company. Nothing in this section is intended to survive Section 17(e) except as provided for in Section 18(a) of this agreement.

19. **Lock-up Agreement.** The Employee agrees that in connection with an underwritten public offering of Common Stock, or in the event of a Change in Control as provided in Section 3 and Section 17(e), upon the request of the Company or the principal underwriter managing such public offering, this Option and the Option Shares may not be sold, offered for sale or otherwise disposed of without the prior written consent of the Company or such underwriter, as the case may be, for at least 180 days after the effectiveness of the registration statement filed in connection with such offering, or such longer period of time as the Board of Directors may determine if all of the Company's directors and officers agree to be similarly bound. The lock-up agreement established pursuant to this paragraph 19 shall have perpetual duration.

20. **Provision of Documentation to Employee.** By signing this Agreement the Employee acknowledges receipt of a copy of this Agreement and a copy of the Plan.

21. **Miscellaneous.**

(a) **Notices:** All notices hereunder shall be in writing and shall be deemed given when sent by certified or registered mail, postage prepaid, return receipt requested, to the address set forth below. The addresses for such notices may be changed from time to time by written notice given in the manner

provided for herein.

Company:

Employee:

(b) **Entire Agreement; Modification:** This Agreement, together with the Plan which is incorporated herein, constitute the entire agreement between the parties relative to the subject matter hereof, and supersede all proposals, written or oral, and all other communications between the parties relating to the subject matter of this Agreement. This Agreement may be modified, amended or rescinded only by a written agreement executed by both parties.

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(c) **Severability:** The invalidity, illegality or unenforceability of any provision of this Agreement shall in no way affect the validity, legality or enforceability of any other provision.

(d) **Successors and Assigns:** This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, subject to the limitations set forth in Section 10 hereof.

(e) **Governing Law:** This Agreement shall be governed by and interpreted in accordance with the laws of the State of Texas without giving effect to the principles of the conflicts of laws thereof.

IN WITNESS WHEREOF, the Company and the Employee have caused this instrument to be executed as of the date first above written.

APPLIED OPTOELECTRONICS, INC.

By: _____
Name:
Title:

EMPLOYEE

By: _____
Name:

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**APPLIED OPTOELECTRONICS, INC.
2000 INCENTIVE SHARE PLAN**

**STOCK OPTION AGREEMENT
(INCENTIVE AND NONQUALIFIED STOCK OPTIONS)**

Pursuant to this Stock Option Agreement (the “**Agreement**”), having an effective date of the Grant Date (defined below), Applied Optoelectronics, Inc. (the “**Company**”) has granted you (the “**Participant**”) a Stock Option (“**Option**”) under its 2000 Incentive Share Plan, as amended (the “**Plan**”), to purchase the number of shares of the Company’s Common Stock at the exercise price indicated below. Undefined terms in this Agreement are defined in the Plan.

The details of your Option are as follows:

PARTICIPANT:

ADDRESS:

TOTAL OPTION SHARES:

PURCHASE PRICE PER SHARE:

GRANT DATE:

FIRST VESTING DATE:

EXPIRATION DATE:

TYPE OF STOCK OPTION:

(CHECK ONE) o INCENTIVE STOCK OPTION
 o NONQUALIFIED STOCK OPTION

1. **GRANT OF OPTION.** The Company hereby grants to you an option (the “**Option**”) to purchase the total number of shares of Common Stock set forth above at the Purchase Price Per Share set forth above (the “**Purchase Price**”), subject to all of the terms and conditions of this Agreement and the Plan. If designated as an Incentive Stock Option above, the Option is intended to qualify as an “incentive stock option” within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the “**Code**”). However, the Company shall have no liability in the event it is determined that such Option fails to qualify as such. If this Option is designated as an Incentive Stock Option and all or any portion of this Option fails to qualify as such, the portion that fails to qualify as an Incentive Stock Option shall be treated as a Nonqualified Stock Option.

2. **EXERCISE PERIOD/VESTING SCHEDULE.**

(a) “**Company Person**” means the Company or a Subsidiary. “**Continuous Service**” means that the applicable Participant’s service with a Company Person, whether as an

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employee, director or consultant, is not interrupted or terminated. Such Participant’s Continuous Service will not be deemed to have terminated merely because of a change in the capacity in which such Participant renders service to a Company Person as an employee, consultant or director or a change in the Company Person for which such Participant renders such service, provided that there is no interruption or termination of such Participant’s Continuous Service. For example, a change in status from an employee of the Company to a consultant of a Subsidiary or a director will not constitute an interruption of Continuous Service. The Committee or the chief executive officer of the Company, in that party’s sole discretion, may determine whether Continuous Service will be considered interrupted in the case of any leave of absence approved by that party, including sick leave, military leave or any other personal leave.

(b) Provided that you continue to provide Continuous Service to any Company Person throughout the specified period, the Option shall vest and become exercisable as to portions of the shares as follows: on the First Vesting Date, with the remainder vesting in equal portions of shares each at the end of each of periods (each such period, a “**Vesting Period**”) of the period following the First Vesting Date (each such date, a “**Vesting Date**”). Each Vesting Date shall be on the same day of the month as that of the First Vesting Date, or on the last day of the month in the case where said month is shorter than the day of the month of the First Vesting Date. Subject to the limitations contained herein, your Option will vest as set forth herein, provided that vesting will cease upon the termination of your Continuous Service, and further provided that this vesting schedule is subject to Sections 4 and 7 hereof.

3. **NUMBER OF SHARES AND EXERCISE PRICE.** The number of shares of Common Stock subject to your Option and the Purchase Price may be adjusted from time to time in accordance with the Plan.

4. **[CHANGE IN CONTROL.**

(a) If Participant is an employee (“**Employee**”), the Option hereby granted shall become immediately and fully exercisable, irrespective of the limitations set forth in Section 2 above, provided that the Employee has been in Continuous Employment since the Grant Date of said Option and as long as this Option has not already expired or been forfeited, upon the occurrence of both: (a) a Change in Control; and (b) termination of the Employee’s Employment on or after the date of a Change in Control either (i) by the Company for any reason other than for Cause, or (ii) by the Employee for Good Reason.

(b) “**Cause**” shall mean cause as defined in any employment agreement between the Employee and the Company or any Subsidiary in effect at the time of the Employee’s termination of Employment or, in the absence of any such employment agreement, any of the following: (i) conviction of the Employee by a court of competent jurisdiction of any felony or a crime involving moral turpitude;

(ii) the Employee's knowing failure or refusal to follow reasonable instructions of the Board or the Employee's supervisor or reasonable policies, standards and regulations of the Company or any Subsidiary; (iii) the Employee's continued failure or

refusal to faithfully and diligently perform the usual, customary duties of his Employment with the Company or any Subsidiary; or (iv) the Employee's conduct is detrimental to the reputation, character, business or standing of the Company or any Subsidiary.

- (c) **"Good Reason"** shall mean if, without the written consent of the Employee, (i) the Employee is assigned duties (or has his or her duties diminished in a fashion) materially inconsistent with his or her position, duties, responsibilities and status with the Company and its Subsidiaries as of the time of a Change in Control; (ii) the Company or any of its Subsidiaries materially reduces the aggregate compensation or incentive package of the Employee as in effect at the time of a Change in Control; (iii) the Company or any of its Subsidiaries reduces the benefit package for health and welfare benefit plans, pension and 401(k) plans of the Employee, as in effect at the time of the Change in Control, except for changes in the benefit package applicable to all employees of the Company or its Subsidiaries; or (iv) the Company takes any other action which materially and adversely changes the conditions or prerequisites of the Employee's Employment as in effect as of the time of the Change in Control (provided that no material or adverse change shall be deemed to have occurred solely on account of a change in the individual(s) in the office or on the board of directors to whom the Employee reports). The Employee shall give notice of any termination of the Employee's Employment for Good Reason due to any of the events described above by delivery of written notice thereof to the Company within 120 days after the first occurrence of the event giving rise to such Good Reason.
- (d) **"Employment"** shall mean employment with a Company Person. **"Continuous Employment"** means Continuous Service as an employee of a Company Person.]

5. **METHOD OF PAYMENT.** This Option may be exercised, in whole or in part, by giving written notice of exercise to the Company specifying the number of shares of Common Stock to be purchased. Such notice shall be accompanied by the payment in full of the Option Purchase Price. [Such payment shall be made: (a) in cash; (b) to the extent authorized by the Committee, by surrender of shares of Common Stock previously owned by the holder of the Option; (c) following an Initial Public Offering, through simultaneous sale through a broker of shares acquired on exercise, as permitted under Regulation T of the Federal Reserve Board; (d) through additional methods prescribed by the Committee; or (e) by a combination of any such methods as permitted by the Committee. Your subsequent transfer or disposition of any shares acquired upon exercise of an Option will be subject to any Federal and state laws then applicable.]

6. **WHOLE SHARES.** You may exercise your Option only for whole shares of Common Stock.

7. **SECURITIES LAW COMPLIANCE.** Notwithstanding anything to the contrary contained herein, you may not exercise your Option unless the shares of Common Stock issuable

upon such exercise are then registered under the Securities Act or, if such shares of Common Stock are not then so registered, the Committee has determined that such exercise and issuance would be exempt from the registration requirements of the Securities Act. The exercise of your Option must also comply with other applicable laws and regulations governing your Option, and you may not exercise your Option if the Committee determines that such exercise would not be in material compliance with such laws and regulations.

8. **TERM.** The term of your Option commences on the Grant Date and expires upon the EARLIEST of the following:

- (a) three months after the termination of your Continuous Service for any reason other than your Disability or death, provided that if during any part of such three month period your Option is not exercisable solely because of the condition set forth in the preceding paragraph relating to "Securities Law Compliance," your Option will not expire until the earlier of the Expiration Date or until it has been exercisable for an aggregate period of three months after the termination of your Continuous Service;
- (b) twelve months after the termination of your Continuous Service due to your Disability;
- (c) twelve months after your death if you die either during your Continuous Service or within three months after your Continuous Service terminates;
- (d) the Expiration Date set forth in the schedule on the first page of this Agreement; or
- (e) upon a forfeiture of the Option pursuant to the Plan or this Agreement.

If your Option is an Incentive Stock Option, note that, to obtain the federal income tax advantages associated with an Incentive Stock Option, the Code requires (1) that at all times beginning on the Grant Date and ending on the day three months before the date of your Option's exercise, you must be an employee of a Company Person, except in the event of your death or Disability; and (2) you may generally not dispose of shares of the Common Stock issued upon exercise of your Option within two years after the Grant Date of this Option or within one year after such shares of Common Stock are transferred upon exercise of your Option. The Company has provided for extended exercisability of your Option under certain circumstances for your benefit but there is no guarantee that your Option will necessarily be treated as an Incentive Stock Option if you exercise your Option more than three months after the date your employment terminates, except in the case of death or Disability, even if you continue to provide services to a Company Person as a consultant or director after your employment.

9. **EXERCISE.**

- (a) As a condition to the exercise of the Option or any portion thereof, you or any other person entitled to exercise the Option shall enter into a written joinder to the Shareholder's Agreement dated on or about _____, as it may be hereafter amended. You may exercise the vested portion of your Option during its term by delivering a notice of exercise (in a form designated by the Company) together with the Purchase Price to the Secretary of the Company, or to such other person as the Company may designate, during

regular business hours, together with such additional documents as the Company may then reasonably require, including a written joinder to the Shareholder's Agreement as specified above.

(b) By exercising your Option you agree that, as a condition to any exercise of your Option, the Company may require you to enter into an arrangement providing for the payment by you to the Company of any tax withholding obligation of the Company arising because of (1) the exercise of your Option, (2) the lapse of any substantial risk of forfeiture to which the shares of Common Stock are subject at the time of exercise, or (3) the disposition of shares of Common Stock acquired upon such exercise.

(c) If your Option is an Incentive Stock Option, by exercising your Option you agree that you will notify the Company in writing within 15 days after the date of any disposition of any of the shares of the Common Stock issued upon exercise of your Option that occurs within two years after the Grant Date of this Option or within one year after such shares of Common Stock are transferred upon exercise of your Option.

10. **TRANSFERABILITY.** Your Option is not transferable, except by will or by the laws of descent and distribution. If your Option is an Incentive Stock Option, it is exercisable during your life only by you. If it is a Nonqualified Stock Option, it is exercisable during your life only by you or your guardian or legal representative.

11. **OPTION NOT A SERVICE CONTRACT.** Your Option is not an employment or service contract, and nothing in your Option shall be deemed to create in any way whatsoever any obligation on your part to continue in the employ or Continuous Service of a Company Person, or of any Company Person to continue your employment. In addition, nothing in your Option shall obligate any Company Person, its shareholders, boards of directors, officers or employees to continue any relationship that you might have as a director or consultant for any Company Person.

12. **WITHHOLDING OBLIGATIONS.**

(a) At the time you exercise your Option, in whole or in part, or at any time thereafter as requested by the Company, you hereby authorize withholding from payroll and any other amounts payable to you, and otherwise agree to make adequate provision for (including by means of a "cashless exercise" pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board to the extent permitted by the Company), any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company or a Subsidiary, if any (but not in excess of the minimum withholding requirements), which arise in connection with your Option.

(b) Upon your request and subject to approval by the Company, in its sole discretion, and compliance with any applicable conditions or restrictions of law, the Company may withhold from fully vested shares of Common Stock otherwise issuable to you upon the exercise of your Option a number of whole shares of Common Stock having a Fair Market Value, determined by the Committee as of the date of exercise, not in excess of the minimum amount of tax required to be withheld by law. If the date of determination of any tax withholding obligation is deferred to a date later than the date of exercise of your Option, share withholding pursuant to the preceding sentence shall not be permitted unless you make a proper and timely

election under Section 83(b) of the Code, covering the aggregate number of shares of Common Stock acquired upon such exercise with respect to which such determination is otherwise deferred, to accelerate the determination of such tax withholding obligation to the date of exercise of your Option. Notwithstanding the filing of such election, shares of Common Stock shall be withheld solely from fully vested shares of Common Stock determined as of the date of exercise of your Option that are otherwise issuable to you upon such exercise. Any adverse consequences to you arising in connection with such share withholding procedure shall be your sole responsibility.

(c) You may not exercise your Option unless the tax withholding obligations of the Company and/or any Affiliate are satisfied. Accordingly, you may not be able to exercise your Option when desired even though your Option is vested, and the Company shall have no obligation to issue a certificate for such shares of Common Stock or release such shares of Common Stock.

13. **FORFEITURE AND REPURCHASE OF OPTION SHARES**

(a) **"Forfeiture Event"** means a serious breach of conduct by a Participant (including, without limitation, any conduct prejudicial to or in conflict with any Company Person) or any activity of a Participant who is an Employee in competition with any of the businesses of any Company Person during a time period of nine (9) months after termination of Participant's Service, or a termination of employment for Cause. Said activity in competition includes activity during a time period of nine (9) months after termination of Participant's Service in which the Employee (i) works, performs work for hire, consults, is self employed or otherwise employed, either directly or indirectly, in a business competing with or acting against any Company Person's interest; or (ii) causes or solicits others to work, performs work for hire, consults, or be self employed or otherwise employed, either directly or indirectly, in a business competing with or acting against any Company Person's interest. The determination of whether a Forfeiture Event has occurred will be determined by the Committee in good faith and in its sole discretion.

(b) **Forfeiture.** If a Forfeiture Event occurs, the Committee may cancel any outstanding Award granted to such Participant, in whole or in part, whether or not vested. Such cancellation will be effective as of the date specified by the Committee. This Section 13(b) will have no application following a Change of Control.

(c) **Repurchase of Option Shares.** If a Forfeiture Event occurs, the Company shall have the absolute right to purchase all or any portion of the Option Shares owned by such Employee (the "**Repurchase Shares**"), by electing to purchase all or any portion of the Repurchase Shares any time during a time period of nine (9) months after the Forfeiture Event or termination of Participant's Service, whichever is later, by giving written notice of such exercise to the Employee. The purchase price per share of the Repurchase Shares shall be the Fair Market Value of such shares. If the Company elects to purchase any or all of such Repurchase Shares, it shall be obligated to purchase, and the Employee shall be obligated to sell to the Company, such Repurchase Shares and said sale and purchase shall be closed within 30 days thereafter at the offices of the Company. Such sale shall be effected by the Employee's (or heirs' or legal representatives') delivery to the Company and/or other purchasing shareholders of a certificate or certificates evidencing the Repurchased Shares, duly endorsed for transfer to the Company

and/or other purchasing shareholders, against payment to the Employee (or his or her heirs or legal representatives) by the Company and/or other purchasing shareholders of the Purchase Price for each Repurchased Share.

14. NOTICES. Any notices provided for in this Agreement or the Plan shall be given in writing and shall be deemed effectively given upon receipt or, in the case of notices delivered by mail by the Company to you, five days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company.

15. GOVERNING PLAN DOCUMENT. Your Option is subject to all the provisions of the Plan, the provisions of which are hereby made a part of your Option, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. If there is any conflict between the provisions of this Agreement and those of the Plan, the provisions of the Plan shall control.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Grant Date.

APPLIED OPTOELECTRONICS, INC.

By: _____
Name: _____
Title: _____

ACCEPTED AND AGREED TO:

By: _____

By executing this Agreement, you acknowledge receipt of a copy of the Plan.

APPLIED OPTOELECTRONICS, INC.

Incentive Stock Option Agreement

Applied Optoelectronics, Inc., a Texas corporation (the “Company”), hereby grants as of the _____, to _____ (the “Employee”), an option (the “Stock Option”) to purchase a maximum of _____ shares (the “Option Shares”) of its Common Stock, with no par value (“Common Stock”), at the price of _____ per share (the “Option Price”), on the terms and conditions contained in this Incentive Stock Option Agreement (the “Agreement”):

1. **2000 Incentive Share Plan.** This Stock Option is granted pursuant to and is governed by the Company’s 2000 Incentive Share Plan (the “Plan”) and, unless otherwise defined herein, capitalized terms used herein shall have the same meaning ascribed to such terms in the Plan. Determinations made in connection with this Stock Option pursuant to the Plan shall be governed by the Plan as it exists on this date.

2. **Grant as Incentive Stock Option: Other Options.** This Stock Option is intended to qualify as an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended (the “Code”). This Stock Option is in addition to any other options heretofore or hereafter granted to the Employee by the Company, but a duplicate original of this instrument shall not constitute the grant of another option.

3. **Vesting of Option if Employment Continues.** For the purpose of determining the vesting of the Stock Option granted hereunder, the vesting date will start on _____, (the “Vesting Date”) and this Stock Option will vest over _____ years. Subject to the earlier expiration of this Stock Option as herein provided and further subject to the continued employment of Employee by the Company, this Stock Option may be exercised, by written notice to the Company, at any time and from time to time after the date of execution hereof, but this Stock Option shall not be exercisable for more than the aggregate number of shares of Common Stock offered by this Stock Option as set forth opposite the following applicable Exercise Dates:

<u>Exercise Date</u>	<u>Number of Shares Purchasable</u>

Notwithstanding the foregoing, (i) upon the occurrence of any Change in Control (as defined in the Plan), all Stock Options granted hereunder shall become immediately exercisable, and (ii) in accordance with and subject to the provisions of the Plan, the Board may, in its discretion, amend the vesting schedule and accelerate the date that any installment of this Stock Option becomes exercisable.

Subject to the earlier termination of this Stock Option as provided herein, this Stock Option shall be for a period of _____ years and shall not, under any circumstances, be exercisable after _____ (the “Option Expiration Date”).

4. **Termination of Employment.** If the Employee ceases to be employed by the Company for any reason other than by reason of death or Disability or Retirement, no further vesting shall occur, and this Stock Option shall terminate (and may no longer be exercised) on the earlier of ninety (90) days after the date of such termination or the Option Expiration Date; provided, however, that if the Employee’s employment is terminated as a result of a Change in Control, any remaining Stock Options hereunder shall become exercisable.

5. **Death, Disability.**

(a) **Death:** If the Employee dies while in the employ of the Company or during any period under Section 4 or Section 5(b) during which the Employee has the right to exercise this Stock Option, this Stock Option may be exercised, to the extent otherwise exercisable on the date of his or her death, by the Employee’s estate, personal representative or beneficiary to whom this Stock Option has been assigned pursuant to Section 10, at any time on or before the earlier of (i) the date which is twelve (12) months after the date of the Employee’s death or (ii) the Option Expiration Date. Except as otherwise provided with respect to a Change in Control, the Employee’s estate, personal representative, or beneficiary to whom this Stock Option has been assigned shall not be entitled to purchase any shares in excess of the number of shares which the Employee was vested and entitled to purchase under Section 3 at the time of the Employee’s death.

(b) **Disability or Retirement:** If the Employee ceases to be employed by the Company by reason of his or her Disability or Retirement (as defined in the Plan), this Stock Option may be exercised, to the extent otherwise exercisable on the date of the termination of his or her employment, at any time on or before the earlier of (i) the date which is twelve (12) months after the date of such termination or (ii) the Option Expiration Date. Except as otherwise provided with respect to a Change in Control, the Employee shall not be entitled to purchase any shares in excess of the number of shares which the Employee is vested and entitled to purchase under Section 3 as of the date the Employee’s employment so terminates.

6. **Partial Exercise.** This Stock Option may be exercised in part at any time and from time to time within the above limits, except that this Stock Option may not be exercised for a fraction of a share unless such exercise is with respect to the final installment of stock subject to this Stock Option and cash in lieu of a fractional share must be paid to permit the Employee to exercise completely such final installment. Any fractional share with respect to which an installment of this Stock Option cannot be exercised because of the limitation contained in the preceding sentence shall remain subject to this Stock Option and shall be available for later purchase by the Employee in accordance with the terms hereof.

7. **Payment of Price.** The option price may only be paid in cash or by check. The option price of the Option Shares as to which this Stock Option is exercised shall be paid in full at the time of exercise.

8. **Restrictions on Resale.** Option Shares may not be transferred without the Company’s written consent except by will, by the laws of descent and distribution and in accordance with the provisions of Section 17, if applicable. Option Shares will be subject to significant restrictions on transfer and will be deemed to be “restricted securities” for purposes of the Securities Act. Accordingly, the Option Shares must be sold in compliance with the registration requirements of the Applicable Legal Requirements or an exemption therefrom. Consistent with the terms of the Plan, the Company may, as a condition precedent to the exercise of this Stock Option, require an opinion of counsel, satisfactory to the Company, to the effect that the issuance of the Option Shares will not be in

violation of the Applicable Legal Requirements. Further, the Company may place legends on any certificates evidencing the Option Shares and issue stop transfer orders with respect thereto as the Company may deem necessary or advisable to assure compliance with the Applicable Legal Requirements.

9. **Method of Exercising Option.** Subject to the terms and conditions of this Agreement, this Stock Option may be exercised by written notice to the Company at its principal executive office. Such notice shall state the election to exercise this Stock Option and the number of Option Shares for which it is being exercised and shall be signed by the person or persons so exercising this Stock Option. Such notice shall be accompanied by payment of the full purchase price of such shares, in cash or check, and the Company shall deliver a certificate or certificates representing such shares as soon as practicable after the notice shall be received. Such certificate or certificates shall be registered in the name of the person or persons so exercising this Stock Option (or if this Stock Option shall be exercised by the Employee and if the Employee shall so request in the notice exercising this Stock Option, shall be registered in the name of the Employee and another person jointly, with right of survivorship). In the event this option shall be exercised, pursuant to Section 5 hereof, by any person or persons other than the Employee, such notice shall be accompanied by appropriate proof of the right of such person or persons to exercise this Stock Option.

10. **Stock Option Not Transferable.** This Stock Option is not transferable or assignable except by will or by the laws of descent and distribution. During the Employee's lifetime only the Employee can exercise this Stock Option.

11. **No Obligation To Exercise Stock Option.** The grant and acceptance of this Stock Option imposes no obligation on the Employee to exercise it.

12. **No Right to Continued Employment.** Neither the Plan, this Agreement, nor the grant of this Stock Option shall confer upon or be construed as giving the Employee any right to remain in the employ of the Company.

13. **No Rights as Stockholder until Exercise.** The Employee shall have no rights as a shareholder with respect to the Option Shares until such time as: (i) the Employee has exercised this

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Stock Option by delivering a notice of exercise and has paid in full the purchase price for the shares so exercised in accordance with Section 9, and (ii) a certificate evidencing the Option Shares has been issued to the Employee. Except as is expressly provided in the Plan with respect to certain changes in the capitalization of the Company, no adjustment shall be made for dividends or similar rights for which the record date is prior to such date of exercise.

14. **Capital Changes and Business Successions.** The Plan contains provisions covering the treatment of Stock Options in a number of contingencies such as stock splits and mergers. Provisions in the Plan for adjustment with respect to stock subject to Stock Options and the related provisions with respect to successors to the business of the Company are hereby made applicable hereunder and are incorporated herein by reference.

15. **Early Disposition.** Subject to the provisions of Section 17, the Employee agrees to notify the Company in writing immediately after the Employee transfers any Option Shares, if such transfer occurs on or before the later of (a) the date which is two years after the date of this Agreement or (b) the date which is one year after the date the Employee acquired such Option Shares. The Employee also agrees to provide the Company with any information concerning any such transfer required by the Company for tax purposes.

16. **Withholding Taxes.** If the Company in its discretion determines that it is obligated to withhold any tax in connection with the exercise of this Stock Option, or in connection with the transfer of, or the lapse of restrictions on, any Common Stock or other property acquired pursuant to this Stock Option, the Employee hereby agrees that the Company may withhold from the Employee's wages or other remuneration the appropriate amount of tax. At the discretion of the Company, the amount required to be withheld may be withheld in cash from such wages or other remuneration or in kind from the Common Stock or other property otherwise deliverable to the Employee on exercise of this Stock Option. The Employee further agrees that the Company may require the Employee to make a cash payment to the Company if the Company determines that (i) the wages or other remuneration available for withholding are insufficient to satisfy the withholding obligation of the Company, or (ii) additional amounts should be withheld by the Company to satisfy the withholding obligation of the Company.

17. **Right of First Refusal.**

(a) **Primary Right of First Refusal by Company:** If the Employee desires to transfer all or any part of the Option Shares to any person other than the Company or other Shareholders (an "Offeror"), the Employee shall: (i) obtain in writing an irrevocable and unconditional bona fide offer (the "Offer") for the purchase thereof from the Offeror; and (ii) give written notice (the "Option Notice") to the Company and other Shareholders setting forth the Employee's desire to transfer such shares, which Option Notice shall be accompanied by a photocopy of the Offer and shall set forth at least the name and address of the Offeror and the price and terms of the Offer. Upon receipt of the Option Notice, the Company shall have an option to purchase any or all of such Option Shares (the "Offered Shares") specified in the Option Notice, such option to be exercisable by giving, within _____ days after receipt of the Option Notice, written notice of such exercise to the Employee. If the Company elects to purchase any or all of such Offered

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Shares, it shall be obligated to purchase, and the Employee shall be obligated to sell to the Company, such Offered Shares and said sale and purchase shall be closed within _____ days thereafter.

(b) **Secondary Right of First Refusal by Other Shareholders:** If the Company provides written notice of its intent not to exercise its right of first refusal or otherwise fails to exercise its right of first refusal to purchase all of the Offered Shares before the expiration of the _____-day period set forth in Section 17(a), the other Shareholders of the Company shall have an option for a period of _____ days following the date of the receipt of the Company's written notice to acquire all or any part of such Offered Shares not otherwise purchased by the Company. If one or more other shareholders gives written notice to the Company and the Offeror that such shareholder exercises his option to purchase such Offered Shares, then such Offered Shares shall be allocated among the other Shareholders as they may agree or, if the other shareholders fail to reach such an agreement, the Offered Shares shall be allocated among the exercising shareholders in the ratio each exercising shareholder's number of shares of Common Stock bears to the total number of shares of Common Stock owned by all other Shareholders exercising their option pursuant to this Section 17(b). To the extent any other shareholders elect to exercise their right of first refusal under this Section 17(b), such shareholder shall provide written notice of such exercise to the Employee and the Company within such _____-day period. If any other shareholders elect to purchase any or all of such Offered Shares, such shareholder shall be obligated to purchase, and the Employee shall be obligated to sell to such shareholders, such Offered Shares and said sale and purchase shall be closed within _____ days thereafter.

(c) **Purchase Price:** The total purchase price to be paid by the Company or other Shareholders for the Offered Shares shall be the lower of (i) the purchase price set forth in the Option Notice, or (ii) the purchase price determined pursuant to Section 18 (d).

(d) **Sale of Offered Shares to Offeror:** The Employee may, for days after the expiration of the option periods as set forth in Sections 17(a) and (b) above, sell to the Offeror, pursuant to the terms of the Offer, any or all of such Offered Shares not purchased or agreed to be purchased by the Company or the other Shareholders; provided, however, that the Employee shall not sell such Offered Shares to such Offeror unless such Offeror shall execute an agreement with the Company pursuant to which such Offeror agrees to be subject to the restrictions set forth in this Section 17. In no event shall the Employee sell or transfer any Offered Shares to the Offeree without (i) making all required filings with, and obtaining any required approval from, any applicable governmental or other regulatory authority which the Company shall, in its sole discretion, determine to be necessary or advisable, and (ii) otherwise complying with the Applicable Legal Requirements regarding any transfer or sale of the Offered Shares. If any or all of such Offered Shares are not sold pursuant to an Offer within the time permitted above, the unsold Offered Shares shall remain subject to the terms of this Section 17.

(e) **Adjustments for Changes in Capital Structure:** If there shall be any change in the Common Stock of the Company through merger, consolidation, reorganization, recapitalization, stock dividend, stock split, combination or exchange of shares, or the like, the restrictions contained in Section 8 and this Section 17 shall apply with equal force to additional and/or substitute securities, if any, received by the Employee in exchange for, or by virtue of his or

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her ownership of, Option Shares, except as otherwise determined by the Board of Directors of the Company.

(f) **Failure to Deliver Option Shares:** If the Employee fails or refuses to deliver on a timely basis duly endorsed certificates representing Offered Shares to be sold to the Company or the other Shareholders pursuant to this Section 17, the Company shall have the right to establish a special account in the name, and for the benefit of, the Employee and deposit the purchase price for such Offered Shares in such special account, giving notice of such deposit to the Employee, whereupon such Offered Shares shall be deemed to have been purchased by the Company and/or the other Shareholders. All such monies shall be held for the benefit of the Employee. The Company may place a legend on any certificates for Option Shares delivered to the Employee reflecting the restrictions on transfer provided in Section 8 hereof and this Section 17.

18. **Repurchase of Option Shares.**

(a) If (i) the Employee's employment with the Company is terminated by either the Employee or the Company and the Employee is found in violation of the signed Employee Agreement or works, performs work for hire, consults, is self employed or otherwise employed, either directly or indirectly or (ii) causes or solicits others to work, performs work for hire, consults, or be self employed or otherwise employed, either directly or indirectly, in a business competing with or acting against the Company's interest, the Company and other shareholders shall have the absolute right to purchase all of the Option Shares owned by such Employee (the "Repurchase Shares") in accordance with the option time periods and notice procedures provided for with respect to the purchase of the Offered Shares as set forth in Section 17(a) and (b) above. Only under the conditions set forth in this section shall the provisions set forth in 17(a) and 17(b) be extended to cover a time period of nine (9) months after the termination of Employee's employment during which time the Company will have the first right to elect to purchase all or any portion of the Repurchase Shares.

(b) The purchase price (the "Purchase Price") per share of the Repurchased Shares under this Section 18 shall be the Fair Value of such shares as described in Section 18(d) below.

(c) If the Company and/or the other shareholders exercise their option to purchase the Repurchased Shares, the closing of the sale of the Repurchased Shares shall be made at the offices of the Company on or before the 30th day following the expiration of the Company's and other shareholder's options as provided in Section 18(a). Such sale shall be effected by the Employee's (or heirs' or legal representatives') delivery to the Company and/or other purchasing shareholders of a certificate or certificates evidencing the Repurchased Shares, duly endorsed for transfer to the Company and/or other purchasing shareholders, against payment to the Employee (or his or her heirs or legal representatives) by the Company and/or other purchasing shareholders of the Purchase Price for each Repurchased Share.

(d) For purposes of this Agreement, "Fair Value" shall mean: (i) if the Company's Common Stock is not then publicly traded on a national securities exchange or in the Nasdaq over-the-counter inter-dealer quotation system, the value per share as determined in good faith by the Board of Directors, either pursuant to the most recent grant of an incentive stock option

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under the Company's Plan, or as is established in good faith by the Board of Directors, or (ii) if the Company's Common Stock is then publicly traded, "Fair Value" shall mean the average of the bid and asked price in the over-the-counter market as reported by Nasdaq or, if the Common Stock is then traded on a national securities exchange, or traded in the Nasdaq National Market, the average of the high and low sale prices quoted on such exchange or market system for the 20 consecutive trading days preceding the date of termination of the Employee's employment with the Company. Nothing in this section is intended to survive Section 17(e) except as provided for in Section 18(a) of this agreement.

19. **Lock-up Agreement.** The Employee agrees that in connection with an underwritten public offering of Common Stock, or in the event of a Change in Control as provided in Section 3 and Section 17(e), upon the request of the Company or the principal underwriter managing such public offering, this Option and the Option Shares may not be sold, offered for sale or otherwise disposed of without the prior written consent of the Company or such underwriter, as the case may be, for at least 180 days after the effectiveness of the registration statement filed in connection with such offering, or such longer period of time as the Board of Directors may determine if all of the Company's directors and officers agree to be similarly bound. The lock-up agreement established pursuant to this paragraph 19 shall have perpetual duration.

20. **Provision of Documentation to Employee.** By signing this Agreement the Employee acknowledges receipt of a copy of this Agreement and a copy of the Plan.

21. **Miscellaneous.**

(a) **Notices:** All notices hereunder shall be in writing and shall be deemed given when sent by certified or registered mail, postage prepaid, return receipt requested, to the address set forth below. The addresses for such notices may be changed from time to time by written notice given in the manner

provided for herein.

Company:

Employee:

(b) Entire Agreement; Modification: This Agreement, together with the Plan which is incorporated herein, constitute the entire agreement between the parties relative to the subject matter hereof, and supersede all proposals, written or oral, and all other communications between the parties relating to the subject matter of this Agreement. This Agreement may be modified, amended or rescinded only by a written agreement executed by both parties.

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(c) Severability: The invalidity, illegality or unenforceability of any provision of this Agreement shall in no way affect the validity, legality or enforceability of any other provision.

(d) Successors and Assigns: This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, subject to the limitations set forth in Section 10 hereof.

(e) Governing Law: This Agreement shall be governed by and interpreted in accordance with the laws of the State of Texas without giving effect to the principles of the conflicts of laws thereof.

IN WITNESS WHEREOF, the Company and the Employee have caused this instrument to be executed as of the date first above written.

APPLIED OPTOELECTRONICS, INC.

By: _____

Name:

Title:

EMPLOYEE

By: _____

Name:

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**APPLIED OPTOELECTRONICS, INC.
2004 INCENTIVE SHARE PLAN**

**STOCK OPTION AGREEMENT
(INCENTIVE AND NONQUALIFIED STOCK OPTIONS)**

Pursuant to this Stock Option Agreement (the “**Agreement**”), having an effective date of the Grant Date (defined below), Applied Optoelectronics, Inc. (the “**Company**”) has granted you (the “**Participant**”) a Stock Option (“**Option**”) under its 2004 Incentive Share Plan, as amended (the “**Plan**”), to purchase the number of shares of the Company’s Common Stock at the exercise price indicated below. Undefined terms in this Agreement are defined in the Plan.

The details of your Option are as follows:

PARTICIPANT:

ADDRESS:

FIRST DATE OF EMPLOYMENT:

TOTAL OPTION SHARES:

PURCHASE PRICE PER SHARE:

GRANT DATE:

FIRST VESTING DATE:

FIRST VESTING DATE NUMBER OF SHARES:

SUBSEQUENT VESTING DATE NUMBER OF SHARES:

EXPIRATION DATE:

TYPE OF STOCK OPTION:

(CHECK ONE) INCENTIVE STOCK OPTION
 NONQUALIFIED STOCK OPTION

1. **GRANT OF OPTION.** The Company hereby grants to you an option (the “**Option**”) to purchase the total number of shares of Common Stock set forth above at the Purchase Price Per Share set forth above (the “**Purchase Price**”), subject to all of the terms and conditions of this Agreement and the Plan. If designated as an Incentive Stock Option above, the Option is intended to qualify as an “incentive stock option” within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the “**Code**”). However, the Company shall have no liability in the event it is determined that such Option fails to qualify as such. If this Option is designated as an Incentive Stock Option and all or any portion of this Option fails to qualify as such, the portion that fails to qualify as an Incentive Stock Option shall be treated as a Nonqualified Stock Option.

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2. **EXERCISE PERIOD/VESTING SCHEDULE.**

(a) “**Company Person**” means the Company or a Subsidiary. “**Continuous Service**” means that the applicable Participant’s service with a Company Person, whether as an employee, director or consultant, is not interrupted or terminated. Such Participant’s Continuous Service will not be deemed to have terminated merely because of a change in the capacity in which such Participant renders service to a Company Person as an employee, consultant or director or a change in the Company Person for which such Participant renders such service, provided that there is no interruption or termination of such Participant’s Continuous Service. For example, a change in status from an employee of the Company to a consultant of a Subsidiary or a director will not constitute an interruption of Continuous Service. The Committee or the chief executive officer of the Company, in that party’s sole discretion, may determine whether Continuous Service will be considered interrupted in the case of any leave of absence approved by that party, including sick leave, military leave or any other personal leave.

(b) Provided that you continue to provide Continuous Service to any Company Person throughout the specified period, the Option shall vest and become exercisable as to portions of the shares as follows: _____ on the First Vesting Date, with the remainder vesting in equal portions of _____ each at the end of _____ periods (each such period, a “**Vesting Period**”) of the _____ period following the First Vesting Date (each such date, a “**Vesting Date**”). Each Vesting Date shall be on the same day of the month as that of the First Vesting Date, or on the last day of the month in cases where the day of the month of the First Vesting Date is beyond the end of the month of the respective Vesting Date. [If application of any vesting percentage causes a fractional share, such share shall be rounded down to a whole share.] Subject to the limitations contained herein, your Option will vest as set forth herein, provided that vesting will cease upon the termination of your Continuous Service, and further provided that this vesting schedule is subject to Sections 4 and 7 hereof.

3. **NUMBER OF SHARES AND EXERCISE PRICE.** The number of shares of Common Stock subject to your Option and the Purchase Price may be adjusted from time to time in accordance with the Plan.

4. **[CHANGE IN CONTROL.**

(a) If Participant is an employee (“**Employee**”), the Option hereby granted shall become immediately and fully exercisable, irrespective of the limitations set forth in Section 2 above, provided that the Employee has been in Continuous Employment since the Grant Date of said Option and as long as this Option has not already expired or been forfeited, upon the occurrence of both: (a) a Change in Control;

and (b) termination of the Employee's Employment on or after the date of a Change in Control either (i) by the Company for any reason other than for Cause, or (ii) by the Employee for Good Reason.

- (b) "**Cause**" shall mean cause as defined in any employment agreement between the Employee and the Company or any Subsidiary in effect at the time of the Employee's termination of Employment or, in the absence of any such employment agreement, any of the following: (i) conviction of

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the Employee by a court of competent jurisdiction of any felony or a crime involving moral turpitude; (ii) the Employee's knowing failure or refusal to follow reasonable instructions of the Board or the Employee's supervisor or reasonable policies, standards and regulations of the Company or any Subsidiary; (iii) the Employee's continued failure or refusal to faithfully and diligently perform the usual, customary duties of his Employment with the Company or any Subsidiary; or (iv) the Employee's conduct is detrimental to the reputation, character, business or standing of the Company or any Subsidiary.

- (c) "**Good Reason**" shall mean if, without the written consent of the Employee, (i) the Employee is assigned duties (or has his or her duties diminished in a fashion) materially inconsistent with his or her position, duties, responsibilities and status with the Company and its Subsidiaries as of the time of a Change in Control; (ii) the Company or any of its Subsidiaries materially reduces the aggregate compensation or incentive package of the Employee as in effect at the time of a Change in Control; (iii) the Company or any of its Subsidiaries reduces the benefit package for health and welfare benefit plans, pension and 401(k) plans of the Employee, as in effect at the time of the Change in Control, except for changes in the benefit package applicable to all employees of the Company or its Subsidiaries; or (iv) the Company takes any other action which materially and adversely changes the conditions or prerequisites of the Employee's Employment as in effect as of the time of the Change in Control (provided that no material or adverse change shall be deemed to have occurred solely on account of a change in the individual(s) in the office or on the board of directors to whom the Employee reports). The Employee shall give notice of any termination of the Employee's Employment for Good Reason due to any of the events described above by delivery of written notice thereof to the Company within 120 days after the first occurrence of the event giving rise to such Good Reason.
- (d) "**Employment**" shall mean employment with a Company Person. "**Continuous Employment**" means Continuous Service as an employee of a Company Person.]

5. **METHOD OF PAYMENT.** This Option may be exercised, in whole or in part, by giving written notice of exercise to the Company specifying the number of shares of Common Stock to be purchased. [Such notice shall be accompanied by the payment in full of the Option Purchase Price. Such payment shall be made: (a) in cash; (b) to the extent authorized by the Committee, by surrender of shares of Common Stock previously owned by the holder of the Option; (c) following an Initial Public Offering, through simultaneous sale through a broker of shares acquired on exercise, as permitted under Regulation T of the Federal Reserve Board; (d) through additional methods prescribed by the Committee; or (e) by a combination of any such methods as permitted by the Committee. Your subsequent transfer or disposition of any shares acquired upon exercise of an Option will be subject to any Federal and state laws then applicable.]

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6. **WHOLE SHARES.** You may exercise your Option only for whole shares of Common Stock.
7. **SECURITIES LAW COMPLIANCE.** Notwithstanding anything to the contrary contained herein, you may not exercise your Option unless the shares of Common Stock issuable upon such exercise are then registered under the Securities Act or, if such shares of Common Stock are not then so registered, the Committee has determined that such exercise and issuance would be exempt from the registration requirements of the Securities Act. The exercise of your Option must also comply with other applicable laws and regulations governing your Option, and you may not exercise your Option if the Committee determines that such exercise would not be in material compliance with such laws and regulations.
8. **TERM.** The term of your Option commences on the Grant Date and expires upon the EARLIEST of the following:
- (a) three months after the termination of your Continuous Service for any reason other than your Disability or death, provided that if during any part of such three month period your Option is not exercisable solely because of the condition set forth in the preceding paragraph relating to "Securities Law Compliance," your Option will not expire until the earlier of the Expiration Date or until it has been exercisable for an aggregate period of three months after the termination of your Continuous Service;
 - (b) twelve months after the termination of your Continuous Service due to your Disability;
 - (c) twelve months after your death if you die either during your Continuous Service or within three months after your Continuous Service terminates;
 - (d) the Expiration Date set forth in the schedule on the first page of this Agreement; or
 - (e) upon a forfeiture of the Option pursuant to the Plan or this Agreement.

If your Option is an Incentive Stock Option, note that, to obtain the federal income tax advantages associated with an Incentive Stock Option, the Code requires (1) that at all times beginning on the Grant Date and ending on the day three months before the date of your Option's exercise, you must be an employee of a Company Person, except in the event of your death or Disability; and (2) you may generally not dispose of shares of the Common Stock issued upon exercise of your Option within two years after the Grant Date of this Option or within one year after such shares of Common Stock are transferred upon exercise of your Option. The Company has provided for extended exercisability of your Option under certain circumstances for your benefit but there is no guarantee that your Option will necessarily be treated as an Incentive Stock Option if you exercise your Option more than three months after the date your employment terminates, except in the case of death or Disability, even if you continue to provide services to a Company Person as a consultant or director after your employment.

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9. EXERCISE.

(a) As a condition to the exercise of the Option or any portion thereof, you or any other person entitled to exercise the Option shall enter into a written joinder to the Shareholder's Agreement dated on or about _____, as it may be hereafter amended. You may exercise the vested portion of your Option during its term by delivering a notice of exercise (in a form designated by the Company) together with the Purchase Price to the Secretary of the Company, or to such other person as the Company may designate, during regular business hours, together with such additional documents as the Company may then reasonably require, including a written joinder to the Shareholder's Agreement as specified above.

(b) By exercising your Option you agree that, as a condition to any exercise of your Option, the Company may require you to enter into an arrangement providing for the payment by you to the Company of any tax withholding obligation of the Company arising because of (1) the exercise of your Option, (2) the lapse of any substantial risk of forfeiture to which the shares of Common Stock are subject at the time of exercise, or (3) the disposition of shares of Common Stock acquired upon such exercise.

(c) If your Option is an Incentive Stock Option, by exercising your Option you agree that you will notify the Company in writing within 15 days after the date of any disposition of any of the shares of the Common Stock issued upon exercise of your Option that occurs within two years after the Grant Date of this Option or within one year after such shares of Common Stock are transferred upon exercise of your Option.

10. **TRANSFERABILITY.** Your Option is not transferable, except by will or by the laws of descent and distribution. If your Option is an Incentive Stock Option, it is exercisable during your life only by you. If it is a Nonqualified Stock Option, it is exercisable during your life only by you or your guardian or legal representative.

11. **OPTION NOT A SERVICE CONTRACT.** Your Option is not an employment or service contract, and nothing in your Option shall be deemed to create in any way whatsoever any obligation on your part to continue in the employ or Continuous Service of a Company Person, or of any Company Person to continue your employment. In addition, nothing in your Option shall obligate any Company Person, its shareholders, boards of directors, officers or employees to continue any relationship that you might have as a director or consultant for any Company Person.

12. WITHHOLDING OBLIGATIONS.

(a) At the time you exercise your Option, in whole or in part, or at any time thereafter as requested by the Company, you hereby authorize withholding from payroll and any other amounts payable to you, and otherwise agree to make adequate provision for (including by means of a "cashless exercise" pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board to the extent permitted by the Company), any sums required to satisfy the federal, state, local and foreign tax withholding obligations of the Company or a Subsidiary, if any (but not in excess of the minimum withholding requirements), which arise in connection with your Option.

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(b) Upon your request and subject to approval by the Company, in its sole discretion, and compliance with any applicable conditions or restrictions of law, the Company may withhold from fully vested shares of Common Stock otherwise issuable to you upon the exercise of your Option a number of whole shares of Common Stock having a Fair Market Value, determined by the Committee as of the date of exercise, not in excess of the minimum amount of tax required to be withheld by law. If the date of determination of any tax withholding obligation is deferred to a date later than the date of exercise of your Option, share withholding pursuant to the preceding sentence shall not be permitted unless you make a proper and timely election under Section 83(b) of the Code, covering the aggregate number of shares of Common Stock acquired upon such exercise with respect to which such determination is otherwise deferred, to accelerate the determination of such tax withholding obligation to the date of exercise of your Option. Notwithstanding the filing of such election, shares of Common Stock shall be withheld solely from fully vested shares of Common Stock determined as of the date of exercise of your Option that are otherwise issuable to you upon such exercise. Any adverse consequences to you arising in connection with such share withholding procedure shall be your sole responsibility.

(c) You may not exercise your Option unless the tax withholding obligations of the Company and/or any Affiliate are satisfied. Accordingly, you may not be able to exercise your Option when desired even though your Option is vested, and the Company shall have no obligation to issue a certificate for such shares of Common Stock or release such shares of Common Stock.

13. FORFEITURE AND REPURCHASE OF OPTION SHARES

(a) **"Forfeiture Event"** means a serious breach of conduct by a Participant (including, without limitation, any conduct prejudicial to or in conflict with any Company Person) or any activity of a Participant who is an Employee in competition with any of the businesses of any Company Person during a time period of nine (9) months after termination of Participant's Service, or a termination of employment for Cause. Said activity in competition includes activity during a time period of nine (9) months after termination of Participant's Service in which the Employee (i) works, performs work for hire, consults, is self employed or otherwise employed, either directly or indirectly, in a business competing with or acting against any Company Person's interest; or (ii) causes or solicits others to work, performs work for hire, consults, or be self employed or otherwise employed, either directly or indirectly, in a business competing with or acting against any Company Person's interest. The determination of whether a Forfeiture Event has occurred will be determined by the Committee in good faith and in its sole discretion.

(b) **Forfeiture.** If a Forfeiture Event occurs, the Committee may cancel any outstanding Award granted to such Participant, in whole or in part, whether or not vested. Such cancellation will be effective as of the date specified by the Committee. This Section 13(b) will have no application following a Change of Control.

(c) **Repurchase of Option Shares.** If a Forfeiture Event occurs, the Company shall have the absolute right to purchase all or any portion of the Option Shares owned by such Employee (the "**Repurchase Shares**"), by electing to purchase all or any portion of the Repurchase Shares any time during a time period of nine (9) months after the Forfeiture Event or

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termination of Participant's Service, whichever is later, by giving written notice of such exercise to the Employee. The purchase price per share of the Repurchase Shares shall be the Fair Market Value of such shares. If the Company elects to purchase any or all of such Repurchase Shares, it shall be obligated to purchase, and the Employee shall be obligated to sell to the Company, such Repurchase Shares and said sale and purchase shall be closed within 30 days thereafter at the offices of the Company. Such sale shall be effected by the Employee's (or heirs' or legal representatives') delivery to the Company and/or other purchasing shareholders of a certificate or certificates evidencing the Repurchased Shares, duly endorsed for transfer to the Company and/or other purchasing shareholders, against payment to the Employee (or his or her heirs or legal representatives) by the Company and/or other purchasing shareholders of the Purchase Price for each Repurchased Share.

- 14. NOTICES. Any notices provided for in this Agreement or the Plan shall be given in writing and shall be deemed effectively given upon receipt or, in the case of notices delivered by mail by the Company to you, five days after deposit in the United States mail, postage prepaid, addressed to you at the last address you provided to the Company.
- 15. GOVERNING PLAN DOCUMENT. Your Option is subject to all the provisions of the Plan, the provisions of which are hereby made a part of your Option, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. If there is any conflict between the provisions of this Agreement and those of the Plan, the provisions of the Plan shall control.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Grant Date.

APPLIED OPTOELECTRONICS, INC.

By: _____
Name: _____
Title: _____

ACCEPTED AND AGREED TO:

By: _____

By executing this Agreement, you acknowledge receipt of a copy of the Plan.

APPLIED OPTOELECTRONICS, INC. 2006 INCENTIVE SHARE PLAN

STOCK OPTION AGREEMENT

Optionee:

Employee ID / Participant Code:

Grant Number:

Address:

Total Shares Subject to Option:

Exercise Price Per Share:

Date of Grant:

Vesting Commencement Date:

Post-Termination Exercise Period:

Expiration Date:

Type of Stock Option:

- Incentive Stock Option
- Non-Qualified Stock Option

1. Grant of Option. Applied Optoelectronics, Inc., a Texas corporation (the "Company"), hereby grants to the Optionee named above an option (the "Option") to purchase the total number of shares of Common Stock set forth above (the "Shares") at the exercise price per Share set forth above (the "Exercise Price"), in accordance with this Stock Option Agreement ("Option Agreement") and subject to the terms and conditions of the Applied Optoelectronics, Inc. 2006 Incentive Share Plan, as amended from time to time (the "Plan"), which are incorporated herein by reference. If designated as an Incentive Stock Option above, the Option is intended to qualify as an "incentive stock option" within the meaning of Section 422 of the Code. Unless otherwise defined herein, capitalized terms used herein shall have the same meanings ascribed to them in the Plan.

2. Vesting; Time of Exercise. Subject to the terms and conditions of the Plan and this Option Agreement, the Option shall vest and become exercisable in the following cumulative installments, as follows:

(a) The Option shall vest and become exercisable with respect to _____ percent (%) of the Shares as of the _____ anniversary of the vesting commencement date set forth above (the "Vesting Commencement Date");

(b) The Option shall vest and become exercisable with respect to _____ () of the remaining Shares as of the _____ day of the _____ month following the _____ anniversary of the Vesting Commencement Date and each succeeding _____ calendar month(s), until the Option is vested and exercisable with respect to _____ % of the Shares.

If an installment covers a fractional Share, such installment will be rounded to the next highest Share, except the final installment, which will be for the balance of the total Shares; provided, that, absent the occurrence of a Recapitalization or Corporate Transaction as described in Article 12 of the Plan, the Optionee shall in no event be entitled under the Option to purchase a number of shares of the Common Stock greater than the "Total Shares Subject to Option" indicated above. Notwithstanding anything to the contrary herein, the Option shall expire on the Expiration Date set forth above and must be exercised, if at all, on or before the Expiration Date. If the Optionee's service with the Company or any Subsidiary is terminated, the Option shall be exercisable only to the extent that the Optionee could have exercised it on the date of his or her termination of Continuous Service. Notwithstanding anything to the contrary herein, the Shares shall become fully exercisable upon the occurrence during the term hereof of a Change of Control or the death, Disability or Retirement of the Optionee, and the Optionee may forfeit his or her right to exercise the Option if the Optionee's service with the Company or any Subsidiary is terminated for Cause.

3. Exercise of Option.

(a) Right to Exercise. The Option shall be exercisable in accordance with the vesting provisions contained in Section 2 of this Option Agreement and with the other applicable provisions of the Plan and this Option Agreement. The Option shall be subject to the provisions of Section 12 of the Plan relating to the exercisability or termination of the Option in the event of a Recapitalization or Corporate Transaction.

(b) Method of Exercise. The Option shall be exercisable only by delivery to the Company of an executed Stock Option Exercise Notice (the "Exercise Notice") in the form attached hereto as Exhibit A, or in such other form approved by the Committee, which shall state the Optionee's election to exercise the Option, the whole number of Shares in respect of which the Option is being exercised, and such other provisions as may be required by the Committee or necessary to comply with securities and other applicable laws. The Exercise Notice shall be signed by the Optionee and shall be delivered to the Company by such method as may be permitted by the Committee, accompanied (in any case) by payment of, or provision for the payment of, the Exercise Price for each Share covered by the Exercise Notice, as described in Section 4 of this Option Agreement. The Option shall be deemed to be exercised upon receipt by the Company of such written Exercise Notice and the Exercise Price to the extent provided in such Exercise Notice.

(c) Issuance of Shares. If the Exercise Notice and payment are in form and substance satisfactory to the Company (or its counsel), and the Optionee or any other person permitted to exercise the Option has complied with Section 5 of this Option Agreement, the Company shall issue or cause the issuance of, in the name of the Optionee or Optionee's legal representative, the Shares purchased by such exercise of the Option.

4. **Method of Payment.** The Optionee's delivery of the signed Exercise Notice to exercise the Option (in whole or in part) shall be accompanied by full payment of the Exercise Price for the Shares being purchased. Payment for the Shares may be made in cash (by check) or at the election of the Optionee and where permitted by law in one or more of the following methods: (i) if a public market for the Common Stock exists, through a "same day sale" arrangement between the Optionee and a broker-dealer that is a member of the National Association of Securities Dealers, Inc. (an "NASD Dealer") whereby the Optionee elects to exercise the Stock Option and to sell a portion of the shares of Common Stock so purchased to pay for the exercise price and whereby the NASD Dealer commits upon receipt of such shares of Common Stock to forward the exercise price directly to the Company; (ii) if a public market for the Common Stock exists, through a "margin" commitment from the Optionee and an NASD Dealer whereby the Optionee elects to exercise the Stock Option and to pledge the shares of Common Stock so purchased to the NASD Dealer in a margin account as security for a loan from the NASD Dealer in the amount of the exercise price, and whereby the NASD Dealer commits upon receipt of such shares of Common Stock to forward the exercise price directly to the Company; (iii) by surrender for cancellation of shares of Common Stock owned by the Optionee at the Fair Market Value per share at the time of exercise (provided that such surrender does not result in an accounting charge for the Company); (iv) where approved by the Committee at the time of exercise, by delivery of the Optionee's promissory note with such recourse, interest, security, redemption and other provisions as the Committee may require, provided that the par value of each of the shares of Common Stock to be purchased is paid for in cash; or (v) in any other form of valid consideration that is acceptable to the Committee in its sole discretion or (vi) by any combination of the foregoing. Notwithstanding the foregoing, the payment options provided in (i), (ii) or (iv) above shall not be available to any Optionee who is a member of the Board or an executive officer of the Company or a Subsidiary if such payment option would be treated as a personal loan prohibited under Section 13(k) of the Exchange Act.

5. **Tax Withholding Obligations.** No Shares shall be delivered to the Optionee or any other person permitted to exercise the Option pursuant to the exercise of the Option until the Optionee or such other person has made arrangements acceptable to the Committee for the satisfaction of applicable income tax, employment tax, and social security tax withholding obligations, including obligations incident to the receipt of Shares. Upon exercise of the Option, the Company or the Optionee's employer may offset or withhold (from any amount owed by the Company or the Optionee's employer to the Optionee) or collect from the Optionee or such other person an amount sufficient to satisfy such tax obligations and/or the employer's withholding obligations.

6. **Termination or Change of Service.**

(a) **Post-Termination Exercise.** Subject to the provisions of Sections 7 and 8 of this Option Agreement, if the Optionee's service with the Company or any Subsidiary terminates, other than as described in Section 6(b) of this Option Agreement, the Optionee may, to the extent otherwise so entitled at the date of Optionee's termination of service (the "Termination Date"), exercise the Option during the Post-Termination Exercise Period set forth on the first page of this Option Agreement. Upon termination of the Optionee's service with the Company or any Subsidiary as described in Section 6(b) of this Option Agreement, the Optionee's right to exercise the Option shall, except as otherwise determined by the Committee, terminate

concurrently with the termination of the Optionee's service with the Company or Subsidiary. In no event may the Option be exercised later than the Expiration Date set forth on the first page of this Option Agreement. In the event of the Optionee's change in status from Employee, non-employee director or Consultant to any other status of Employee, non-employee director or Consultant, the Option shall remain in effect and, except to the extent otherwise determined by the Committee, continue to vest; provided, however, that with respect to any Incentive Stock Option that shall remain in effect after a change in status from Employee to non-employee director or Consultant, such Incentive Stock Option shall cease to be treated as an Incentive Stock Option and shall be treated as a Non-Qualified Stock Option on the day that is three (3) months and one (1) day following such change in status. Except as provided in Sections 7 and 8 of this Option Agreement, to the extent that the Optionee is not entitled to exercise the Option on the Termination Date, or if the Optionee does not exercise the Option within the Post-Termination Exercise Period, the Option shall terminate.

(b) **No Post-Termination Exercise.** Unless the Committee otherwise determines, if the Optionee's service with the Company or any Subsidiary is terminated either (i) by the Company or a Subsidiary for Cause, or (ii) if Optionee's employment is subject to the terms of a then-effective written employment agreement between the Optionee and the Company or an affiliate, by the Optionee without compliance with, or without having any right to do so under, the terms of such employment agreement, then the Optionee's right to exercise the Option shall immediately terminate. For purposes of this Option Agreement, the term "Cause" for termination by the Company or a Subsidiary of the Optionee's service with the Company or any Subsidiary shall have the meaning set forth in a then-effective written employment agreement between the Optionee and the Company or such Subsidiary or, in the absence of such a definition in a then-effective written employment agreement (in the determination of the Committee), shall mean Cause as otherwise provided in the Plan. The Committee shall have discretion for the purposes of this Option Agreement to determine whether any termination of service by the Optionee is in compliance with, or is in accordance with any right to terminate, under the terms of a then-effective written employment agreement.

7. **Disability or Retirement of Optionee.** If the Optionee's service with the Company or any Subsidiary terminates as a result of his or her Disability or Retirement, the Optionee may exercise the Option, within 36 months from the Termination Date (and in no event later than the Expiration Date), provided, however, that with respect to any Incentive Stock Option that shall remain in effect after an Optionee's Disability or Retirement, such Incentive Stock Option shall cease to be treated as an Incentive Stock Option and shall be treated as a Non-Qualified Stock Option on the day that is one (1) year and one (1) day following the Optionee's Disability or three (3) months and one (1) day following the Optionee's Retirement. If the Option is not exercised to the extent so entitled within the time specified in this Section 7, the Option shall terminate.

8. **Death of Optionee.** In the event of the termination of the Optionee's service with the Company or any Affiliate as a result of his or her death, the Optionee's estate, or a person who acquired the right to exercise the Option by bequest or inheritance, may exercise the Option, within 36 months from the date of death (but in no event later than the Expiration Date), provided, however, that with respect to any Incentive Stock Option that shall remain in effect after an Optionee's death, such Incentive Stock Option shall cease to be treated as an Incentive

Stock Option and shall be treated as a Non-Qualified Stock Option on the day that is one (1) year and one (1) day following the Optionee's death. If the Option is not exercised to the extent so entitled within the time specified in this Section 8, the Option shall terminate.

9. Notice of Disqualifying Disposition. If the Option is an Incentive Stock Option, and if the Optionee sells or otherwise disposes of any of the Shares acquired pursuant to exercise of the Incentive Stock Option on or before the later of (i) the date that is two years after the Date of Grant, or (ii) the date that is one year after exercise of the Incentive Stock Option with respect to the Shares to be sold or disposed of, then the Optionee shall immediately notify the Company in writing of such sale or other disposition. The Optionee acknowledges and agrees that he or she may be subject to income tax withholding by the Company on the compensation income recognized by him or her from any such early sale or other disposition by payment in cash or out of the current wages or other earnings payable to the Optionee.

10. Transferability of Option. Neither the Option nor any of the Optionee's rights under this Option Agreement may be transferred or assigned in any manner other than by will or by the law of descent and distribution or as may otherwise be permitted by the Committee or by the terms of the Plan. The Option and those rights may be exercised during the lifetime of the Optionee only by the Optionee.

11. Tax Consequences. Set forth below is a brief summary, as of the Date of Grant, of some of the federal tax consequences of exercise of the Option and disposition of the Shares. THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. THE OPTIONEE SHOULD CONSULT A TAX ADVISOR BEFORE EXERCISING THE OPTION OR DISPOSING OF THE SHARES.

(a) Exercise of Incentive Stock Option. If the Option qualifies as an Incentive Stock Option, there will be no regular federal income tax liability upon the exercise of the Option, although the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price will be treated as an adjustment to alternative minimum taxable income for federal income tax purposes and may subject the Optionee to an alternative minimum tax liability in the year of exercise.

(b) Exercise of Non-Qualified Stock Option. If the Option does not qualify as an Incentive Stock Option, there may be a regular federal income tax liability upon the exercise of the Option. The Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price. If the Optionee is an Employee or former Employee, the Company will be required to withhold from the Optionee's compensation or collect from the Optionee and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income at the time of exercise.

(c) Disposition of Shares. In the case of a Non-Qualified Stock Option, if the Shares are held for at least one year before disposition, any gain on disposition of the Shares will be treated as long-term capital gain for federal income tax purposes. In the case of an Incentive Stock Option, if Shares are held for at least one year after the date of exercise and at least two years after the Date of Grant, any gain on disposition on the Shares will be treated as long-term

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capital gain for federal income tax purposes. If the Shares acquired pursuant to an Incentive Stock Option are disposed of within such one-year or two-year periods (a "disqualifying disposition"), gain on such disqualifying disposition will be treated as compensation income (taxable at ordinary income rates) to the extent of the excess, if any, of the Fair Market Value of the Shares on the date of exercise over the Exercise Price (the "Spread"), or, if less, the difference between the amount realized on the sale of such Shares and the Exercise Price. Any gain in excess of the Spread shall be treated as capital gain.

12. Term of Option. The Option may be exercised no later than the Expiration Date or such earlier date as otherwise provided in this Option Agreement.

13. Entire Agreement; Governing Law. The Plan and this Option Agreement (with the Exercise Notice, if the Option is exercised) constitute the entire agreement of the Company and the Optionee (collectively the "Parties") with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Parties with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Parties. Nothing in the Plan and this Option Agreement (except as expressly provided therein or herein) is intended to confer any rights or remedies on any person other than the Parties. The Plan and this Option Agreement are to be construed in accordance with and governed by the internal laws of the State of Texas without giving effect to any choice-of-law rule that would cause the application of the laws of any jurisdiction other than the internal laws of the State of Texas, to the rights and duties of the Parties. Should any provision of the Plan or this Option Agreement be determined by a court of law to be illegal or unenforceable, such provision shall be enforced to the fullest extent allowed by law and the other provisions shall nevertheless remain effective and shall remain enforceable.

14. Interpretive Matters. Whenever required by the context, pronouns and any variation thereof shall be deemed to refer to the masculine, feminine, or neuter, and the singular shall include the plural, and vice versa. The term "include" or "including" does not denote or imply any limitation. The captions and headings used in this Option Agreement are inserted for convenience and shall not be deemed a part of the Option or this Option Agreement for construction or interpretation.

15. Dispute Resolution. The provisions of this Section 15 shall be the exclusive means of resolving disputes of the Parties (including any other persons claiming any rights or having any obligations through the Company or the Optionee) arising out of or relating to the Plan and this Option Agreement (including the Exercise Notice, if the Option is exercised). The Parties shall attempt in good faith to resolve any disputes arising out of or relating to the Plan and this Option Agreement (including the Exercise Notice, if the Option is exercised) by negotiation between individuals who have authority to settle the controversy. Negotiations shall be commenced by either Party by a written statement of the Party's position and the name and title of the individual who will represent the Party. Within thirty (30) days of the written notification, the Parties shall meet at a mutually acceptable time and place, and thereafter as often as they reasonably deem necessary, to resolve the dispute. If the dispute has not been resolved by negotiation, the Parties agree that any suit, action, or proceeding arising out of or relating to the Plan or this Option Agreement shall be brought in the United States District Court for the Southern District of Texas (or should such court lack jurisdiction to hear such action, suit

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or proceeding, in a Texas state court in Harris County, Texas) and that the Parties shall submit to the jurisdiction of such court. The Parties irrevocably waive, to the fullest extent permitted by law, any objection a Party may have to the laying of venue for any such suit, action or proceeding brought in such court. THE PARTIES ALSO EXPRESSLY WAIVE ANY RIGHT THEY HAVE OR MAY HAVE TO A JURY TRIAL OF ANY SUCH SUIT, ACTION OR PROCEEDING. If any one or more provisions of this Section 15 shall for any reason be held invalid or unenforceable, it is the specific intent of the Parties that such provisions shall be modified to the minimum extent necessary to make it or its application valid and enforceable.

16. Notice. Any notice or other communication required or permitted hereunder shall be given in writing and shall be deemed given, effective, and received upon prepaid delivery in person or by courier or upon the earliest of delivery or the third business day after deposit in the United States mail if sent by

certified mail, with postage and fees prepaid, addressed to the other Party at its address as shown beneath its signature in this Option Agreement, or to such other address as such Party may designate in writing from time to time by notice to the other Party in accordance with this Section 16.

APPLIED OPTOELECTRONICS, INC.

By: _____
Name:
Title:

[The remainder of this page is intentionally left blank]

THE OPTIONEE ACKNOWLEDGES AND AGREES THAT, EXCEPT AS EXPRESSLY PROVIDED OTHERWISE HEREIN, THE SHARES SUBJECT TO THE OPTION SHALL VEST, IF AT ALL, ONLY DURING THE PERIOD OF THE OPTIONEE'S CONTINUOUS SERVICE (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THE OPTION OR ACQUIRING SHARES HEREUNDER). THE OPTIONEE FURTHER ACKNOWLEDGES AND AGREES THAT NOTHING IN THIS OPTION AGREEMENT OR THE PLAN SHALL CONFER UPON THE OPTIONEE ANY RIGHT WITH RESPECT TO FUTURE GRANTS OR CONTINUATION OF THE OPTIONEE'S CONTINUOUS SERVICE, NOR SHALL IT INTERFERE IN ANY WAY WITH THE OPTIONEE'S RIGHT OR THE RIGHT OF THE OPTIONEE'S EMPLOYER TO TERMINATE OPTIONEE'S CONTINUOUS SERVICE, WITH OR WITHOUT CAUSE, AND WITH OR WITHOUT NOTICE. THE OPTIONEE ACKNOWLEDGES THAT UNLESS THE OPTIONEE HAS A WRITTEN EMPLOYMENT AGREEMENT WITH THE COMPANY TO THE CONTRARY, THE OPTIONEE'S STATUS IS AT-WILL.

The Optionee acknowledges receipt of a copy of the Plan, represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions hereof and thereof. The Optionee has reviewed this Option Agreement, the Plan, and the Exercise Notice in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option Agreement, and fully understands all provisions of this Option Agreement, the Plan and the Exercise Notice. The Optionee hereby agrees that all disputes arising out of or relating to this Option Agreement, the Plan and the Exercise Notice shall be resolved in accordance with Section 15 of this Option Agreement. The Optionee further agrees to notify the Company upon any change in the residence address indicated in this Option Agreement.

Dated: _____ Signed: _____
Optionee

Address:

EXHIBIT A

APPLIED OPTOELECTRONICS, INC. 2006 INCENTIVE SHARE PLAN

STOCK OPTION EXERCISE NOTICE

This Exercise Notice is made this _____ day of _____, 20____ between Applied Optoelectronics, Inc. (the "Company"), and the optionee named below (the "Optionee") pursuant to the Applied Optoelectronics, Inc. 2006 Incentive Share Plan (the "Plan"). Unless otherwise defined herein, the capitalized terms used in this Exercise Notice shall have the meaning ascribed to them in the Plan and in the Option Agreement to which this Exercise Notice relates.

Award Number:

Optionee:

Social Security Number:

Address:

Number of Shares Purchased:

Price Per Share:

Aggregate Purchase Price:

Date of Grant:

Vesting Commencement Date:

Type of Stock Option: o Incentive Stock Option
 o Non-Qualified Stock Option

The Optionee hereby delivers to the Company the Aggregate Purchase Price set forth above in cash as indicated below or to the extent provided for in the Option Agreement and approved by the Committee by accepting this Exercise Notice, as follows (as applicable, check and complete):

in cash in the amount of \$ _____, receipt of which is acknowledged by the Company;

[N/A] through a "same-day-sale" commitment, delivered herewith, from the Optionee and the NASD Dealer named therein in the amount of \$ _____ ;

[N/A] through a "margin" commitment, delivered herewith, from the Optionee and the NASD Dealer named therein in the amount of \$ _____ ;

[N/A] by delivery of _____ Qualifying Shares, owned free and clear of all liens, claims, encumbrances or security interests, and valued at the current Fair Market Value of \$ _____ per share.

The Company and the Optionee (the "Parties") hereby agree as follows:

17. Purchase of Shares. On this date and subject to the terms and conditions of this Exercise Notice, the Optionee hereby exercises the Option granted in the Stock Option Agreement ("Option Agreement") between the Parties, dated as of the Date of Grant set forth above, with respect to the Number of Shares Purchased set forth above of the Common Stock (the "Shares") at the Aggregate Purchase Price set forth above (the "Aggregate Purchase Price") equal to the Price Per Share set forth above (the "Purchase Price Per Share") multiplied by the Number of Shares Purchased set forth above. The term "Shares" refers to the Shares purchased under this Exercise Notice and includes all securities received (a) in replacement of the Shares, and (b) as a result of stock dividends or stock splits in respect of the Shares.

18. Representations of the Optionee. The Optionee represents and warrants to the Company that the Optionee has received, read and understood the Plan, the Option Agreement and this Exercise Notice and agrees to abide by and be bound by their terms and conditions.

19. Rights as Stockholder. Until the stock certificate evidencing the Shares is issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Shares, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued.

20. Tax Withholding Obligations. The Optionee agrees to satisfy all applicable federal, state and local income, employment and other tax withholding obligations and herewith delivers to the Company the amount necessary, or has made arrangements acceptable to the Company, to satisfy such obligations as provided in the Plan and the Option Agreement.

21. Tax Consequences. The Optionee understands that he or she may suffer adverse tax consequences as a result of the Optionee's purchase or disposition of the Shares. The Optionee represents that the Optionee has consulted with any tax consultant(s) he or she deems advisable in connection with the purchase or disposition of the Shares and that Optionee is not relying on the Company for any tax advice.

22. Successors and Assigns. The Company may assign any of its rights under this Exercise Notice, and this Exercise Notice shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Exercise Notice shall be binding upon the Optionee and his or her heirs, executors, administrators, successors and permitted assigns.

23. Interpretive Matters. Whenever required by the context, pronouns and any variation thereof shall be deemed to refer to the masculine, feminine, or neuter, and the singular shall include the plural, and vice versa. The term "include" or "including" does not denote or imply any limitation. The captions and headings used in this Exercise Notice are inserted for convenience and shall not be deemed a part of this Exercise Notice for construction or interpretation.

24. Dispute Resolution. The provisions of Section 15 of the Option Agreement shall be the exclusive means of resolving disputes arising out of or relating to this Exercise Notice.

25. Entire Agreement; Governing Law. This Exercise Notice, with the Plan and the Option Agreement, constitute the entire agreement of the Parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Parties with respect to the subject matter hereof, and may not be modified adversely to the Optionee's interest except by means of a writing signed by the Parties. Nothing in this Exercise Notice or in the Plan or the Option Agreement (except as expressly provided herein or therein) is intended to confer any rights or remedies on any person other than the Parties. This Exercise Notice (like the Plan and the Option Agreement) is to be construed in accordance with and governed by the internal laws of the State of Texas, without giving effect to any choice-of-law rule that would cause the application of the laws of any jurisdiction other than the internal laws of the State of Texas to the rights and duties of the Parties. Should any provision of the Plan, the Option Agreement, or this Exercise Notice be determined by a court of law to be illegal or unenforceable, such provision shall be enforced to the fullest extent allowed by law, and the other provisions shall nevertheless remain effective and shall remain enforceable.

26. Notice. Any notice or other communication required or permitted hereunder shall be given in writing and shall be deemed given, effective, and received upon prepaid delivery in person or by courier or upon the earlier of delivery or the third business day after deposit in the United States mail if sent by certified mail, with postage and fees prepaid, addressed to the other Party at its address as shown beneath its signature in the Option Agreement, or to such other address as such Party may designate in writing from time to time by notice to the other Party in accordance with this Section 10.

27. Further Instruments. Each Party agrees to execute such further instruments and to take such further action as may be necessary or reasonably appropriate to carry out the purposes and intent of this Exercise Notice.

OPTIONEE: _____
(Print Name)

APPLIED OPTOELECTRONICS, INC.

(Signature)

By: _____
Its: _____

Dated: _____

Dated: _____

APPLIED OPTOELECTRONICS, INC.
2013 EQUITY INCENTIVE PLAN

1. Purpose of the Plan. The purpose of the Plan is to: (i) attract and retain the best available personnel for positions of substantial responsibility, (ii) provide additional incentive to Employees, Directors and Consultants, and (iii) promote the success of the Company's business. The Plan permits the grant of Incentive Stock Options, Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Units, Performance Shares, and Other Stock Based Awards.
2. Definition. As used in this Plan, the following definitions shall apply:
- (a) **"Administrator"** means the Board or any of its Committees that shall be administering the Plan, in accordance with Section 4 of the Plan.
- (b) **"Applicable Laws"** means the requirements relating to the administration of equity-based awards or equity compensation plans under U.S. federal and state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Awards are, or shall be, granted under the Plan.
- (c) **"Award"** means, individually or collectively, a grant under the Plan of Options, SARs, Restricted Stock, Restricted Stock Units, Performance Units, Performance Shares or Other Stock Based Awards.
- (d) **"Award Agreement"** means the written or electronic agreement setting forth the terms and provisions applicable to each Award granted under the Plan. The Award Agreement is subject to the terms and conditions of the Plan.
- (e) **"Awarded Stock"** means the Common Stock subject to an Award.
- (f) **"Board"** means the Board of Directors of the Company.
- (g) **"Change in Control"** means, except as otherwise provided in the Award Agreement, the occurrence of any of the following events:
- (i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becomes the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing 50% or more of the total voting power represented by the Company's then outstanding voting securities;
- (ii) the sale or disposition by the Company of all or substantially all of the Company's assets other than (A) the sale or disposition of all or substantially all of the assets of the Company to a person or persons who beneficially own, directly or indirectly, at least 50% or more of the combined voting power of the outstanding voting securities of the Company at the time of the sale or (B) pursuant to a spin-off type transaction, directly or indirectly, of such assets to the Company's stockholders;
- (iii) A change in the composition of the Board occurring within a two-year period as a result of which fewer than a majority of the directors are Incumbent Directors. "Incumbent Directors" are directors who either (A) are Directors as of the effective date of the Plan, or (B) are elected, or nominated for election, to the Board with the affirmative votes of at least a majority of the Incumbent Directors at the time of such election or nomination (but shall not include an individual whose election or nomination is in connection with an actual or threatened proxy contest relating to the election of directors to the Company); or
- (iv) a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least 50% of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.
- (h) **"Code"** means the Internal Revenue Code of 1986, as amended, and the U.S. Treasury regulations promulgated thereunder. Any reference to a section of the Code shall be a reference to any successor or amended section of the Code.
- (i) **"Committee"** means a committee of Directors or other individuals satisfying Applicable Laws appointed by the Board in accordance with Section 4 of the Plan.
- (j) **"Common Stock"** means the Common Stock of the Company, or in the case of Performance Units, Restricted Stock Units, and certain Other Stock Based Awards, the cash equivalent thereof, as applicable.
- (k) **"Company"** means Applied Optoelectronics, Inc., a Delaware corporation, and any successor to Applied Optoelectronics, Inc.
- (l) **"Consultant"** means any person, including an advisor, engaged by the Company or a Parent or Subsidiary to render services to such entity.
- (m) **"Director"** means a member of the Board.
- (n) **"Disability"** means total and permanent disability as defined in Section 22(e)(3) of the Code, provided that in the case of Awards other than Incentive Stock Options, the Administrator in its sole discretion may determine whether a permanent and total disability exists in accordance with uniform and non-discriminatory standards adopted by the Administrator from time to time.
- (o) **"Dividend Equivalent"** means a credit, made at the sole discretion of the Administrator, to the account of a Participant in an amount equal to the value of dividends paid on one Share for each Share represented by an Award held by such Participant. Under no circumstances shall the payment of a

Dividend Equivalent be made contingent on the exercise of an Option or Stock Appreciation Right.

(p) **“Employee”** means any person, including officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. Neither service as a Director nor payment of a director’s fee by the Company shall be sufficient to constitute “employment” by the Company.

(q) **“Exchange Act”** means the Securities Exchange Act of 1934, as amended.

(r) **“Exchange Program”** means a program under which (i) outstanding Awards are surrendered or cancelled in exchange for Awards of the same type (which may have lower exercise prices and different terms), Awards of a different type, and/or cash, and/or (ii) the exercise price of an

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outstanding Award is reduced. The terms and conditions of any Exchange Program shall be determined by the Administrator in its sole discretion.

(s) **“Fair Market Value”** means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the NASDAQ Global Select Market, the NASDAQ Global Market (formerly the NASDAQ National Market) or the NASDAQ Capital Market (formerly the NASDAQ SmallCap Market) of the NASDAQ Stock Market, the Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the day of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share of Common Stock shall be the mean between the high bid and low asked prices for the Common Stock for the day of determination, as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value shall be determined in good faith by the Administrator.

(iv) Notwithstanding the preceding, for federal, state, and local income tax reporting purposes and for such other purposes as the Administrator deems appropriate, the Fair Market Value shall be determined by the Administrator in accordance with uniform and nondiscriminatory standards adopted by it from time to time.

(t) **“Incentive Stock Option”** means an Option intended to qualify and receive favorable tax treatment as an incentive stock option within the meaning of Section 422 of the Code, as designated in the applicable Award Agreement.

(u) **“Nonstatutory Stock Option”** means an Option that by its terms does not qualify or is not intended to qualify as an Incentive Stock Option.

(v) **“Option”** means an option to purchase Common Stock granted pursuant to the Plan.

(w) **“Other Stock Based Awards”** means any other awards not specifically described in the Plan that are valued in whole or in part by reference to, or are otherwise based on, Shares and are created by the Administrator pursuant to Section 12.

(x) **“Outside Director”** means an “outside director” within the meaning of Section 162(m) of the Code.

(y) **“Parent”** means a “parent corporation” with respect to the Company, whether now or hereafter existing, as defined in Section 424(e) of the Code.

(z) **“Participant”** means a Service Provider who has been granted an Award under the Plan.

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(aa) **“Performance Goals”** means goals which have been established by the Committee in connection with an Award and are based on one or more of the following criteria, as determined by the Committee in its absolute and sole discretion: net income; cash flow; cash flow on investment; pre-tax or post-tax profit levels or earnings; operating income or earnings; return on investment; earned value added; expense reduction levels; free cash flow; free cash flow per share; earnings per share; net earnings per share; net earnings from continuing operations; sales growth; sales volume; economic profit; expense reduction; controlled expenses; return on assets; return on net assets; return on equity; return on capital; return on sales; return on invested capital; organic revenue; growth in managed assets; total shareholder return; stock price; stock price appreciation; EBITA; adjusted EBITA; EBITDA; adjusted EBITDA; return in excess of cost of capital; profit in excess of cost of capital; net operating profit after tax; operating margin; profit margin; adjusted revenue; revenue; net revenue; operating revenue; net cash provided by operating activities; net cash provided by operating activities per share; cash conversion percentage; new sales; net new sales; cancellations; gross margin; gross margin percentage; revenue before deferral; regulatory body approval for commercialization of a product; implementation or completion of critical projects; research; in-licensing; out-licensing; product development; government relations; compliance; mergers; and acquisitions or sales of assets or subsidiaries.

(bb) **“Performance Period”** means the time period during which the Performance Goals or performance objectives must be met.

(cc) **“Performance Share”** means Shares issued pursuant to a Performance Share Award under Section 10 of the Plan.

(dd) **“Performance Unit”** means, pursuant to Section 10 of the Plan, an unfunded and unsecured promise to deliver Shares, cash or other securities equal to the value set forth in the Award Agreement.

(ee) **“Period of Restriction”** means the period during which the transfer of Shares of Restricted Stock are subject to restrictions and therefore, the Shares are subject to a substantial risk of forfeiture. Such restrictions may be based on the passage of time, the achievement of Performance Goals

or other target levels of performance, or the occurrence of other events as determined by the Administrator.

(ff) **“Plan”** means this 2013 Equity Incentive Plan. The Plan was approved by the Board on April 12, 2013 and by the Company’s stockholders on [].

(gg) **“Prior Plans”** means the Company’s 1998 Share Incentive Plan, 2000 Share Incentive Plan, 2004 Share Incentive Plan and 2006 Incentive Share Plan.

(hh) **“Restricted Stock”** means Shares issued pursuant to a Restricted Stock Award under Section 8 or issued pursuant to the early exercise of an Option.

(ii) **“Restricted Stock Unit”** means, pursuant to Sections 4 and 11 of the Plan, an unfunded and unsecured promise to deliver Shares, cash or other securities equal in value to the Fair Market Value of one Share in the Company on the date of vesting or settlement, or as otherwise set forth in the Award Agreement.

(jj) **“Rule 16b-3”** means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan.

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(kk) **“Section 16(b)”** means Section 16(b) of the Exchange Act.

(ll) **“Service Provider”** means an Employee, Director or Consultant.

(mm) **“Share”** means a share of Common Stock, as adjusted in accordance with Section 15 of the Plan.

(nn) **“Stock Appreciation Right”** or **“SAR”** means, pursuant to Section 9 of the Plan, an unfunded and unsecured promise to deliver Shares, cash or other securities equal in value to the difference between the Fair Market Value of a Share as of the date such SAR is exercised/settled and the Fair Market Value of a Share as of the date such SAR was granted, or as otherwise set forth in the Award Agreement.

(oo) **“Subsidiary”** means a “subsidiary corporation” with respect to the Company, whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan.

(a) Stock Subject to the Plan. Subject to the provisions of Section 15 of the Plan, the maximum aggregate number of Shares that may be issued pursuant to all Awards under the Plan is 24,000,000 Shares, representing the remaining shares available for issuance under the Prior Plans, plus the amount of outstanding Common Stock subject to Lapsed Awards (defined below) under the Prior Plans. The maximum number of Shares that may be subject to Incentive Stock Option treatment is 24,000,000. The maximum aggregate number of Shares that may be issued pursuant to all awards under the Plan shall increase annually on the first day of each fiscal year following the adoption of the Plan by the number of Shares equal to the lesser of (i) two percent of the total issued and outstanding common shares of the Company on the first day of such fiscal year (ii) 10,000,000 Shares or (iii) such lesser amount determined by the Board. Shares shall not be deemed to have been issued pursuant to the Plan with respect to any portion of an Award that is settled in cash. Upon payment in Shares pursuant to the exercise of an Award, the number of Shares available for issuance under the Plan shall be reduced only by the number of Shares actually issued in such payment. If a Participant pays the exercise price (or purchase price, if applicable) of an Award through the tender of Shares, or if Shares are tendered or withheld to satisfy any Company withholding obligations, the number of Shares so tendered or withheld shall again be available for issuance pursuant to future Awards under the Plan.

(b) Lapsed Awards. If any outstanding Award expires or is terminated or canceled without having been exercised or settled in full, or if Shares acquired pursuant to an Award subject to forfeiture or repurchase are forfeited or repurchased by the Company, the Shares allocable to the terminated portion of the Award or the forfeited or repurchased Shares shall again be available for grant under the Plan (the **“Lapsed Awards”**). Similarly, the shares subject to Lapsed Awards under the Prior Plans shall add to the maximum number of Shares that are available for grant under Section 3(a) of the Plan.

(c) Share Reserve. The Company, during the term of the Plan, shall at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

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4. Administration of the Plan.

(a) Procedure.

(i) Multiple Administrative Bodies. Different Committees with respect to different groups of Service Providers may administer the Plan.

(ii) Section 162(m). To the extent that the Administrator determines it to be desirable and necessary to qualify Awards granted under this Plan as “performance-based compensation” within the meaning of Section 162(m) of the Code, the Plan shall be administered by a Committee of two or more Outside Directors.

(iii) Rule 16b-3. If a transaction is intended to be exempt under Rule 16b-3 of the Exchange Act, it shall be structured to satisfy the requirements for exemption under Rule 16b-3.

(iv) Other Administration. Other than as provided above, the Plan shall be administered by (A) the Board or (B) a Committee constituted to satisfy Applicable Laws.

(v) Delegation of Authority for Day-to-Day Administration. Except to the extent prohibited by Applicable Law, the Administrator may delegate to one or more individuals the day-to-day administration of the Plan and any of the functions assigned to it in this Plan. Such delegation may be revoked at any time.

(b) Powers of the Administrator. Subject to the provisions of the Plan, and in the case of a Committee, subject to the specific duties delegated by the Board to the Committee, the Administrator shall have the authority, in its discretion to:

- (i) determine the Fair Market Value of Awards;
- (ii) select the Service Providers to whom Awards may be granted under this Plan;
- (iii) determine the number of Shares to be covered by each Award granted under this Plan;
- (iv) approve forms of Award Agreements for use under the Plan;
- (v) determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted under this Plan, including but not limited to, the exercise price, the time or times when Awards may be exercised (which may be based on Performance Goals or other performance criteria), any vesting acceleration or waiver of forfeiture or repurchase restrictions, and any restriction or limitation regarding any Award or the Shares relating thereto, based in each case on such factors as the Administrator, in its sole discretion, shall determine;
- (vi) reduce, with or without Participant consent, the exercise price of any Award to the then current Fair Market Value (or a higher value) if the Fair Market Value of the Common Stock covered by such Award shall have declined since the date the Award was granted;
- (vii) institute an Exchange Program;
- (viii) construe and interpret the terms of the Plan and Awards granted pursuant to the Plan;
- (ix) prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans;

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(x) amend the terms of any outstanding Award, including the discretionary authority to extend the post-termination exercise period of Awards and accelerate the satisfaction of any vesting criteria or waiver of forfeiture or repurchase restrictions, provided that any amendment that would adversely affect the Participant's rights under an outstanding Award shall not be made without the Participant's written consent. Notwithstanding the foregoing, an amendment shall not be treated as adversely affecting the rights of the Participant if the amendment causes an Incentive Stock Option to become a Nonstatutory Stock Option or if the amendment is made to the minimum extent necessary to avoid the adverse tax consequences of Section 409A of the Code.

(xi) allow Participants to satisfy withholding tax obligations by electing to have the Company withhold from the Shares or cash to be issued upon exercise or vesting of an Award that number of Shares or cash having a Fair Market Value equal to the minimum amount required to be withheld. The Fair Market Value of any Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined, and all elections by a Participant to have Shares or cash withheld for this purpose shall be made in such form and under such conditions as the Administrator may deem necessary or advisable;

(xii) authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Administrator;

(xiii) allow a Participant to defer the receipt of the payment of cash or the delivery of Shares that would otherwise be due to the Participant under an Award;

(xiv) determine whether Awards shall be settled in Shares, cash or in a combination of Shares and cash;

(xv) determine whether Awards shall be adjusted for Dividend Equivalents;

(xvi) create Other Stock Based Awards for issuance under the Plan;

(xvii) establish a program whereby Service Providers designated by the Administrator can reduce compensation otherwise payable in cash in exchange for Awards under the Plan;

(xviii) impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any resales by a Participant or other subsequent transfers by the Participant of any Shares issued as a result of or under an Award, including without limitation, (A) restrictions under an insider trading policy, and (B) restrictions as to the use of a specified brokerage firm for such resales or other transfers;

(xix) establish one or more programs under the Plan to permit selected Participants the opportunity to elect to defer receipt of consideration upon exercise of an Award, satisfaction of Performance Goals or other performance criteria, or other event that absent the election, would entitle the Participant to payment or receipt of Shares or other consideration under an Award; and

(xx) make all other determinations that the Administrator deems necessary or advisable for administering the Plan.

The express grant in the Plan of any specific power to the Administrator shall not be construed as limiting any power or authority of the Administrator. However, the Administrator may not exercise any right or power reserved to the Board.

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(c) Effect of Administrator's Decision. The Administrator's decisions, determinations, actions and interpretations shall be final, conclusive and binding on all persons having an interest in the Plan.

(d) Indemnification. The Company shall defend and indemnify members of the Board, officers and Employees of the Company or of a Parent or Subsidiary whom authority to act for the Board, the Administrator or the Company is delegated ("Indemnitees") to the maximum extent permitted by law against (i) all reasonable expenses, including reasonable attorneys' fees incurred in connection with the defense of any claim, investigation, action, suit or proceeding, or in connection with any appeal therein (collectively, a "Claim"), to which any of them is a party by reason of any action taken or failure to act in connection with the Plan, or in connection with any Award granted under the Plan; and (ii) all amounts required to be paid by them in settlement the Claim (provided the settlement is approved by the Company) or required to be paid by them in satisfaction of a judgment in any Claim. However, no person shall be entitled to indemnification to the extent he is determined in such Claim to be liable for gross negligence, bad faith or intentional misconduct. In addition, to be entitled to indemnification, the Indemnitee must, within 30 days after written notice of the Claim, offer the Company, in writing, the opportunity, at the Company's expense, to defend the Claim. The right to indemnification shall be in addition to all other rights of indemnification available to the Indemnitee.

5. **Eligibility.** Nonstatutory Stock Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Performance Units, Performance Shares, and Other Stock Based Awards may be granted to Service Providers. Incentive Stock Options may be granted only to Employees.

6. Limitations.

(a) \$100,000 Limitation for Incentive Stock Options. Each Option shall be designated in the Award Agreement as either an Incentive Stock Option or a Nonstatutory Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of the Shares with respect to which Incentive Stock Options are exercisable for the first time by a Participant during any calendar year (under all plans of the Company and any Parent or Subsidiary) exceeds \$100,000, such Options shall be treated as Nonstatutory Stock Options. For purposes of this Section 6(a), Incentive Stock Options shall be taken into account in the order in which they were granted. The Fair Market Value of the Shares shall be determined as of the time the Options with respect to such Shares are granted.

(b) Special Annual Limits. Subject to Section 15 of the Plan, the maximum number of Shares that may be subject to Options or Stock Appreciation Rights granted to any Service Provider in any calendar year shall equal 18,000,000 Shares and contain an exercise price equal to the Fair Market Value of the Common Stock as of the date of grant. Subject to Section 15 of the Plan, the maximum number of Shares that may be subject to Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units and Other Stock Based Awards, Other Stock Based Awards granted to any Service Provider in any calendar year shall equal 18,000,000 Shares. Subject to Section 15 of the Plan, the maximum dollar amount that may be subject to cash awards granted to any Service Provider in any calendar year shall equal \$5,000,000.

7. Options.

(a) Term of Option. The term of each Option shall be stated in the Award Agreement. In the case of an Incentive Stock Option, the term shall be 10 years from the date of grant or such shorter term as may be provided in the Award Agreement. Moreover, in the case of an Incentive Stock Option granted to a Participant who, at the time the Incentive Stock Option is granted, owns stock

representing more than 10% of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option shall be five years from the date of grant or such shorter term as may be provided in the Award Agreement.

(b) Option Exercise Price and Consideration.

(i) Exercise Price. The per Share exercise price for the Shares to be issued pursuant to exercise of an Option shall be determined by the Administrator, subject to the following:

(1) In the case of an Incentive Stock Option

(A) granted to an Employee who, at the time the Incentive Stock Option is granted, owns stock representing more than 10% of the total combined voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any Employee other than an Employee described in paragraph (A) immediately above, the per Share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(2) In the case of a Nonstatutory Stock Option, the per Share exercise price shall be determined by the Administrator, but shall not be less than Fair Market Value per Share on the date of grant.

(3) Notwithstanding the foregoing, Options may be granted with a per Share exercise price of less than 100% of the Fair Market Value per Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code.

(ii) Waiting Period and Exercise Dates. At the time an Option is granted, the Administrator shall fix the period within which the Option may be exercised and shall determine any conditions that must be satisfied before the Option may be exercised. The Administrator, in its sole discretion, may accelerate the satisfaction of such conditions at any time.

(c) Form of Consideration. The Administrator shall determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Administrator shall determine the acceptable form of consideration at the time of grant. Such consideration, to the extent permitted by Applicable Laws, may consist entirely of:

(i) cash;

(ii) check;

(iii) other Shares which meet the conditions established by the Administrator to avoid adverse accounting consequences (as determined by the Administrator);

(iv) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan;

(v) a reduction in the amount of any Company liability to the Participant, including any liability attributable to the Participant's participation in any Company-sponsored deferred compensation program or arrangement;

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(vi) any combination of the foregoing methods of payment; or

(vii) any other consideration and method of payment for the issuance of Shares permitted by Applicable Laws.

(d) Exercise of Option.

(i) Procedure for Exercise; Rights as a Stockholder. Any Option granted under this Plan shall be exercisable according to the terms of the Plan and at such times and under such conditions as determined by the Administrator and set forth in the Award Agreement. An Option shall be deemed exercised when the Company receives: (x) written or electronic notice of exercise (in accordance with the Award Agreement) from the person entitled to exercise the Option, and (y) full payment for the Shares with respect to which the Option is exercised (including provision for any applicable tax withholding). Full payment may consist of any consideration and method of payment authorized by the Administrator and permitted by the Award Agreement and the Plan. Shares issued upon exercise of an Option shall be issued in the name of the Participant or, if requested by the Participant, in the name of the Participant and his spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Awarded Stock, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment shall be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 15 of the Plan or the applicable Award Agreement. Exercising an Option in any manner shall decrease the number of Shares thereafter available for sale under the Option, by the number of Shares as to which the Option is exercised.

(ii) Termination of Relationship as a Service Provider. If a Participant ceases to be a Service Provider, other than upon the Participant's death or Disability, the Participant may exercise his Option within such period of time as is specified in the Award Agreement to the extent that the Option is vested on the date of termination (but in no event later than the expiration of the term of such Option as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement, the Option shall remain exercisable for 30 days following the Participant's termination after which the Option shall terminate. Unless otherwise provided by the Administrator, if on the date of termination the Participant is not vested as to his entire Option, the Shares covered by the unvested portion of the Option shall revert to the Plan. If the Participant does not exercise his Option as to all of the vested Shares within the time specified by the Award Agreement, the Option shall terminate, and the remaining Shares covered by the Option shall revert to the Plan.

(iii) Disability of Participant. If a Participant ceases to be a Service Provider as a result of his Disability, the Participant may exercise his Option, to the extent vested, within the time specified in the Award Agreement (but in no event later than the expiration of the term of the Option as set forth in the Award Agreement). If no time for exercise of the Option on Disability is specified in the Award Agreement, the Option shall remain exercisable for 24 months following the Participant's termination for Disability. Unless otherwise provided by the Administrator, on the date of termination for Disability, the unvested portion of the Option shall revert to the Plan. If after termination for Disability, the Participant does not exercise his Option as to all of the vested Shares within the time specified by the Award Agreement, the Option shall terminate and the remaining Shares covered by such Option shall revert to the Plan.

(iv) Death of Participant. If a Participant dies while a Service Provider, the Option, to the extent vested, may be exercised within the time specified in the Award Agreement (but in

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no event may the Option be exercised later than the expiration of the term of the Option as set forth in the Award Agreement), by the beneficiary designated by the Participant prior to his death; provided that such designation must be acceptable to the Administrator. If no beneficiary has been designated by the Participant, then the Option may be exercised by the personal representative of the Participant's estate, or by the persons to whom the Option is transferred pursuant to the Participant's will or in accordance with the laws of descent and distribution. If the Award Agreement does not specify a time within which the Option must be exercised following a Participant's death, it shall be exercisable for 24 months following his death. Unless otherwise provided by the Administrator, if at the time of death, the Participant is not vested as to his entire Option, the Shares covered by the unvested portion of the Option shall immediately revert to the Plan. If the Option is not exercised as to all of the vested Shares within the time specified by the Administrator, the Option shall terminate, and the remaining Shares covered by such Option shall revert to the Plan.

8. Restricted Stock.

(a) Grant of Restricted Stock. Subject to the terms and provisions of the Plan, the Administrator, at any time and from time to time, may grant Shares of Restricted Stock to Service Providers in such amounts as the Administrator, in its sole discretion, shall determine.

(b) Restricted Stock Agreement. Each Award of Restricted Stock shall be evidenced by an Award Agreement that shall specify the Period of Restriction, the number of Shares granted, and such other terms and conditions as the Administrator, in its sole discretion, shall determine. Unless the Administrator determines otherwise, Shares of Restricted Stock shall be held by the Company as escrow agent until the restrictions on the Shares have lapsed.

(c) Removal of Restrictions. Except as otherwise provided in this Section 8, Shares of Restricted Stock covered by each Award made under the Plan shall be released from escrow as soon as practical after the last day of the Period of Restriction. The Administrator, in its sole discretion, may accelerate the time at which any restrictions shall lapse or be removed.

(d) Voting Rights. During the Period of Restriction, Service Providers holding Shares of Restricted Stock may exercise full voting rights with respect to those Shares, unless the Administrator determines otherwise.

(e) Dividends and Other Distributions. During the Period of Restriction, Service Providers holding Shares of Restricted Stock shall be entitled to receive all dividends and other distributions paid with respect to such Shares unless otherwise provided in the Award Agreement. If any dividends or distributions are paid in Shares, the Shares shall be subject to the same restrictions on transferability and forfeitability as the Shares of Restricted Stock with respect to which they were paid.

(f) Return of Restricted Stock to Company. On the date set forth in the Award Agreement, the Restricted Stock for which restrictions have not lapsed shall revert to the Company and again shall become available for grant under the Plan.

9. Stock Appreciation Rights

(a) Grant of SARs. Subject to the terms and conditions of the Plan, a SAR may be granted to Service Providers at any time and from time to time as shall be determined by the Administrator, in its sole discretion. The Administrator shall have complete discretion to determine the number of SARs granted to any Service Provider. The Administrator, subject to the provisions of the

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Plan, shall have complete discretion to determine the terms and conditions of SARs granted under the Plan, including the sole discretion to accelerate exercisability at any time.

(b) SAR Agreement. Each SAR grant shall be evidenced by an Award Agreement that shall specify the exercise price, the term, the conditions of exercise, and such other terms and conditions as the Administrator, in its sole discretion, shall determine.

(c) Expiration of SARs. A SAR granted under the Plan shall expire upon the date determined by the Administrator, in its sole discretion, as set forth in the Award Agreement. Notwithstanding the foregoing, the rules of Sections 7(d)(ii), 7(d)(iii) and 7(d)(iv) shall also apply to SARs.

(d) Payment of SAR Amount. Upon exercise of a SAR, a Participant shall be entitled to receive payment from the Company in an amount determined by multiplying:

(i) The difference between the Fair Market Value of a Share on the date of exercise over the exercise price; times

(ii) The number of Shares with respect to which the SAR is exercised.

(iii) At the sole discretion of the Administrator, the payment upon the exercise of a SAR may be in cash, in Shares of equivalent value, or in some combination thereof.

10. Performance Units and Performance Shares.

(a) Grant of Performance Units and Performance Shares. Subject to the terms and conditions of the Plan, Performance Units and Performance Shares may be granted to Service Providers at any time and from time to time, as shall be determined by the Administrator in its sole discretion. The Administrator shall have complete discretion in determining the number of Performance Units and Performance Shares granted to each Service Provider.

(b) Value of Performance Units and Performance Shares. Each Performance Unit shall have an initial value established by the Administrator on or before the date of grant. Each Performance Share shall have an initial value equal to the Fair Market Value of a Share on the date of grant.

(c) Performance Objectives and Other Terms. The Administrator shall set Performance Goals or other performance objectives in its sole discretion which, depending on the extent to which they are met, shall determine the number or value of Performance Units and Performance Shares that shall be paid out to the Participant. Each award of Performance Units or Performance Shares shall be evidenced by an Award Agreement that shall specify the Performance Period and such other terms and conditions as the Administrator in its sole discretion shall determine. The Administrator may set Performance Goals or performance objectives based upon the achievement of Company-wide, divisional, or individual goals (including solely continued service), applicable federal or state securities laws, or any other basis determined by the Administrator in its sole discretion.

(d) Earning of Performance Units and Performance Shares. After the applicable Performance Period has ended, the holder of Performance Units or Performance Shares shall be entitled to receive a payout of the number of Performance Units or Performance Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding Performance Goals or performance objectives have been achieved. After the grant of Performance Units

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or Performance Shares, the Administrator, in its sole discretion, may reduce or waive any performance objectives for the Performance Unit or Performance Share.

(e) Form and Timing of Payment of Performance Units and Performance Shares. Payment of earned Performance Units and Performance Shares shall be made after the expiration of the applicable Performance Period at the time determined by the Administrator. The Administrator, in its sole discretion, may pay earned Performance Units and Performance Shares in the form of cash, in Shares (which have an aggregate Fair Market Value equal to the value of the earned Performance Units or Performance Shares, as applicable, at the close of the applicable Performance Period) or in a combination of cash and Shares.

(f) Cancellation of Performance Units or Performance Shares. On the date set forth in the Award Agreement, all unearned or unvested Performance Units and Performance Shares shall be forfeited to the Company, and again shall be available for grant under the Plan.

11. Restricted Stock Units. Restricted Stock Units shall consist of a Restricted Stock, Performance Share or Performance Unit Award that the Administrator, in its sole discretion permits to be paid out in a lump sum, installments or on a deferred basis, in accordance with rules and procedures established by the Administrator

12. Other Stock Based Awards. Other Stock Based Awards may be granted either alone, in addition to, or in tandem with, other Awards granted under the Plan and/or cash awards made outside of the Plan. The Administrator shall have authority to determine the Service Providers to whom and the time or times at which Other Stock Based Awards shall be made, the amount of such Other Stock Based Awards, and all other conditions of the Other Stock Based Awards, including any dividend or voting rights and whether the Award should be paid in cash.

13. Leaves of Absence. Unless the Administrator provides otherwise, vesting of Awards granted under this Plan shall be suspended during any unpaid leave of absence and shall resume on the date the Participant returns to work on a regular schedule as determined by the Company; provided, however, that no vesting credit shall be awarded for the time vesting has been suspended during such leave of absence. A Service Provider shall not cease to be an Employee in the case of (i) any leave of absence approved by the Company or (ii) transfers between locations of the Company or between the Company, its Parent, or any Subsidiary. For purposes of Incentive Stock Options, no leave of absence may exceed 90 days, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not guaranteed by statute or contract, then at the end of three months following the expiration of the leave of absence, any Incentive Stock Option held by the Participant shall cease to be treated as an Incentive Stock Option and shall be treated for tax purposes as a Nonstatutory Stock Option.

14. Non-Transferability of Awards. Unless determined otherwise by the Administrator, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant. If the Administrator makes an Award transferable, such Award shall contain such additional terms and conditions as the Administrator deems appropriate.

15. Adjustments; Dissolution or Liquidation; Change in Control.

(a) Adjustments. In the event of any change in the outstanding Shares of Common Stock by reason of any stock split, stock dividend or other non-recurring dividends or distributions, recapitalization, merger, consolidation, spin-off, combination, repurchase or exchange of stock,

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reorganization, liquidation, dissolution or other similar corporate transaction that affects the Common Stock, an adjustment shall be made, as the Administrator deems necessary or appropriate, in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan. Such adjustment may include an adjustment to the number and class of Shares which may be delivered under the Plan, the number, class and price of Shares subject to outstanding Awards, the number and class of Shares issuable pursuant to Options, and the numerical limits in Sections 3 and 6(b). Notwithstanding the preceding, the number of Shares subject to any Award always shall be a whole number.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, the Administrator shall notify each Participant as soon as practical prior to the effective date of the proposed transaction. The Administrator, in its sole discretion, may provide for a Participant to have the right to exercise his Award, to the extent applicable, until 10 days prior to the transaction as to all of the Awarded Stock covered thereby, including Shares as to which the Award would not otherwise be exercisable. In addition, the Administrator may provide that any Company repurchase option or forfeiture rights applicable to any Award shall lapse 100%, and that any Award vesting shall accelerate 100%, provided the proposed dissolution or liquidation takes place at the time and in the manner contemplated. To the extent it has not been previously exercised or vested, an Award shall terminate immediately prior to the consummation of such proposed action.

(c) Change in Control. This Section 15(c) shall apply except to the extent otherwise provided in the Award Agreement.

(i) Stock Options and SARs. In the event of a Change in Control, each outstanding Option and SAR shall be assumed or an equivalent option or SAR substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. Unless determined otherwise by the Administrator, if the successor corporation refuses to assume or substitute for the Option or SAR, the Participant shall fully vest in and have the right to exercise the Option or SAR as to all of the Awarded Stock, including Shares as to which it would not otherwise be vested or exercisable. If an Option or SAR is not assumed or substituted on the Change in Control, the Administrator shall notify the Participant in writing or electronically that the Option or SAR shall be exercisable, to the extent vested, for a period of up to 15 days from the date of such notice, and the Option or SAR shall terminate upon the expiration of such period. For the purposes of this Section 15(c)(i), the Option or SAR shall be considered assumed if, following the Change in Control, the option or SAR confers the right to purchase or receive, for each Share of Awarded Stock subject to the Option or SAR immediately prior to the Change in Control, the consideration (whether securities, cash, or property) received in the Change in Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares). However, if the consideration received in the Change in Control is not solely common stock of the successor corporation or its Parent, the Administrator may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option or SAR, for each share of Awarded Stock subject to the Option or SAR, to be solely common stock of the successor corporation or its Parent equal in Fair Market Value to the per share consideration received by holders of Common Stock in the Change in Control. Notwithstanding anything in this Plan to the contrary, an Award that vests, is earned, or is paid-out upon the satisfaction of one or more performance objectives shall not be considered assumed if the Company or its successor modifies any of the performance objectives without the Participant's consent; provided, however, a modification to performance objectives only to reflect the successor corporation's post-Change in Control corporate structure shall not be deemed to invalidate an otherwise valid Award assumption.

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(ii) Restricted Stock, Performance Shares, Performance Units, Restricted Stock Units and Other Stock Based Awards. In the event of a Change in Control, each outstanding Award of Restricted Stock, Restricted Stock Unit, Performance Share, Performance Unit, and Other Stock Based Award shall be assumed or an equivalent Restricted Stock, Restricted Stock Unit, Performance Share, Performance Unit, and Other Stock Based Award shall be substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. Unless determined otherwise by the Administrator, if the successor corporation refuses to assume or substitute for the Award, the Participant shall fully vest in the Award, including as to Shares or Units that would not otherwise be vested, all applicable restrictions shall lapse, and all performance objectives and other vesting criteria shall be deemed achieved at targeted levels. For the purposes of this Section 15(c)(ii), an Award of Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units, and Other Stock Based Awards shall be considered assumed if, following the Change in Control, the award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the Change in Control (and if a Restricted Stock Unit or Performance Unit, for each Share as determined based on the then current value of the unit), the consideration (whether stock, cash, or other securities or property) received in the Change in Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares). However, if the consideration received in the Change in Control is not solely common stock of the successor corporation or its Parent, the

Administrator may, with the consent of the successor corporation, provide that the consideration to be received for each Share (and if a Restricted Stock Unit or Performance Unit, for each Share as determined based on the then current value of the unit) be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the Change in Control. Notwithstanding anything in this Plan to the contrary, an Award that vests, is earned, or is paid-out upon the satisfaction of one or more performance objectives shall not be considered assumed if the Company or its successor modifies any of the performance objectives without the Participant's consent; provided, however, a modification to the performance objectives only to reflect the successor corporation's post-Change in Control corporate structure shall not be deemed to invalidate an otherwise valid Award assumption.

(iii) Outside Director Awards. Notwithstanding any provision of Sections 15(c)(i) or 15(c)(ii) to the contrary, with respect to Awards granted to an Outside Director that are assumed or substituted for, if on the date of or following the assumption or substitution, the Participant's status as a Director or a director of the successor corporation, as applicable, is terminated other than upon a voluntary resignation by the Participant, then the Participant shall fully vest in and have the right to exercise his Options and Stock Appreciation Rights as to all of the Award, including Shares as to which such Awards would not otherwise be vested or exercisable, and all restrictions on Restricted Stock and Restricted Stock Units, as applicable, shall lapse, and, with respect to Performance Shares, Performance Units, and Other Stock Based Awards, all performance goals and other vesting criteria shall be deemed achieved at target levels and all other terms and conditions met.

16. Date of Grant. The date of grant of an Award shall be, for all purposes, the date on which the Administrator makes the determination granting such Award, or a later date as is determined by the Administrator. Notice of the determination shall be provided to each Participant within a reasonable time after the date of such grant.

17. Stockholder Approval and Term of Plan. The Plan became effective on [] and thereafter shall continue in effect for a term of ten years unless terminated earlier under Section 18 of the Plan.

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18. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend, alter, suspend or terminate the Plan.

(b) Stockholder Approval. The Company shall obtain stockholder approval of any Plan amendment to the extent necessary to comply with Applicable Laws.

(c) Effect of Amendment or Termination. No amendment, alteration, suspension, or termination of the Plan shall materially or adversely impair the rights of any Participant, unless otherwise mutually agreed upon by the Participant and the Administrator, which agreement must be in writing and signed by the Participant and the Company. Termination of the Plan shall not affect the Administrator's ability to exercise the powers granted to it under this Plan with respect to Awards granted under the Plan prior to the date of termination.

19. Conditions upon issuance of shares.

(a) Legal Compliance. Shares shall not be issued pursuant to the exercise of an Award unless the exercise of the Award and the issuance and delivery of such Shares shall comply with Applicable Laws and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) Investment Representations. As a condition to the exercise or receipt of an Award, the Company may require the person exercising or receiving the Award to represent and warrant at the time of any such exercise or receipt that the Shares are being purchased only for investment and without any present intention to sell or distribute the Shares if, in the opinion of counsel for the Company, such a representation is required.

(c) Taxes. No Shares shall be delivered under the Plan to any Participant or other person until the Participant or other person has made arrangements acceptable to the Administrator for the satisfaction of any non-U.S., U.S.-federal, U.S.-state, or local income and employment tax withholding obligations, including, without limitation, obligations incident to the receipt of Shares. Upon exercise or vesting of an Award, the Company shall withhold or collect from the Participant an amount sufficient to satisfy such tax obligations, including, but not limited to, by surrender of the whole number of Shares covered by the Award sufficient to satisfy the minimum applicable tax withholding obligations incident to the exercise or vesting of an Award.

20. Severability. Notwithstanding any contrary provision of the Plan or an Award to the contrary, if any one or more of the provisions (or any part thereof) of this Plan or the Awards shall be held invalid, illegal, or unenforceable in any respect, such provision shall be modified so as to make it valid, legal, and enforceable, and the validity, legality, and enforceability of the remaining provisions (or any part thereof) of the Plan or Award, as applicable, shall not in any way be affected or impaired thereby.

21. Inability to Obtain Authority. The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

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22. No Rights to Awards. No eligible Service Provider or other person shall have any claim to be granted any Award pursuant to the Plan, and neither the Company nor the Administrator shall be obligated to treat Participants or any other person uniformly.

23. No Stockholder Rights. Except as otherwise provided in an Award Agreement, a Participant shall have none of the rights of a stockholder with respect to Shares covered by an Award until the Participant becomes the record owner of the Shares.

24. Fractional Shares. No fractional Shares shall be issued and the Administrator shall determine, in its sole discretion, whether cash shall be given in lieu of fractional Shares or whether such fractional Shares shall be eliminated by rounding up or down as appropriate.

25. Governing Law. The Plan, all Award Agreements, and all related matters, shall be governed by the laws of the State of Texas, without regard to choice of law principles that direct the application of the laws of another state.

26. No Effect on Terms of Employment or Consulting Relationship. The Plan shall not confer upon any Participant any right as a Service Provider, nor shall it interfere in any way with his right or the right of the Company or a Parent or Subsidiary to terminate the Participant's service at any time, with or without cause, and with or without notice.

27. Unfunded Obligation. This Section 27 shall only apply to Awards that are not settled in Shares. Participants shall have the status of general unsecured creditors of the Company. Any amounts payable to Participants pursuant to the Plan shall be unfunded and unsecured obligations for all purposes, including, without limitation, Title I of the Employee Retirement Income Security Act of 1974, as amended. Neither the Company nor any Parent or Subsidiary shall be required to segregate any monies from its general funds, or to create any trusts, or establish any special accounts with respect to such obligations. The Company shall retain at all times beneficial ownership of any investments, including trust investments, which the Company may make to fulfill its payment obligations under this Plan. Any investments or the creation or maintenance of any trust for any Participant account shall not create or constitute a trust or fiduciary relationship between the Administrator, the Company or any Parent or Subsidiary and Participant, or otherwise create any vested or beneficial interest in any Participant or the Participant's creditors in any assets of the Company or Parent or Subsidiary. The Participants shall have no claim against the Company or any Parent or Subsidiary for any changes in the value of any assets that may be invested or reinvested by the Company with respect to the Plan.

28. Section 409A. It is the intention of the Company that no Award shall be "deferred compensation" subject to Section 409A of the Code, unless and to the extent that the Administrator specifically determines otherwise, and the Plan and the terms and conditions of all Awards shall be interpreted accordingly. The following rules shall apply to Awards intended to be subject to Section 409A of the Code ("409A Awards"):

(a) Any distribution of a 409A Award following a separation from service that would be subject to Section 409A(a)(2)(A)(i) of the Code as a distribution following a separation from service of a "specified employee" (as defined under Section 409A(a)(2)(B)(i) of the Code) shall occur no earlier than the expiration of the six-month period following such separation from service.

(b) In the case of a 409A Award providing for distribution or settlement upon vesting or lapse of a risk of forfeiture, if the time of such distribution or settlement is not otherwise specified in the Plan or Award Agreement or other governing document, the distribution or settlement

shall be made no later than March 15 of the calendar year following the calendar year in which such 409A Award vested or the risk of forfeiture lapsed.

(c) In the case of any distribution of any other 409A Award, if the timing of such distribution is not otherwise specified in the Plan or Award Agreement or other governing document, the distribution shall be made not later than the end of the calendar year during which the settlement of the 409A Award is specified to occur.

29. Construction. Headings in this Plan are included for convenience and shall not be considered in the interpretation of the Plan. References to sections are to Sections of this Plan unless otherwise indicated. Pronouns shall be construed to include the masculine, feminine, neutral, singular or plural as the identity of the antecedent may require. This Plan shall be construed according to its fair meaning and shall not be strictly construed against the Company.

* * * * *

APPLIED OPTOELECTRONICS, INC.
2013 EQUITY INCENTIVE PLAN

NOTICE OF RESTRICTED STOCK AWARD

Subject to the terms and conditions of this Notice of Restricted Stock Award (this "Notice"), the Restricted Stock Award Agreement attached hereto (the "Award Agreement"), and the Applied Optoelectronics, Inc. 2013 Equity Incentive Plan (the "Plan"), the below individual (the "Participant") is hereby granted the below number of Shares (the "Covered Shares") of common stock in Applied Optoelectronics, Inc. (the "Company"). Unless otherwise specifically indicated, all terms used in this Notice shall have the meaning as set forth in the Award Agreement or the Plan.

Identifying Information:

Participant Name
and Address:

Date of Grant:
Number of "Covered Shares":
Purchase Price per Share:
Vesting Commencement Date:

Vesting Schedule:

Subject to the Participant's continuous status as a Service Provider, and the terms of the Plan and this Award Agreement, the Covered Shares shall vest over a []-year period in accordance with the following vesting schedule (the "Vesting Schedule"):

Vesting Date	Nonforfeitable Percentage

[Notwithstanding the above, the Covered Shares shall automatically become fully vested upon the earlier of: (i) the Participant's Disability; (ii) the Participant's death; and (iii) immediately prior to the closing of a Change in Control of the Company.]

[SIGNATURES ON NEXT PAGE]

By your signature and the signature of the Company's representative below, the Participant and the Company agree that the Covered Shares granted are governed by the terms and conditions of this Notice, the Award Agreement and the Plan.

APPLIED OPTOELECTRONICS, INC.

By: _____

Its: _____

Dated: _____

PARTICIPANT ACKNOWLEDGMENT

The Participant acknowledges receipt of a copy of this Notice, the Award Agreement and the Plan, and represents that he or she is familiar with the provisions thereof, and hereby accepts the Covered Shares subject to all of the terms and provisions hereof and thereof. The Participant has reviewed this Notice, the Award Agreement and the Plan in their entirety, has had an opportunity to obtain the advice of legal counsel prior to executing this Notice, the Award Agreement, and fully understands all provisions of this Notice, the Award Agreement and the Plan. The Participant hereby agrees that all questions of interpretation and administration relating to this Notice, the Award Agreement and the Plan shall be resolved by the Committee.

The Participant hereby acknowledges that he or she has had the opportunity to review with his or her own tax advisors the tax consequences of receiving this Notice, the Award Agreement and the Plan, and the transactions contemplated thereby, including any U.S. federal, state and local tax laws, and any other applicable taxing jurisdiction, prior to executing this Notice. The Participant attests that he or she is relying solely on such advisors and not on any statements or representations of the Company or any of its agents or affiliates. Further, the Participant hereby acknowledges and understands that he or she (and not the Company) shall be solely responsible for his or her tax liability that may arise as a result of receiving this Notice and the Award Agreement.

PARTICIPANT:

Signature: _____

Print Name: _____

Dated: _____

RESTRICTED STOCK AWARD AGREEMENT

Subject to the terms and conditions of the Notice of Restricted Stock Award (the "Notice"), this Restricted Stock Award Agreement (the "Award Agreement"), and the Applied Optoelectronics, Inc. 2013 Equity Incentive Plan (the "Plan"), the individual set forth in the Notice (the "Participant") is hereby granted Shares of common stock (the "Covered Shares") in Applied Optoelectronics, Inc. (the "Company"). Unless otherwise specifically indicated, all terms used in this Award Agreement shall have the meaning as set forth in the Notice or the Plan.

1. Purchase Price Per Share. If the Covered Shares are subject to a purchase price, as set forth in the Notice, the Participant shall have the right to purchase such Covered Shares at the specified purchase price in accordance with such procedures as may be established by the Committee from time to time.
2. Vesting Schedule and Risk of Forfeiture.
 - (a) Vesting Schedule. Subject to the Participant's continuous service with the Company as a Service Provider, the Covered Shares shall vest in accordance with the Vesting Schedule provided in the Notice.
 - (b) Risk of Forfeiture. The Covered Shares shall be subject to a risk of forfeiture until such time the risk of forfeiture lapses in accordance with the Vesting Schedule. All or any portion of the Covered Shares subject to a risk of forfeiture shall immediately and automatically be forfeited and terminated upon the first day the Participant fails to provide continuous service to the Company as a Service Provider, and the Company shall make no payment to the Participant, cash or otherwise, for any unvested Covered Shares that are forfeited.
3. Transfer Restrictions. The Covered Shares issued to the Participant hereunder may not be sold, transferred by gift, pledged, hypothecated, or otherwise transferred or disposed of by the Participant (other than by will or by the laws of descent or distribution) prior to the date when the Covered Shares become vested pursuant to the Vesting Schedule. Any attempt to transfer Covered Shares in violation of this Section 3 shall be null and void and shall be disregarded. The terms of the Plan and this Award Agreement shall be binding upon the executors, administrators, heirs, successors and assigns of the Participant.
4. Escrow of Shares. For purposes of facilitating the enforcement of the provisions of the Notice, this Award Agreement and the Plan, the Participant agrees, immediately upon receipt of the certificate(s) for the Covered Shares (i) to deliver such certificate(s), together with an Assignment Separate from Certificate in the form attached hereto as **Exhibit A**, (ii) executed in blank by the Participant and with respect to each such stock certificate, (iii) to the Secretary or Assistant Secretary of the Company, or their designee, to hold in escrow for so long as such Covered Shares have not vested pursuant to the Vesting Schedule or until such time as this Award Agreement is no longer in effect. Such escrow agent shall have the authority to take all such actions and to effectuate all such transfers and/or releases as may be necessary or

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appropriate to accomplish the objectives of this Award Agreement in accordance with the terms hereof. The Participant hereby acknowledges that the appointment of the Secretary or Assistant Secretary of the Company (or their designee) as the escrow holder hereunder with the stated authorities is a material inducement to the Company to enter into the Notice and this Award Agreement and that such appointment is coupled with an interest and is accordingly irrevocable. The Participant agrees that such escrow holder shall not be liable to any party hereto (or to any other party) for any actions or omissions unless such escrow holder is grossly negligent relative thereto. The escrow holder may rely upon any letter, notice or other document executed by any signature purported to be genuine and may resign at any time. Upon the vesting of Covered Shares, the escrow holder will, without further order or instruction, transmit to the Participant the certificate evidencing such Shares, subject, however, to satisfaction of any withholding obligations provided in Section 7, below.

5. Additional Securities. Any securities or cash received as the result of an adjustment provided for in Section 15 of the Plan (the "Additional Securities") shall be retained in escrow in the same manner and subject to the same conditions and restrictions as the Covered Shares with respect to which they were issued, including the Vesting Schedule. If the Additional Securities consist of a convertible security, the Participant may exercise any conversion right, and any securities so acquired shall constitute Additional Securities. In the event of any change in certificates evidencing the Shares or the Additional Securities by reason of any transaction under Article 15 of the Plan, the escrow holder is authorized to deliver to the issuer the certificates evidencing the Shares or Additional Securities in exchange for the certificates of the replacement securities.
6. Distributions. The Company shall disburse to the Participant all regular cash dividends with respect to the Shares and Additional Securities, whether vested or otherwise, less the amount to satisfy any applicable withholding obligations.
7. Taxes. The Participant hereby acknowledges and understands that he or she may suffer adverse tax consequences as a result of the Participant's receipt of (or purchase of), vesting in, or disposition of, the Covered Shares. The Participant hereby represents that the Participant has consulted with any tax consultants the Participant deems advisable in connection with the purchase, vesting, or disposition of the Covered Shares and that the Participant is not relying on the Company for any tax advice. In the event the Company determines that it has a tax withholding obligation in connection with Participant's purchase of, vesting in, or disposition of, the Covered Shares, the Participant agrees to make appropriate arrangements with the Company or Affiliate for the satisfaction of such withholding. The Participant consents to the Company or Affiliate satisfying any withholding obligation by withholding from other compensation due to the Participant in the event such satisfactory arrangements are not made.

- (a) Representations. The Participant has reviewed with his own tax advisors the tax consequences of this investment and the transactions contemplated by this Award Agreement, including any U.S. federal, state and local tax laws, and any other applicable taxing jurisdiction. The Participant is relying solely on such advisors and not on any statements or representations of the Company or any of its agents. The Participant hereby acknowledges and understands that he or she (and not the Company) shall be responsible for his or her own tax

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liability that may arise as a result of this investment or the transactions contemplated by this Award Agreement.

- (b) Section 83(b) Election. The Participant hereby acknowledges that he or she has been informed that if he or she makes a timely election (the "Election") pursuant to Section 83(b) of the Code to be taxed currently on any difference between the Fair Market Value of the Covered Shares and any

purchase price paid, this will result in a recognition of taxable income to the Participant on the date the Covered Shares were granted. Absent such an Election, taxable income will be measured and recognized by the Participant at the time or times on which the Covered Shares become vested. The Participant is strongly encouraged to seek the advice of his or her own tax consultants in connection with the Covered Shares granted pursuant to the Plan and this Award Agreement, and the advisability of filing the Election under Section 83(b) of the Code. A form of Election under Section 83(b) is attached hereto as **Exhibit B**.

THE PARTICIPANT ACKNOWLEDGES THAT IT IS THE PARTICIPANT'S SOLE RESPONSIBILITY AND NOT THE COMPANY'S OR ANY AFFILIATE TO TIMELY FILE THE ELECTION UNDER SECTION 83(b) OF THE CODE, EVEN IF THE PARTICIPANT REQUESTS THE COMPANY, AFFILIATE OR THEIR REPRESENTATIVE TO MAKE THIS FILING ON THE PARTICIPANT'S BEHALF.

(c) Payment of Withholding Taxes. In the event the Company determines that it has a tax withholding obligation in connection with Participant's purchase of, vesting in, or disposition of, the Covered Shares, the Participant agrees to make appropriate arrangements with the Company for the satisfaction of such withholding. The Participant consents to the Company satisfying any withholding obligation by withholding from other compensation due to the Participant in the event such satisfactory arrangements are not made.

8. Legality of Initial Issuance. No Covered Shares shall be issued unless and until the Company has determined that: (i) the Company and the Participant have taken all actions required to register the Covered Shares under the Securities Act or to perfect an exemption from the registration requirements thereof, if applicable; (ii) all applicable listing requirements of any stock exchange or other securities market on which the Covered Shares are listed has been satisfied; and (iii) any other applicable provision of state or U.S. federal law or other applicable law has been satisfied.

9. Restrictive Legends. The share certificate evidencing the Covered Shares issued hereunder shall be endorsed with the following legends (in addition to any legend required under applicable U.S. federal, state securities laws and under any other Applicable Law):

(a) On the face of the certificate:

"TRANSFER OF THIS STOCK IS RESTRICTED IN ACCORDANCE WITH THE CONDITIONS PRINTED ON THE REVERSE OF THIS CERTIFICATE"

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(b) On the reverse of the certificate:

"THE SHARES OF STOCK EVIDENCED BY THIS CERTIFICATE ARE SUBJECT TO AND TRANSFERABLE ONLY IN ACCORDANCE WITH THAT CERTAIN APPLIED OPTOELECTRONICS, INC. 2013 EQUITY INCENTIVE PLAN, A COPY OF WHICH IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY IN SUGARLAND, TEXAS. NO TRANSFER OR PLEDGE OF THE SHARES EVIDENCED HEREBY MAY BE MADE EXCEPT IN ACCORDANCE WITH AND SUBJECT TO THE PROVISIONS OF SAID PLAN. BY ACCEPTANCE OF THIS CERTIFICATE, ANY HOLDER, TRANSFEREE OR PLEDGEE HEREOF AGREES TO BE BOUND BY ALL OF THE PROVISIONS OF SAID PLAN."

10. Restrictions on Transfer.

(a) Stop-Transfer Notices. The Participant agrees that, in order to ensure compliance with the restrictions referred to herein and applicable law, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and that, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(b) Rights of the Company. The Company shall not (i) record on its books the transfer of any Covered Shares that have been sold or transferred in contravention of this Award Agreement or (ii) treat as the owner of Covered Shares, or otherwise to accord voting, dividend or liquidation rights to, any transferee to whom Covered Shares have been transferred in contravention of this Award Agreement. Any transfer of Covered Shares not made in conformance with this Award Agreement shall be null and void and shall not be recognized by the Company.

11. Entire Agreement; Governing Law; and Amendments. The provisions of the Plan and the Notice are incorporated herein by reference. The Plan, the Notice and this Award Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and the Participant with respect to the subject matter hereof, and may not be modified adversely to the Participant's interest except by means of a writing signed by the Company and the Participant. This Award Agreement is governed by the laws of the State of Texas applicable to contracts executed in and to be performed in that country.

12. Construction; Severability. The captions used in this Award Agreement are inserted for convenience and shall not be deemed a part of the Shares for construction or interpretation. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise. The validity, legality or enforceability of this Award Agreement shall not be affected even if one or more of the provisions of this Award Agreement shall be held to be invalid, illegal or unenforceable in any respect.

13. Administration and Interpretation. Any question or dispute regarding the administration or interpretation of the Plan or this Award Agreement shall be submitted by the

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Participant or by the Company to the Committee. The resolution of such question or dispute by the Committee shall be final and binding on all persons.

14. Venue. The Company, the Participant and the Participant's assignees agree that any suit, action or proceeding arising out of or related to the Plan or the Agreement shall be brought in the United States District Court for the Southern District of Texas (or should such court lack jurisdiction to hear such action, suit or proceeding, in a Texas state court in Harris County) and that all parties shall submit to the jurisdiction of such court. The parties irrevocably waive, to the fullest extent permitted by law, any objection the party may have to the laying of venue for any such suit, action or proceeding brought in such court. If any one or more provisions of this Section 14 shall for any reason be held invalid or unenforceable, it is the specific intent of the parties that such provisions shall be modified to the minimum extent necessary to make it or its application valid and enforceable.

15. Notices. Any notice required by the terms of this Award Agreement shall be given in writing and shall be deemed effective upon personal delivery or upon deposit with the U.S. Postal Service, by registered or certified mail, with postage and fees prepaid. Notice shall be addressed to the Company at its principal executive office and to the Participant at the address that he or she most recently provided to the Company.

16. Spousal Consent. To the extent the Participant is married, the Participant agrees to (i) provide the Participant's spouse with a copy of the Notice and this Award Agreement prior to its execution by Participant and (ii) obtain such spouse's consent to this Agreement as evidenced by such spouse's execution of the Spousal Consent attached hereto as **Exhibit C**.

17. Counterparts. This Award Agreement may be executed in any number of counterparts, any of which may be executed and transmitted by facsimile, and each of which shall be deemed to be an original, but all of which together shall be deemed to be one and the same instrument.

18. Assignment. Except as otherwise provided in this Award Agreement, the Participant shall not assign any of his or her rights under this Award Agreement without the written consent of the Company, which consent may be withheld in its sole discretion. The Company shall be permitted to assign its rights or obligations under this Award Agreement, but no such assignment shall release the Company of its obligations hereunder.

19. No Guarantee of Service Provider Status. PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (NOT THROUGH THE ACT OF BEING HIRED OR ACQUIRING SHARES HEREUNDER). PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AWARD AGREEMENT, THE COVERED SHARES GRANTED HEREUNDER, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE IN ANY WAY WITH THE PARTICIPANT'S RIGHT OR THE COMPANY'S RIGHT TO

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TERMINATE THE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

* * * * *

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EXHIBIT A

**APPLIED OPTOELECTRONICS, INC.
2013 EQUITY INCENTIVE PLAN**

STOCK ASSIGNMENT SEPARATE FROM CERTIFICATE

[Please sign this document but do not date it. The date and information of the transferee will be completed if and when the shares are assigned.]

FOR VALUE RECEIVED, _____ hereby sells, assigns and transfers unto _____ (_____) shares of the Common Stock of Applied Optoelectronics, Inc. (the "Company"), standing in his or her name on the books of the Company represented by Certificate No. _____ herewith, and does hereby irrevocably constitute and appoint the Secretary of the Company with the power of attorney to transfer the said stock in the books of the Company with full power of substitution.

Dated: _____

Signature of Participant

Print Name

EXHIBIT B

**ELECTION UNDER SECTION 83(b)
OF THE INTERNAL REVENUE CODE OF 1986**

This statement is made under Section 83(b) of the Internal Revenue Code of 1986, as amended, pursuant to Section 1.83-2 of the regulations.

1. The taxpayer who performed the services is:

Name:

Address:

Social Security No.:

Taxable Year:

2. The property with respect to which the election is made is _____ shares of the common stock of Applied Optoelectronics, Inc. (the "Company").
3. The property was transferred to the undersigned on _____.
4. The property is subject to a forfeiture condition pursuant to which the issuer has the right to acquire the property without compensation to the taxpayer if for any reason taxpayer's service with the issuer is terminated. The forfeiture condition lapses in a series of installments depending on certain conditions set forth in an Award Agreement.
5. The fair market value of such property at the time of transfer (determined without regard to any restriction other than a restriction which by its terms will never lapse) is \$ _____ per share x _____ shares = \$ _____.
6. For the property transferred, the undersigned paid \$ _____ per share x _____ shares = \$ _____.
7. The amount to include in gross income is \$ _____ **[The result of the amount reported in Item 5 minus the amount reported in Item 6.]**
8. A copy of this statement was furnished to the Company for whom taxpayer rendered the services underlying the transfer of such property.
9. This statement is executed on _____, _____.

Signature of Spouse (if any)

Signature of Taxpayer

This election must be filed within 30 days after the date of transfer with the Internal Revenue Service Center with which Holder files his or her federal income tax returns. This filing should be made by registered or certified mail, return receipt requested. Holder must retain two copies of the completed form for filing with his or her federal and state tax returns for the current tax year and an additional copy for his or her records, and deliver another additional copy to the Company.

EXHIBIT C

**APPLIED OPTOELECTRONICS, INC.
2013 EQUITY INCENTIVE PLAN
RESTRICTED STOCK AWARD AGREEMENT
SPOUSAL CONSENT**

I, the undersigned, hereby certify that:

1. I am the spouse of _____.
2. Each of the undersigned and the undersigned's spouse is a resident of _____.
3. I have read the Applied Optoelectronics, Inc. 2013 Equity Incentive Plan (the "Plan") and the Restricted Stock Award Agreement (the "Award Agreement"), by and between Applied Optoelectronics, Inc. (the "Company"), and my spouse. I have had the opportunity to consult independent legal counsel regarding the contents of the Award Agreement and the Plan.
4. I understand the terms and conditions of the Award Agreement and the Plan.
5. I hereby consent to the terms of the Award Agreement and the Plan and to their application to and binding effect upon any community property or other interest I may have in the Shares (it being understood that this Spousal Consent shall in no way be construed to create any such interest). I agree that I will take no action at any time to hinder the operation of the transactions contemplated in and by the Award Agreement and the Plan.

IN WITNESS WHEREOF, this Spousal Consent has been executed as of _____, 2013.

SPOUSE:

Signature: _____

Print Name: _____

APPLIED OPTOELECTRONICS, INC.
2013 EQUITY INCENTIVE PLAN

NOTICE OF RESTRICTED STOCK UNIT AWARD

Subject to the terms and conditions of this Notice of Restricted Stock Unit Award (this "Notice"), the Restricted Stock Unit Award Agreement attached hereto (the "Award Agreement"), and the Applied Optoelectronics, Inc. 2013 Equity Incentive Plan (the "Plan"), the below individual (the "Participant") is hereby granted the below number of Restricted Stock Units (the "RSUs") in Applied Optoelectronics, Inc. (the "Company"). Unless otherwise specifically indicated, all terms used in this Notice shall have the meaning as set forth in the Award Agreement or the Plan.

Identifying Information:

Participant Name
and Address:

Date of Grant:
Number of RSUs:
Vesting Commencement Date:

Vesting Schedule:

Subject to the Participant's continuous status as a Service Provider, and the terms of the Plan and this Award Agreement, the RSUs shall vest over a []-year period in accordance with the following vesting schedule (the "Vesting Schedule"):

Table with 2 columns: Vesting Date, Nonforfeitable Percentage

[Notwithstanding the above, the RSUs shall automatically become fully vested upon the earlier of: (i) the Participant's Disability; (ii) the Participant's death; and (iii) immediately prior to the closing of a Change in Control of the Company.]

[SIGNATURES ON NEXT PAGE]

By your signature and the signature of the Company's representative below, the Participant and the Company agree that the RSUs granted are governed by the terms and conditions of this Notice, the Award Agreement and the Plan.

APPLIED OPTOELECTRONICS, INC.

By:
Its:
Dated:

PARTICIPANT ACKNOWLEDGMENT

The Participant acknowledges receipt of a copy of this Notice, the Award Agreement and the Plan, and represents that he or she is familiar with the provisions thereof, and hereby accepts the RSUs subject to all of the terms and provisions hereof and thereof. The Participant has reviewed this Notice, the Award Agreement and the Plan in their entirety, has had an opportunity to obtain the advice of legal counsel prior to executing this Notice, the Award Agreement, and fully understands all provisions of this Notice, the Award Agreement and the Plan. The Participant hereby agrees that all questions of interpretation and administration relating to this Notice, the Award Agreement and the Plan shall be resolved by the Committee.

The Participant hereby acknowledges that he or she has had the opportunity to review with his or her own tax advisors the tax consequences of receiving this Notice, the Award Agreement and the Plan, and the transactions contemplated thereby, including any U.S. federal, state and local tax laws, and any other applicable taxing jurisdiction, prior to executing this Notice. The Participant attests that he or she is relying solely on such advisors and not on any statements or representations of the Company or any of its agents or affiliates. Further, the Participant hereby acknowledges and understands that he or she (and not the Company) shall be solely responsible for his or her tax liability that may arise as a result of receiving this Notice and the Award Agreement.

PARTICIPANT:

Signature:
Print Name:
Dated:

RESTRICTED STOCK UNIT AWARD AGREEMENT

Subject to the terms and conditions of the Notice of Restricted Stock Unit Award (the “Notice”), this Restricted Stock Unit Award Agreement (the “Award Agreement”), and the Applied Optoelectronics, Inc. 2013 Equity Incentive Plan (the “Plan”), the individual set forth in the Notice (the “Participant”) is hereby granted Restricted Stock Units (the “RSUs”) in Applied Optoelectronics, Inc. (the “Company”). Unless otherwise specifically indicated, all terms used in this Award Agreement shall have the meaning as set forth in the Notice or the Plan.

1. Vesting Schedule and Risk of Forfeiture.

(a) Vesting Schedule. Subject to the Participant’s continuous service with the Company as a Service Provider, the RSUs shall vest in accordance with the Vesting Schedule provided in the Notice.

(b) Risk of Forfeiture. The RSUs shall be subject to a risk of forfeiture until such time the risk of forfeiture lapses in accordance with the above Vesting Schedule. All or any portion of the RSUs subject to a risk of forfeiture shall immediately and automatically be forfeited and terminated upon the first day Participant fails to provide continuous service to the Company as a Service Provider, and the Company shall make no payment to Participant, cash or otherwise, for any unvested RSUs that are forfeited. Additionally, all of the RSUs subject to this Award Agreement shall immediately become forfeited if Participant fails to fully satisfy Section 3(b) of this Award Agreement, as determined by the Committee.

2. Settlement of RSUs into Shares. Subject to the terms of this Award Agreement, on the date all or any portion of the RSUs become nonforfeitable pursuant to the Vesting Schedule, each RSU that becomes nonforfeitable shall immediately and automatically be converted into one Share of the Company’s Common Stock and immediately thereafter shall be granted to Participant.

3. Taxes. The Participant hereby acknowledges and understands that he or she may suffer adverse tax consequences as a result of the Participant’s receipt of, vesting in, or disposition of, the RSUs.

(a) Representations. The Participant has reviewed with his or her own tax advisors the tax consequences of this Award Agreement and the RSUs granted hereunder, including any U.S. federal, state and local tax laws, and any other applicable taxing jurisdiction. The Participant is relying solely on such advisors and not on any statements or representations of the Company or any of its agents. The Participant hereby acknowledges and understands that he or she (and not the Company) shall be responsible for his or her own tax liability that may arise as a result of his or her receiving this Award Agreement and the RSUs granted hereunder.

(b) Payment of Withholding Taxes. The Participant shall make appropriate arrangements with the Company for the satisfaction of all U.S. Federal, state, local and non-U.S.

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income and employment tax withholding requirements applicable to any RSUs that settle in Shares of Common Stock in accordance with Section 2. The Committee shall have the sole authority to determine whether a “net withholding” may be permitted or is required for purposes of Participant satisfying his or her obligations under this Section 3(b). Participant hereby acknowledges his or her understanding that the Company’s obligations under this Award Agreement are fully contingent on Participant first satisfying this Section 3(b). Therefore, a failure of Participant to reasonably satisfy this Section 3 in accordance with the Committee’s sole and absolute discretion shall result in the automatic termination and expiration of this Award Agreement and the Company’s obligations hereunder. Participant hereby agrees that a breach of this Section 3(b) shall be deemed to be a material breach of this Award Agreement.

(c) No Application of Section 409A. The RSUs and this Award Agreement are intended to avoid the application of Section 409A of the Code (“Section 409A”) because there is no deferral arrangement. Notwithstanding any other provision in the Plan or this Award Agreement to the contrary, the Committee shall have the right, in its sole discretion, to adopt such amendments to the Plan or this Award Agreement or take such other actions (including amendments and actions with retroactive effect) as the Committee determines are necessary or appropriate for the RSUs to comply with Section 409A.

4. Transferability of RSUs. The RSUs may not be transferred in any manner other than by will or by the laws of descent and distribution. Notwithstanding the foregoing, Participant may designate one or more beneficiaries of Participant’s RSUs in the event of Participant’s death on a beneficiary designation form provided by the Committee. The terms of this Award Agreement shall be binding upon the executors, administrators, heirs, successors and transferees of Participant.

5. Rights as a Shareholder of the Company. Participant’s receipt of the grant of RSUs pursuant to this Award Agreement shall provide and confer no rights or status as a shareholder of the Company until such time the RSUs are converted in accordance with Section 2 of this Award Agreement.

6. Legality of Initial Issuance. No Shares of Common Stock shall be issued in accordance with Section 2 of this Award Agreement unless and until the Committee has determined that: (i) the Company and Participant have taken all actions required to register the Shares of Common Stock under the Securities Act or to perfect an exemption from the registration requirements thereof, if applicable; (ii) all applicable listing requirements of any stock exchange or other securities market on which the Shares of Common Stock are listed has been satisfied; and (iii) any other applicable provision of state or U.S. federal law or other applicable law has been satisfied.

7. Notice. Any notice required by the terms of this Award Agreement shall be given in writing and shall be deemed effective upon personal delivery or upon deposit with the U.S. Postal Service, by registered or certified mail, with postage and fees prepaid. Notice shall be addressed to the Company at its principal executive office and to the Participant at the address that he or she most recently provided to the Company.

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8. Spousal Consent. To the extent Participant is married, Participant agrees to (i) provide Participant’s spouse with a copy of this Award Agreement prior to its execution by Participant and (ii) obtain such spouse’s consent to this Award Agreement as evidenced by such spouse’s execution of the Spousal Consent attached hereto as **EXHIBIT A**.

9. Successors and Assigns. Except as provided herein to the contrary, this Award Agreement shall be binding upon and inure to the benefit of the parties to this Award Agreement, their respective successors and permitted assigns.

10. No Assignment. Except as otherwise provided in this Award Agreement, Participant shall not assign any of his rights under this Award Agreement without the prior written consent of the Company, which consent may be withheld in its sole discretion. The Company shall be permitted to assign its rights or obligations under this Award Agreement, but no such assignment shall release the Company of any obligations pursuant to this Award Agreement.

11. Severability. The validity, legality or enforceability of the remainder of this Award Agreement shall not be affected even if one or more of the provisions of this Award Agreement shall be held to be invalid, illegal or unenforceable in any respect.

12. Amendment. Any provision of this Award Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively) only by a written instrument signed by the parties hereto.

13. Administration and Interpretation. Any determination by the Committee in connection with any question or issue arising under the Plan or this Award Agreement shall be final, conclusive and binding on Participant, the Company and all other persons. Any question or dispute regarding the interpretation of this Award Agreement or the receipt of the RSUs hereunder shall be submitted by Participant to the Committee. The resolution of such a dispute by the Committee shall be final and binding on all parties.

14. Headings. The section headings in this Award Agreement are inserted only as a matter of convenience, and in no way define, limit or interpret the scope of this Award Agreement or of any particular section.

15. Counterparts. This Award Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Any counterpart or other signature delivered by facsimile shall be deemed for all purposes as being a good and valid execution and deliver of this Award Agreement by that party.

16. Entire Agreement; Governing Law. The provisions of the Plan and the Notice are incorporated herein by reference. Except as otherwise provided herein, the Plan, the Notice and this Award Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and the Participant with respect to the subject matter hereof, and may not be modified adversely to the Participant's interest except by means of a writing signed by the Company and

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the Participant. This Award Agreement is governed by the laws of the State of Texas applicable to contracts executed in and to be performed in that state.

17. No Guarantee of Service Provider Status. PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF RSUs PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUOUS SERVICE AS A SERVICE PROVIDER AND AT THE WILL OF THE COMPANY (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED RSUs OR ACQUIRING COMMON STOCK HEREUNDER). PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AWARD AGREEMENT, THE RIGHT GRANTED HEREUNDER, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH IN THIS AWARD AGREEMENT DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE IN ANY WAY WITH PARTICIPANT'S RIGHT OR THE COMPANY'S/AFFILIATE'S RIGHT TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

18. Waiver. Failure to insist upon strict compliance with any of the terms, covenants, or conditions hereof will not be deemed a waiver of such term, covenant, or condition, nor will any waiver or relinquishment of, or failure to insist upon strict compliance with, any right or power hereunder at any one or more times be deemed a waiver or relinquishment of such right or power at any other time or times.

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EXHIBIT A

APPLIED OPTOELECTRONICS, INC.
2013 EQUITY INCENTIVE PLAN

RESTRICTED STOCK UNIT AWARD AGREEMENT

SPOUSAL CONSENT

I, the undersigned, hereby certify that:

1. I am the spouse of .
2. Each of the undersigned and the undersigned's spouse is a resident of .
3. I have read the Applied Optoelectronics, Inc. 2013 Equity Incentive Plan (the "Plan") and the Restricted Stock Unit Award Agreement (the "Award Agreement"), by and between Applied Optoelectronics, Inc. (the "Company"), and my spouse. I have had the opportunity to consult independent legal counsel regarding the contents of the Award Agreement and the Plan.
4. I understand the terms and conditions of the Award Agreement and the Plan.

5. I hereby consent to the terms of the Award Agreement and the Plan and to their application to and binding effect upon any community property or other interest I may have in the RSUs (it being understood that this Spousal Consent shall in no way be construed to create any such interest). I agree that I will take no action at any time to hinder the operation of the transactions contemplated in and by the Award Agreement and the Plan.

IN WITNESS WHEREOF, this Spousal Consent has been executed as of _____, 2013.

SPOUSE:

Signature: _____

Print Name: _____

APPLIED OPTOELECTRONICS, INC.
2013 EQUITY INCENTIVE PLAN

NOTICE OF STOCK APPRECIATION RIGHT AWARD

Subject to the terms and conditions of this Notice of Stock Appreciation Right Award (this "Notice"), the Stock Appreciation Right Award Agreement attached hereto (the "Award Agreement"), and the Applied Optoelectronics, Inc. 2013 Equity Incentive Plan (the "Plan"), the below individual (the "Participant") is hereby granted the below number of Stock Appreciation Rights (the "SARs") in Applied Optoelectronics, Inc. (the "Company"). Unless otherwise specifically indicated, all terms used in this Notice shall have the meaning as set forth in the Award Agreement or the Plan.

Participant Name:
and Address:

Date of Grant:
Number of SARs:
Vesting Commencement Date:

Vesting Schedule:

Subject to the Participant's continuous status as a Service Provider, and the terms of the Plan and this Award Agreement, the SARs shall vest over a []-year period in accordance with the following vesting schedule (the "Vesting Schedule"):

Vesting Date	Nonforfeitable Percentage

[Notwithstanding the above, the SARs shall automatically become fully vested upon the earlier of: (i) the Participant's Disability; (ii) the Participant's death; and (iii) immediately prior to the closing of a Change in Control of the Company.]

[SIGNATURES ON NEXT PAGE]

By your signature and the signature of the Company's representative below, the Participant and the Company agree that the SARs granted are governed by the terms and conditions of this Notice, the Award Agreement and the Plan.

APPLIED OPTOELECTRONICS, INC.

By: _____

Its: _____

Dated: _____

PARTICIPANT ACKNOWLEDGMENT

The Participant acknowledges receipt of a copy of this Notice, the Award Agreement and the Plan, and represents that he or she is familiar with the provisions thereof, and hereby accepts the SARs subject to all of the terms and provisions hereof and thereof. The Participant has reviewed this Notice, the Award Agreement and the Plan in their entirety, has had an opportunity to obtain the advice of legal counsel prior to executing this Notice, the Award Agreement, and fully understands all provisions of this Notice, the Award Agreement and the Plan. The Participant hereby agrees that all questions of interpretation and administration relating to this Notice, the Award Agreement and the Plan shall be resolved by the Committee.

The Participant hereby acknowledges that he or she has had the opportunity to review with his or her own tax advisors the tax consequences of receiving this Notice, the Award Agreement and the Plan, and the transactions contemplated thereby, including any U.S. federal, state and local tax laws, and any other applicable taxing jurisdiction, prior to executing this Notice. The Participant attests that he or she is relying solely on such advisors and not on any statements or representations of the Company or any of its agents or affiliates. Further, the Participant hereby acknowledges and understands that he or she (and not the Company) shall be solely responsible for his or her tax liability that may arise as a result of receiving this Notice and the Award Agreement.

PARTICIPANT:

Signature: _____

Print Name: _____

Dated: _____

STOCK APPRECIATION RIGHT AWARD AGREEMENT

Subject to the terms and conditions of the Notice of Stock Appreciation Right Award (the "Notice"), this Stock Appreciation Right Award Agreement (the "Award Agreement"), and the Applied Optoelectronics, Inc. 2013 Equity Incentive Plan (the "Plan"), the individual set forth in the Notice (the "Participant") is hereby granted Stock Appreciation Rights (the "SARs") in Applied Optoelectronics, Inc. (the "Company"). Unless otherwise specifically indicated, all terms used in this Award Agreement shall have the meaning as set forth in the Notice or the Plan.

1. Number and Purpose of SARs. Participant has been awarded the number of SARs as set forth in the Notice. Subject to the terms and conditions contained in the Notice and this Award Agreement, the general purpose of the SARs is to provide Participant with the prospective ability to receive a cash payment equal in value to the appreciation of the Company's common stock from the Date of Grant to the conversion and payment set forth in Section 3, below.

2. Vesting Schedule and Risk of Forfeiture.

(a) Vesting Schedule. Subject to the Participant's continuous service with the Company as a Service Provider, and any other limitations set forth in the Notice or this Award Agreement, the SARs shall vest in accordance with the Vesting Schedule provided in the Notice.

(b) Risk of Forfeiture. The SARs shall be subject to a risk of forfeiture until such time the risk of forfeiture lapses in accordance with the above Vesting Schedule. All or any portion of the SARs subject to the foregoing risk of forfeiture shall immediately and automatically be forfeited and terminated upon the first day Participant fails to provide continuous service to the Company as a Service Provider, and the Company shall make no payment to Participant, cash or otherwise, for any such SARs that are forfeited. Additionally, all of the SARs subject to this Award Agreement shall immediately become forfeited if Participant fails to fully satisfy Section 4(b) of this Award Agreement, as determined by the Committee.

3. Conversion, Payment of SARs. Subject to the terms of this Award Agreement, on the Vesting Date, the portion of the SARs that became vested shall automatically and immediately be converted to the right to receive a cash payment from the Company in an amount equal to the positive difference (if any) between the Fair Market Value of the Company's common stock as of the Vesting Date and the Fair Market Value of the Company's common stock as of the Date of Grant and immediately thereafter shall be made to the Participant.

4. Taxes.

(a) Tax Liability. Participant is ultimately liable and responsible for all taxes owed by Participant in connection with his or her receipt of SARs and payments made under this Award Agreement, regardless of any action the Company takes with respect to any tax

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withholding obligations arising hereunder. The Company makes no representation or undertaking regarding the treatment of any tax withholding in connection with the grant of SARs or payments made pursuant to this Award Agreement. The Company does not commit and is under no obligation to structure the SARs to reduce or eliminate Participant's tax liability.

(b) Payment of Withholding Taxes. Participant authorizes the Company to withhold from the cash payable to Participant upon any payment made pursuant to this Award Agreement an amount sufficient to satisfy any tax withholding obligation, whether federal, state, local or non-U.S., including any employment tax obligation. Notwithstanding anything in this Award Agreement to the contrary, the Company's obligation to provide any payment under this Award Agreement shall immediately cease if Participant refuses after reasonable notice to make arrangements with the Company to satisfy any tax withholding obligations imposed upon the Company.

5. Transferability of SARs. The SARs may not be transferred in any manner other than by will or by the laws of descent and distribution. Notwithstanding the foregoing, Participant may designate one or more beneficiaries of Participant's SARs in the event of Participant's death on a beneficiary designation form provided by the Committee. The terms of this Award Agreement shall be binding upon the executors, administrators, heirs, successors and transferees of Participant.

6. Rights as a Shareholder of the Company. Participant's receipt of the grant of SARs pursuant to the Notice and this Award Agreement shall provide and confer no rights to or status as a shareholder or equity holder of the Company. Without limiting the foregoing, the holding of SARs shall NOT confer any right to: (i) vote; (ii) bring derivative actions; (iii) inspect books and records of the Company; (iv) receive dividends or other distributions except as provided in Section 3; or (v) have any other rights accorded owners of the Company's shareholders or equity holders.

7. Notice. Any notice required by the terms of this Award Agreement shall be given in writing and shall be deemed effective upon personal delivery or upon deposit with the U.S. Postal Service, by registered or certified mail, with postage and fees prepaid. Notice shall be addressed to the Company at its principal executive office and to the Participant at the address that he or she most recently provided to the Company.

8. Spousal Consent. To the extent Participant is married, Participant agrees to (i) provide Participant's spouse with a copy of this Award Agreement prior to its execution by Participant and (ii) obtain such spouse's consent to this Award Agreement as evidenced by such spouse's execution of the Spousal Consent attached hereto as **EXHIBIT A**.

9. Successors and Assigns. Except as provided herein to the contrary, this Award Agreement shall be binding upon and inure to the benefit of the parties to this Award Agreement, their respective permitted successors and assigns.

10. No Assignment. Except as otherwise provided in this Award Agreement, Participant shall not assign any of his rights under the Notice or this Award Agreement without the prior written consent of the Company, which consent may be withheld in its sole discretion.

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The Company shall be permitted to assign its rights or obligations under the Notice and this Award Agreement, but no such assignment shall release the Company of any obligations pursuant to the Notice or this Award Agreement.

11. **Severability.** The validity, legality or enforceability of the remainder of this Award Agreement shall not be affected even if one or more of the provisions of this Award Agreement shall be held to be invalid, illegal or unenforceable in any respect.

12. **Amendment.** Any provision of this Award Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively) only by a written instrument signed by the parties hereto.

13. **Administration and Interpretation.** Any question or dispute regarding the interpretation of the Notice or this Award Agreement or the receipt of SARs hereunder shall be submitted by Participant to the Company's board of directors. The resolution of such a dispute by the Company's board of directors shall be final and binding on all parties.

14. **Headings.** The section headings in this Award Agreement are inserted only as a matter of convenience, and in no way define, limit or interpret the scope of this Award Agreement or of any particular section.

15. **Counterparts.** The Notice may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Any counterpart or other signature delivered by facsimile shall be deemed for all purposes as being a good and valid execution and delivery of the Notice by that party.

16. **Entire Agreement; Governing Law.** The Notice and this Award Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersedes in its entirety all prior undertakings, representation and agreements of the Company and Participant (whether oral or written, and whether express or implied) with respect to the subject matter hereof. The Notice and this Award Agreement are to be construed in accordance with and governed by the federal laws of the United States of America and by the internal laws of the State of Texas without giving effect to any choice of law rule that would cause the application of the laws of any other jurisdiction.

17. **Venue.** The Company and Participant agree that any suit, action or proceeding arising out of or related to the Notice or this Award Agreement shall be brought in the United States District Court for the Southern District of Texas (or should such court lack jurisdiction to hear such action, suit or proceeding, in a Texas state court in Harris County), and that all parties shall submit to the jurisdiction of such court. The parties irrevocably waive, to the fullest extent permitted by law, any objection the party may have to the laying of venue for any such suit, action or proceeding brought in such court. If any one or more provisions of this Section 17 shall for any reason be held invalid or unenforceable, it is the specific intent of the parties that such provisions shall be modified to the minimum extent necessary to make it or its application valid and enforceable.

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18. **No Guarantee of Service Provider Status.** PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF SARs PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUOUS SERVICE AS A SERVICE PROVIDER AND AT THE WILL OF THE COMPANY (NOT THROUGH THE ACT OF BEING HIRED OR BEING GRANTED SARs). PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AWARD AGREEMENT, THE RIGHT GRANTED HEREUNDER, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH IN THIS AWARD AGREEMENT DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE IN ANY WAY WITH PARTICIPANT'S RIGHT OR THE COMPANY'S/AFFILIATE'S RIGHT TO TERMINATE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

19. **Unsecured General Creditor.** Participant shall have no legal or equitable rights, interests or claims in any property or assets of the Company due to the Notice, this Award Agreement and the grant of SARs hereunder. For purposes of the payment of benefits under the Notice and this Award Agreement, Participant shall have no more rights than those of a general creditor of the Company. The Company's obligation under the Notice and this Award Agreement shall be that of a conditional unfunded and unsecured promise to pay money or property in the future.

20. **Waiver.** Failure to insist upon strict compliance with any of the terms, covenants, or conditions hereof will not be deemed a waiver of such term, covenant, or condition, nor will any waiver or relinquishment of, or failure to insist upon strict compliance with, any right or power hereunder at any one or more times be deemed a waiver or relinquishment of such right or power at any other time or times.

* * * * *

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EXHIBIT A

APPLIED OPTOELECTRONICS, INC.
2013 EQUITY INCENTIVE PLAN

STOCK APPRECIATION RIGHT AWARD AGREEMENT

SPOUSAL CONSENT

I, the undersigned, hereby certify that:

1. I am the spouse of
2. Each of the undersigned and the undersigned's spouse is a resident of

3. I have read the Applied Optoelectronics, Inc. 2013 Equity Incentive Plan (the "Plan") and the Stock Appreciation Right Award Agreement (the "Award Agreement"), by and between Applied Optoelectronics, Inc. (the "Company"), and my spouse. I have had the opportunity to consult independent legal counsel regarding the contents of the Award Agreement and the Plan.

4. I understand the terms and conditions of the Award Agreement and the Plan.

5. I hereby consent to the terms of the Award Agreement and the Plan and to their application to and binding effect upon any community property or other interest I may have in the SARs (it being understood that this Spousal Consent shall in no way be construed to create any such interest). I agree that I will take no action at any time to hinder the operation of the transactions contemplated in and by the Award Agreement and the Plan.

IN WITNESS WHEREOF, this Spousal Consent has been executed as of _____, 2013.

SPOUSE:

Signature: _____

Print Name: _____

**APPLIED OPTOELECTRONICS, INC.
2013 EQUITY INCENTIVE PLAN**

NOTICE OF STOCK OPTION AWARD

Subject to the terms and conditions of this Notice of Stock Option Award (this “Notice”), the Stock Option Award Agreement attached hereto (the “Award Agreement”), and the Applied Optoelectronics, Inc. 2013 Equity Incentive Plan (the “Plan”), the below individual (the “Participant”) is hereby granted an option (the “Option”) to purchase the below number of Shares of common stock in Applied Optoelectronics, Inc. (the “Company”). Unless otherwise specifically indicated, all terms used in this Notice shall have the meaning as set forth in the Award Agreement or the Plan.

Identifying Information:

Participant Name: and Address:	Date of Grant:
Type of Option: o Nonstatutory Stock Option <input type="checkbox"/> Incentive Stock Option	Vesting Commencement Date: Exercise Price per Share: Total Number of Shares (“Optioned Shares”):
Expiration Date: [Insert 10 years from Date of Grant]	

Vesting Schedule:

Subject to the Participant’s continuous service as a Service Provider, the Optioned Shares shall vest over a []-year period in accordance with the following vesting schedule (the “Vesting Schedule”):

<u>Vesting Date</u>	<u>Nonforfeitable Percentage</u>

[Notwithstanding the foregoing, the Optioned Shares shall automatically become fully vested upon the earlier of: (i) the Participant’s Disability, (ii) the Participant’s death, and (iii) immediately prior to the closing of a Change in Control of the Company.]

Maximum Exercise Period:

Pursuant to Section 4 of the Award Agreement and Section 7(d) of the Plan, the post-termination exercise period shall be:

<u>Event Triggering Termination of Option</u>	<u>Max Time to Exercise Following Triggering Event</u>
Termination of Service Provider status (except as provided below)	30 days
Termination of Service Provider status due to Disability	24 months
Termination of Service Provider status due to death	24 months

[SIGNATURES ON NEXT PAGE]

By the Participant’s signature and the signature of the Company’s representative below, the Participant and Company agree that the Option granted herein is governed by the terms and conditions of this Notice, the Award Agreement and the Plan.

APPLIED OPTOELECTRONICS, INC.

By: _____

Its: _____

Dated: _____

PARTICIPANT ACKNOWLEDGMENT

The Participant acknowledges receipt of a copy of this Notice, the Award Agreement and the Plan and represents that he or she is familiar with the provisions thereof, and hereby accepts the Option subject to all of the terms and provisions hereof and thereof. The Participant has reviewed this Notice, the Award Agreement and the Plan in their entirety, has had an opportunity to obtain the advice of legal counsel prior to executing this Notice, and fully understands all provisions of this Notice, the Award Agreement and the Plan. The Participant hereby agrees that all questions of interpretation and administration relating to this Notice, the Award Agreement and the Plan shall be solely resolved by the Company’s Board.

The Participant hereby acknowledges that he has had the opportunity to review with his own tax advisors the tax consequences of receiving this Notice, the Award Agreement and the Plan, and the transactions contemplated thereby, including any U.S. federal, state and local tax laws, and any other applicable taxing jurisdiction, prior to executing this Notice. Participant attests that he is relying solely on such advisors and not on any statements or representations of the Company or any of its agents or affiliates. Further, Participant hereby acknowledges and understands that he (and not the Company) shall be solely responsible for his tax liability that may arise as a result of receiving this Notice and the Award Agreement.

PARTICIPANT:

Signature _____

Print Name _____

Dated: _____

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**APPLIED OPTOELECTRONICS, INC.
2013 EQUITY INCENTIVE PLAN**

STOCK OPTION AWARD AGREEMENT

Subject to the terms and conditions of the Notice of Stock Option Award (the "Notice"), this Stock Option Award Agreement (this "Award Agreement") and the 2013 Equity Incentive Plan (the "Plan"), Applied Optoelectronics, Inc. (the "Company") hereby grants the individual set forth in the Notice (the "Participant") an option (the "Option") to purchase shares of the Company's common stock. Unless otherwise specifically indicated, all terms used in this Award Agreement shall have the meaning as set forth in the Notice or the Plan.

1. Grant of the Option. The principal features of the Option, including the number of Optioned Shares subject to the Option, are set forth in the Notice.
2. Vesting Schedule. Subject to the Participant's continuous service as a Service Provider, the Optioned Shares shall vest in accordance with the Vesting Schedule provided in the Notice.
3. Risk of Forfeiture. The Optioned Shares shall be subject to a risk of forfeiture until such time the risk of forfeiture lapses in accordance with the Vesting Schedule. All or any portion of the Optioned Shares subject to a risk of forfeiture shall automatically be forfeited and immediately returned to the Company if Participant's continuous status as a Service Provider is interrupted or terminated for any reason other than as permitted under the Plan. Additionally, and notwithstanding anything in the Notice or this Award Agreement to the contrary, the vested and unvested Optioned Shares shall be forfeited if the Participant's continuous service as a Service Provider is terminated for Cause or if the Participant breaches (as determined by the Board) any provisions of the Notice, this Award Agreement or the Plan.
4. Exercise of Option.
 - (a) Right to Exercise. The Optioned Shares shall be exercisable during its term cumulatively according to the Vesting Schedule set forth above and the applicable provisions of the Plan; however, the Optioned Shares shall not be exercised for a fraction of a Share. Additionally, and notwithstanding anything in the Notice, this Award Agreement, the Plan or any other agreement to the contrary, the Participant's right to exercise vested Optioned Shares shall automatically expire, and the vested Optioned Shares shall automatically terminate, upon the end of the period (the "Maximum Exercise Period") prescribed in the Notice following the earliest of these events: (i) the termination of the status of the Participant as a Service Provider (except as provided below); (ii) the termination of the status of the Participant as a Service Provider due to Disability; and (iii) the termination of the status of the Participant as a Service Provider due to death. As provided under the Plan, and notwithstanding anything to the contrary, all Optioned Shares shall automatically expire and terminate upon the Expiration Date (as set forth in the Notice) to the extent not then exercised. Thereafter, no vested Optioned Shares may be exercised.
 - (b) Method of Exercise. The Option shall be exercisable to the extent then vested by delivery of a written exercise notice in a form acceptable to the Administrator

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(the "Exercise Notice"), which shall state the election to exercise the Option, the number of Shares with respect to which the Option is being exercised, and such other representations and agreements as may be required by the Company. The Exercise Notice shall be signed by the Participant (or by the Participant's beneficiary or other person entitled to exercise the Option in the event of the Participant's death under the Plan) and shall be delivered in person or by certified mail to the Secretary of the Company. The Exercise Notice shall be accompanied by payment of the aggregate Exercise Price as to all Shares exercised. The Option shall be deemed to be exercised as of the date (the "Exercise Date"): (i) the date the Company receives (as determined by the Administrator in its sole, but reasonable, discretion) the fully executed Exercise Notice accompanied by payment of the aggregate Exercise Price, and (ii) all other applicable terms and conditions of the Award Agreement are satisfied in the sole discretion of the Administrator.

(c) Approval by Shareholders and Compliance Restrictions on Exercise. Notwithstanding any other provision of this Award Agreement to the contrary, no portion of the Option shall be exercisable at any time prior to the approval of the Plan by the shareholders of the Company. No Shares shall be issued pursuant to the exercise of an Option unless the issuance and exercise, including the form of consideration used to pay the Exercise Price, comply with Applicable Laws.

(d) Issuance of Shares. After receiving the Exercise Notice, the Company shall cause to be issued a certificate or certificates for the Shares as to which the Option has been exercised, registered in the name of the person exercising this Option (or in the names of such person and his or her spouse as community property or as joint tenants with right of survivorship). The Company shall cause the certificate or certificates to be deposited in escrow or delivered to or upon the order of the person exercising the Option.

5. Method of Payment. Payment of the aggregate Exercise Price shall be by any of the following forms of consideration, or a combination thereof, at the election of the Participant:

(a) cash or check;

(b) if approved by the Administrator (in its sole discretion), consideration received by the Company under a formal cashless exercise program adopted by the Company in connection with the Plan or a net exercise feature; or

(c) if approved by the Administrator (in its sole discretion), surrender of other Shares which, if accepted by the Company, would not subject the Company to adverse accounting as determined by the Administrator.

6. Non-Transferability of Option. The Option and the rights and privileges conferred hereby shall not be sold, pledged or otherwise transferred (whether by operation of law or otherwise) in any manner otherwise than by will or by the laws of descent or distribution, shall not be subject to sale under execution, attachment, levy or similar process and may be exercised during the lifetime of the Participant only by the Participant. The terms of the Notice, this Award Agreement and the Plan shall be binding upon the executors, administrators, heirs, successors and assigns of the Participant.

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7. Term of Option. The Option shall in any event expire on the Expiration Date set forth in the Notice, and may be exercised prior to the Expiration Date only in accordance with the Plan and the terms of this Award Agreement.

8. Tax Obligations.

(a) Withholding Taxes. The Participant shall make appropriate arrangements with the Company (or the Parent or Subsidiary employing or retaining the Participant) for the satisfaction of all U.S. Federal, state, local and non-U.S. income and employment tax withholding requirements applicable to the Option exercise. The Participant hereby acknowledges, understands and agrees that the Company may refuse to honor the exercise and refuse to deliver Shares if the withholding amounts are not delivered at the time of exercise.

(b) Notice of Disqualifying Disposition of Shares. If the Option granted to the Participant herein is designated as an Incentive Stock Option, and if the Participant sells or otherwise disposes of any of the Shares acquired pursuant to the Incentive Stock Option on or before the later of: (i) the date two years after the Date of Grant and (ii) the date one year after the date of exercise, the Participant shall immediately notify the Company in writing of such disposition. The Participant hereby acknowledges and agrees that the Participant may be subject to income tax withholding by the Company on the compensation income recognized by the Participant in connection with the exercise of the Option.

9. Adjustment of Shares. In the event of any transaction described in Section 15(a) of the Plan, the terms of the Option (including, without limitation, the number and kind of the Optioned Shares and the Exercise Price) may be adjusted as set forth therein. This Award Agreement shall in no way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer any part of its business or assets.

10. Legality of Initial Issuance. No Shares shall be issued upon the exercise of the Option unless and until the Company has determined that: (i) the Company and the Participant have taken all actions required to register the Shares under the Securities Act or to perfect an exemption from the registration requirements thereof, if applicable; (ii) all applicable listing requirements of any stock exchange or other securities market on which the Shares are listed has been satisfied; and (iii) any other applicable provision of state or U.S. federal law or other Applicable Laws has been satisfied.

11. No Registration Rights. The Company may, but shall not be obligated to, register or qualify the sale of Shares under the Securities Act or any other Applicable Laws. The Company shall not be obligated to take any affirmative action in order to cause the sale of Shares under this Award Agreement to comply with any law.

12. Restrictions. Regardless of whether the offering and sale of Shares under the Plan have been registered under the Securities Act or have been registered or qualified under the securities laws of any state, the Company at its discretion may impose restrictions upon the sale, pledge or other transfer of the Shares (including the placement of appropriate legends on share

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certificates or the imposition of stop-transfer instructions) if, in the judgment of the Company, such restrictions are necessary or desirable in order to achieve compliance with Applicable Laws.

13. Notice. Any notice required by the terms of this Award Agreement shall be given in writing and shall be deemed effective upon personal delivery or upon deposit with the United States Postal Service, by registered or certified mail, with postage and fees prepaid. Notice shall be addressed to the Company at its principal executive office and to the Participant at the address that he or she most recently provided to the Company.

14. Successors and Assigns. Except as provided herein to the contrary, this Award Agreement shall be binding upon and inure to the benefit of the parties to this Award Agreement, their respective successors and permitted assigns.

15. No Assignment. Except as otherwise provided in this Award Agreement, the Participant shall not assign any of his or her rights under this Award Agreement without the prior written consent of the Company, which consent may be withheld in its sole discretion. The Company shall be permitted to assign its rights or obligations under this Award Agreement, but no such assignment shall release the Company of any obligations pursuant to this Award Agreement.

16. Severability. The validity, legality or enforceability of the remainder of this Award Agreement shall not be affected even if one or more of the provisions of this Award Agreement shall be held to be invalid, illegal or unenforceable in any respect.

17. Administration. Any determination by the Administrator in connection with any question or issue arising under the Plan or this Award Agreement shall be final, conclusive, and binding on the Participant, the Company, and all other persons.

18. Spousal Consent. To the extent Participant is married, Participant agrees to (i) provide Participant's spouse with a copy of this Award Agreement prior to its execution by Participant and (ii) obtain such spouse's consent to this Award Agreement as evidenced by such spouse's execution of the Spousal Consent attached hereto as **Exhibit A**.

19. Venue. The Company, the Participant and the Participant's assignees agree that any suit, action or proceeding arising out of or related to the Notice, this Award Agreement or the Plan shall be brought in the United States District Court for the Southern District of Texas (or should such court lack

jurisdiction to hear such action, suit or proceeding, in a state court in Harris County) and that all parties shall submit to the jurisdiction of such court. The parties irrevocably waive, to the fullest extent permitted by law, any objection the party may have to the laying of venue for any such suit, action or proceeding brought in such court. If any one or more provisions of this Section 19 shall for any reason be held invalid or unenforceable, it is the specific intent of the parties that such provisions shall be modified to the minimum extent necessary to make it or its application valid and enforceable.

20. Headings. The section headings in this Award Agreement are inserted only as a matter of convenience, and in no way define, limit or interpret the scope of this Award Agreement or of any particular section.

21. Counterparts. This Award Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

22. Entire Agreement; Governing Law. The provisions of the Plan are incorporated herein by reference. The Notice, this Award Agreement and the Plan constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and the Participant with respect to the subject matter hereof, and may not be modified adversely to the Participant's interest except by means of a writing signed by the Company and the Participant. This Award Agreement is governed by the laws of the State of Texas applicable to contracts executed in and to be performed in that State.

23. No Guarantee of Continued Service. THE PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY CONTINUING AS A SERVICE PROVIDER AT THE WILL OF THE COMPANY (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THE OPTION OR ACQUIRING SHARES HEREUNDER). THE PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AWARD AGREEMENT, THE OPTION GRANTED HEREUNDER, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE IN ANY WAY WITH THE PARTICIPANT'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE THE PARTICIPANT'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE.

* * * * *

EXHIBIT A

**APPLIED OPTOELECTRONICS, INC
2013 EQUITY INCENTIVE PLAN
STOCK OPTION AWARD AGREEMENT**

SPOUSAL CONSENT

I, the undersigned, hereby certify that:

- 1. I am the spouse of _____ .
- 2. Each of the undersigned and the undersigned's spouse is a resident of _____ .

3. I have read the Applied Optoelectronics, Inc. 2013 Equity Incentive Plan and the Stock Option Award Agreement (the "Agreement"), by and between Applied Optoelectronics, Inc. (the "Company"), and my spouse. I have had the opportunity to consult independent legal counsel regarding the contents of the Plan and Agreement.

4. I understand the terms and conditions of the Award Agreement and the Plan.

5. I hereby consent to the terms of the Agreement and the Plan and to their application to and binding effect upon any community property or other interest I may have in the Option (it being understood that this Spousal Consent shall in no way be construed to create any such interest). I agree that I will take no action at any time to hinder the operation of the transactions contemplated in and by the Agreement and the Plan.

IN WITNESS WHEREOF, this Spousal Consent has been executed as of _____, 2013.

Name: _____
Signature

Print Name

LEASE

DEFINITION OF LEASE TERMS

*See attached Lease Provisions pages 1-3 and Building Rules and Regulations page 'Rule-1'

LANDLORD: 12808 W. AIRPORT, LLC

TENANT: Applied Optoelectronics, Inc.

SUITE #175

BUILDING: 12808 W. AIRPORT (name)

ADDRESS: 12808 W. AIRPORT SUGAR LAND, TX 77478

TERM: TWO (2) years ZERO (0) months OR _____ month-to-month (Tenant initials)

COMMENCEMENT DATE: MAY 1, 2012

BASIC RENT (monthly): \$4,041.34 SECURITY DEPOSIT: \$4,041.34

TENANT ADDRESS (not in building): 13115 Jess Pirtle Blvd. Drivers License # PHONE #: (281) 295-1800 Sugar Land, TX 77478 State: TX FAX #: (281) 295-1888 Social Security #: EMAIL: (Tenant shall notify Landlord of any changes to its address or email account)

Leasing Representative for Landlord: AUDRA TRINH

LANDLORD ADDRESS: 12808 W. AIRPORT, LLC (FOR RENT PAYMENTS) P.O. BOX 4737 HOUSTON, TEXAS 77210-4737 (FOR ALL OTHER PURPOSES): 720 N. POST OAK RD., SUITE 500 HOUSTON, TEXAS 77024

SPECIAL PROVISIONS:

See Attached Landlord's waiver and consent form X

See Attached Exhibit "P" X

Attested by: /s/ Chih-Hsiang (Thompson) Lin TENANT (signature)

Attested by: LANDLORD: 12808 W. AIRPORT, LLC

Chih-Hsiang (Thompson) Lin TENANT (print name)

By: Boxer Property Management Corp. A Texas Corporation (Management Company for Landlord)

/s/ John Rentz, Vice President

Date: 3/21/2012

Date: 5/11/12

LEASE PROVISIONS

THIS LEASE ("Lease") is made by and between LANDLORD and TENANT. In consideration of the mutual covenants and agreements herein set forth, and any other consideration, Landlord leases to Tenant and Tenant leases from Landlord the area generally outlined on the floor plan attached hereto as "Exhibit A", hereinafter referred to as the "Premises" which is part of the Building (hereinafter referred to as the "Building").

1. TERM. The Term of this Lease shall continue, unless sooner terminated as provided hereinafter. If the Term is month-to-month, either party may terminate with a thirty (30) day written notice. Landlord may increase monthly Rent for any month-to-month lease with a thirty (30) day written notice to Tenant. In the event Tenant occupies the Premises prior to the Commencement Date, all terms and conditions of the Lease shall apply to the period of occupancy.

2. BASIC RENT AND SECURITY DEPOSIT. Except as provided for in this Lease, Tenant will pay to Landlord without deduction or setoff, Basic Rent for each month of the Lease Term. "Rent" means Basic Rent plus all other amounts payable by Tenant under this Lease, including any charges and late fees. The Security Deposit shall be held by Landlord, without interest, as security for Tenant's performance under this Lease, and not as an advance payment of rent or a measure of Landlord's damages. Upon an Event of Default (defined below) or any damage to the Building or Premises caused by Tenant, its employees or invitees, Landlord may, without prejudice to any other remedy, use the Security Deposit to cure such Event of Default or repair any damage. Following any application of the Security Deposit, Tenant shall, on demand, restore the Security Deposit to its original amount. If Tenant is not in default hereunder, any remaining balance of the Security Deposit shall be returned to Tenant upon termination of this Lease. If Landlord transfers its interest in the Premises, Landlord may assign the Security Deposit to the transferee and thereafter shall have no further liability for the Security Deposit. Rent is due, and must be received by Landlord, by the first day of every month, at address specified by Landlord. Landlord and its manager will not accept cash payments. Tenant agrees to pay by check, EFT, cashier's check, certified funds, or credit cards only.

3. LANDLORD'S OBLIGATIONS.

(a) Landlord will furnish to Tenant at Landlord's expense:

(1) water at those points of supply provided for the general use of tenants of the Building;

(2) heated and refrigerated air conditioning in season, at such times as Landlord determines, and at such temperatures and in such amounts as reasonably considered necessary by Landlord; service on Sundays, Saturdays, and holidays are optional on the part of the Landlord; HVAC will be off on the following days: New Years Day, Memorial Day, Fourth of July, Independence Day (observed), Labor Day, Thanksgiving Day, Christmas Eve, and Christmas Day. HVAC hours are typically as follows: Monday through Friday 7:00 a.m. to 6:00p.m., Saturday 7:00 a.m. to 2:00 p.m. and Sunday the HVAC is off. Times are subject to holidays and Landlord's reasonable discretion.

- (3) janitorial services to the Premises on weekdays other than holidays and window washing as may, in Landlord's judgment, be reasonably required;
- (4) passenger elevators for ingress to and egress from the Premises, in common with other tenants;
- (5) replacement of Building standard light fixtures; and
- (6) electric lighting for public areas and special service areas of the Building to the extent deemed by the Landlord to be reasonable.

(b) Landlord shall furnish electrical current required for normal business use of the Premises. Tenant shall pay Landlord's cost for any such excess use of electricity within ten (10) days after being invoiced therefor. Additionally, if the cost of electricity per kilowatt hour ("kwh") for electricity serving the Building increases by thirty percent (30%) or more from the Commencement Date of this Lease, Landlord may pass through any such increase (including all charges assessed as part of the electricity bill) above the thirty percent (30%) threshold to Tenant based on Tenant's pro-rata share of the total square footage of the Building. Tenant agrees to pay such charge immediately upon receipt of written notice thereof. Landlord and its management company shall calculate said charges, and its determination shall be binding on all parties.

(c) Failure to furnish, stoppage, or interruption of these services resulting from any cause shall not render Landlord liable in any respect for damages to either person, property or business, or be construed as an eviction of Tenant, work an abatement of rent, or relieve Tenant from performance of its obligations. Should any equipment furnished by Landlord cease to function properly, Landlord shall use reasonable diligence to repair the same promptly. Landlord shall not be obligated to furnish these services if Tenant is in default under this Lease. Notwithstanding the foregoing, if there is an interruption or cessation of any essential service to substantially all the Leased Premises (the essential services being defined as air conditioning and heating service, electrical service or elevator service) and (i) such interruption is not a result of casualty or condemnation, (ii) the result of the negligence or willful misconduct of Tenant, (iii) restoration of such essential services is within the reasonable control of Landlord; and (iv) such interruption continues for a period of five (5) consecutive business days after written notice from Tenant, Tenant shall be entitled to an abatement of rent (commensurate with that portion of the Leased Premises to which Landlord's services have been interrupted, calculated on a per square foot basis) for the period commencing with the expiration of the fifth (5th) business day until such services are restored, but only to the extent that such interruption interferes with the normal use of the Leased Premises by the Tenant in the ordinary course of business and Tenant does not actually use such portion of the Leased Premises in the ordinary course of its business. If an interruption of essential services continues of the nature stated above for a period of thirty (30) consecutive days after Landlord receives notice from Tenant of such interruption of essential services and Landlord is not diligently and faithfully pursuing the correction of such cessation, then Tenant shall have the right to terminate the Lease.

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Tenant Initials

4. **IMPROVEMENTS.** Landlord leases to Tenant the space and improvements described in "Exhibit B" attached hereto, hereinafter referred to as the "Premises". All other improvements to the Premises shall be installed at Tenant's expense only in accordance with plans and specifications and by contractors approved, in writing, by Landlord.

6. **USE OF PREMISES.** Tenant will use the Premises for business operation purposes only. Tenant shall not: permit more than five (5) persons per 1,000 square feet to occupy the premises at any time; use or occupy the Building for any purpose which is unlawful or dangerous; permit the maintenance of any nuisance, disturb the quiet enjoyment for all of the Building, emit offensive odors or conditions into other portions of the Building; sell, purchase, or give away, or permit the sale, purchase or gift of food in the Building, or use any apparatus which might create undue noise or vibrations. Tenant shall not permit anything to be done which would increase any insurance rates on the Building or its contents, and if there is any increase, Landlord must provide a written notice to the Tenant regarding the violation and if Tenant does not remedy the violation within ten (10) business days, then Tenant agrees to pay such increase promptly upon demand therefor by Landlord; however, any such payment shall not waive Tenant's duty to comply with this Lease. Landlord and any agent thereof does not represent or warrant that the Premises or Building conforms to applicable restrictions, ordinances, requirements, or other matters that may relate to Tenant's intended use, or with respect to the presence on, in or near the Premises or Building of hazardous substances, biological matter (including, but not limited to, mold, mildew and fungi) or materials which are categorized as hazardous or toxic. Tenant accepts the Premises "as is." *Landlord does not make any representations as to the suitability, condition, layout, footage, expenses or operation of the Premises, except as specifically set forth herein, and tenant expressly acknowledges that no such representations have been made. Landlord makes no other warranties, express or implied, or merchantability, marketability, or fitness, and any implied warranties are hereby expressly disclaimed.* Tenant must satisfy itself that the Premises may be used as Tenant intends by independently investigating all matters related to its intended use. Tenant agrees the terms of the Lease, including its name, may be publicized in press releases and industry publications.

7. **TENANT'S OBLIGATIONS.** Tenant will not damage the Building and will pay the cost of repairing any damage done to the Building by Tenant or Tenant's agents, employees, or invitees. Tenant shall take good care of the Premises and keep them free of waste and nuisance. Tenant must immediately notify Landlord in writing of any water leaks, mold, electrical problems, malfunctioning lights, broken or missing locks, or any other condition that might pose a hazard to property, health, or safety. Tenant will keep the Premises and all fixtures in good condition and repair. If Tenant fails to make necessary repairs within fifteen (15) days after notice from Landlord, Landlord may, at its option, make such repairs and Tenant shall, upon demand, pay Landlord the cost thereof. At the end of the Term, Tenant shall deliver to Landlord the Premises and all improvements in good repair and condition, and all keys to the Premises in Tenant's possession. Tenant will not make or allow to be made any alterations or physical additions in or to the Premises without prior written consent of Landlord. At the end of the Term, Tenant shall, if Landlord requires, remove all alterations, physical additions or improvements as directed by Landlord and restore the Premises to substantially the same condition as on the Commencement Date. All of Tenant's fixtures, and any personal property not removed from the Premises at the end of the Term, shall be presumed to have been abandoned by Tenant and shall become the property of the Landlord.

8. **INDEMNITY.** Landlord shall not be liable for and Tenant will defend, indemnify and hold harmless Landlord from all fines, suits, claims, demands, losses, and actions, including attorney's fees, for any injury to persons or damage to or loss of property on or about the Premises or in or about the Building caused by the Tenant, its employees, invitees, licensees, or by another person entering the Premises or the Building under express or implied invitation of the Tenant, or arising out of Tenant's use of Premises or Landlord's maintenance of the Premises, or caused by fire, flood, water leaks, wind, ice, snow, hail, explosion, smoke, riot, strike, interruption of utilities, theft, burglary, robbery, assault, vandalism, other persons, environmental contaminants, or other occurrences or casualty losses.

This provision is intended to waive any claims against Landlord and its agents for the consequences of their own negligence or fault. This waiver and indemnity obligation shall survive the termination or expiration of the Lease.

9. **MORTGAGES.** Tenant accepts this Lease subordinate to any deeds of trust, mortgages or other security interests which might now or hereafter constitute a lien upon the Building or the Premises, and shall attorn to the lender thereunder, with such attornment to be effective upon lender's acquisition of the Building. Furthermore, such lender, as successor landlord, shall not be liable for any act, omission or obligation of any prior landlord, and lender shall have the option to reject such attornment. Tenant shall, immediately upon request, execute such documents, including estoppel letters, as may be required for the purposes of subordinating or verifying this Lease.

10. **ASSIGNMENT; SUBLEASING.** Tenant shall not assign this Lease by operation of law or otherwise (including without limitation by transfer of stock, merger, or dissolution), mortgage or pledge the same, or sublet the Premises or any part thereof, without prior written consent of Landlord, which Landlord may grant or deny in its sole discretion. Landlord's consent to an assignment or subletting shall not release Tenant from any obligation hereunder, and Landlord's consent shall be required for any subsequent assignment or subletting. If Tenant desires to assign or sublet the Premises, it shall so notify Landlord at least sixty (60) days in advance, and shall provide Landlord with a copy of the proposed assignment or sublease and any additional information requested to allow Landlord to make informed judgments as to the proposed transferee. After receipt of notice, Landlord may elect to: (i) Cancel the Lease as to the Premises or portion thereof proposed to be assigned or sublet; or (ii) Consent to the proposed assignment or sublease; and if the Rent and other consideration payable in respect thereof exceeds the Rent payable hereunder, Tenant shall pay to Landlord such excess within ten (10) days following receipt thereof by Tenant; or (iii) Withhold its consent, which shall be deemed to be elected unless Landlord gives Tenant written notice otherwise.

11. **EMINENT DOMAIN.** If the Premises are taken or condemned in whole or in part for public purposes or are sold under threat of condemnation, Landlord may terminate this Lease. Landlord shall be entitled to receive the entire award of any condemnation or the proceeds of any sale in lieu thereof.

12. **ACCESS.** Landlord and its agents may, at any time, enter the Premises to: inspect, supply janitorial or other services; show the Premises to prospective lenders, purchasers or tenants; alter, improve, or repair the Premises or the Building (including erecting scaffolding and other necessary structures where reasonably required by the character of the work to be performed, provided the business of Tenant shall be interfered with as little as is reasonably practicable). Tenant waives any claim for damages for any injury or inconvenience to or interference with Tenant's business, any loss of occupancy or quiet enjoyment of the Premises, or any other loss occasioned by Landlord's entry into the Premises in accordance with this Section 12. Landlord shall at all times have a key to the Premises. Landlord may use any means which it deems proper to open any door in an emergency without liability therefor. Landlord reserves the right to prevent access to or close the Building as determined by Landlord for the protection of the Building, its tenants, and visitors.

13. **CASUALTY.** If the Building should be totally destroyed by casualty or if the Premises or the Building be so damaged that Landlord or Tenant reasonably determines that repairs cannot be completed within one hundred twenty (120) days after the date of such damage, Landlord or Tenant may terminate this Lease. In addition, if in Landlord's reasonable discretion, Tenant is unable to substantially occupy and use the Premises due to such damage, destruction, casualty, or repair, Tenant will not be obligated to pay any Rent during such period of destruction or casualty or repair. Landlord shall not be required to rebuild, repair, or replace any part of the furniture, equipment, fixtures, and other improvements which may have been placed by Tenant in the Premises. Any insurance which may be carried by Landlord or Tenant against loss or damage to the Building or the Premises shall be for the sole benefit of the party carrying such insurance.

14. **WAIVER OF SUBROGATION.** Tenant waives every claim that arises or may arise in its favor against the Landlord or any other tenant of the Building during the Term, for any injury to or death of any person or any loss of or damage to any of Tenant's property located within or upon or constituting a part of the Premises, to the extent such injury, death, loss or damage is or could be covered by any insurance policies, whether or not such loss or damage is recoverable thereunder. This waiver shall be in addition to, and not in limitation of, any other waiver or release contained in this Lease. Tenant shall give to each insurance company, which has issued to it any insurance policy covering the Premises or Tenant's operations, written notice of this waiver and have its insurance policies endorsed, if necessary, to prevent their invalidation by reason of this waiver. This waiver obligation shall survive the termination or expiration of the Lease.

15. **HOLDING OVER.** If Tenant fails to vacate at the end of the Term, then Tenant shall be a tenant at will and subject to all terms and conditions of the Lease, and, in addition to all other damages and remedies to which Landlord may be entitled, Tenant shall pay, in addition to the other Rent, a daily Basic Rent, payable in full in advance each month, equal to the greater of: (a) twice the Basic Rent payable during the last month of the Term, or (b) the prevailing rental rate in the Building for similar space.

16. **TAXES ON TENANT'S PROPERTY.** Tenant shall be liable for all taxes levied or assessed against personal property or fixtures placed by Tenant in the Premises. If any such taxes are assessed against Landlord or Landlord's property, Landlord may pay the same, and Tenant shall upon demand, reimburse Landlord therefor. Any claim arising against Tenant by Landlord under this provision shall be assessed interest at fifteen percent (15%) per year until satisfied.

17. **LANDLORDS LIEN.** In addition to any statutory Landlord's lien, Tenant grants to Landlord a security interest to secure payment of all Rent and performance of all of Tenant's other obligations hereunder, in all equipment, furniture, fixtures, improvements and other personal property located in or on the Premises, and all proceeds therefrom. Such property shall not be removed from the Premises without Landlord's written consent until all Rent due and all Tenant's other obligations have been performed. In addition to any other remedies, upon an Event of Default, Landlord may exercise the rights afforded a secured party under the Uniform Commercial Code Secured Transactions for the state in which the Building is located. Tenant grants to Landlord a power of attorney to execute and file financing statements and continuation statements necessary to perfect Landlord's security interest, which power is coupled with an interest and shall be irrevocable during the Term. Any property left in the Premises at the time of a default, or termination of the Lease for whatever reason, shall be deemed abandoned, and after thirty (30) days from default or termination, the Landlord and its representative may dispose of it by any means they deem appropriate without notice to Tenant. Upon Tenant's request, Landlord will execute its standard form of Landlord's waiver and consent form in favor of a third party, arm's length lender to Tenant.

18. **MECHANIC'S LIENS.** Tenant shall not permit any mechanic's or other liens to be filed against the Premises or the Building for any work performed, materials furnished or obligation incurred by or at the request of Tenant. Tenant shall, within ten (10) days following the imposition of any such lien, cause it to be released of record by payment or posting of a proper bond, failing which Landlord may cause it to be released, and Tenant shall immediately reimburse Landlord for all costs incurred in connection therewith. The Tenant's obligations under this section shall survive any termination of or default under the Lease.

19. **EVENTS OF DEFAULT.** Any of the following shall constitute an event of default ("Event of Default") hereunder:

- (a) Any failure by Tenant to pay the Rent when due. Landlord shall not be required to provide Tenant with notice of failure to pay Rent.
- (b) Any failure by Tenant to observe and perform any provision of this Lease, other than the payment of Rent, that continues for five (5) days after notice to Tenant; however, an Event of Default shall occur hereunder without any obligation of Landlord to give any notice if Landlord has given Tenant notice under this Section 19. (b) on at least one occasion during the twelve (12) month interval preceding such failure by Tenant.
- (c) Tenant or any guarantor of Tenant's obligations hereunder: (1) being unable to meet its obligations as they become due, or being declared insolvent

according to any law, (2) having its property assigned for the benefit of its creditors, (3) having a receiver or trustee appointed for itself or its property, (4) having its interest under this Lease levied on under legal process, (5) having any petition filed or other action taken to reorganize or modify its debts or obligations, or (6) having any petition filed or other action taken to reorganize or modify its capital structure if either Tenant or such guarantor is a corporation or other entity.

(d) The abandonment of the Premises by Tenant (which shall be conclusively presumed if Tenant is absent from the Premises for ten (10) consecutive days and is late on any payment due Landlord).

20. **REMEDIES.** Upon any Event of Default, Landlord may, in addition to all other rights and remedies afforded Landlord hereunder or by law or equity, take any of the following actions:

(a) Terminate this Lease by written notice to Tenant, in which event Tenant shall immediately surrender the Premises. If Tenant fails to surrender the Premises, Landlord may, without prejudice to any other remedy, enter and take possession of the Premises or any part thereof by changing the door locks or by any other means necessary in Landlord's sole judgment without being liable for prosecution or any claim for damages. If this Lease is terminated hereunder, Tenant shall pay to Landlord: (1) all Rent accrued through the date of termination, (2) all amounts due under Section 21, (3) any unamortized commission paid by Landlord in connection with the Lease, and (4) an amount equal to: (A) the total Rent that Tenant would have been required to pay for the remainder of the Term discounted to present value at a per annum rate equal to the interest rate on one-year Treasury bills as published on the nearest the date this lease is terminated by the Wall Street Journal, Southwest Edition, minus (B) the then present fair rental value of the Premises for such period, similarly discounted; provided, however, that in no event shall the result of the calculation in this subsection (3) result in an amount less than fifty percent (50%) of the total Rent that Tenant would have been required to pay for the remainder of the Term discounted to present value at a per annum rate equal to the interest rate on one-year Treasury bills as published on the nearest the date this lease is terminated by the Wall Street Journal, Southwest Edition.

(b) Terminate Tenant's right to possession of the Premises without terminating this Lease by written notice to Tenant, in which event Tenant shall immediately surrender the Premises. If Tenant fails to surrender the Premises, Landlord may, without prejudice to any other remedy, enter upon and take possession of the Premises and expel or remove Tenant and any other person who may be occupying the Premises or any part thereof by changing the door locks or by any other means necessary in Landlord's sole judgment without being liable for prosecution or any claim for damages. If Tenant's right to possession of the Premises is so terminated, Tenant shall pay to Landlord: (1) all Rent to the date of termination of possession, (2) all amounts due from time to time under Section 21, (3) any unamortized commission paid by Landlord in connection with the Lease, and (4) all Rent required hereunder to be paid by Tenant during the remainder of the Term, minus any net sums thereafter received by Landlord through reletting the Premises during such period. Landlord shall use reasonable efforts to relet the Premises on such terms and conditions as Landlord, in its sole discretion, may determine (including a term different from the Term, rental concessions, and alterations to, and improvement of, the Premises); however, Landlord shall not be obligated to relet the Premises before leasing other portions of the Building. Landlord shall not be liable for, nor shall Tenant's obligations be diminished because of, Landlord's failure to relet the Premises or to collect rent due for such reletting. Tenant shall not be entitled to any excess obtained by reletting over the Rent due hereunder. Reentry by Landlord shall not affect Tenant's obligations for the unexpired Term; rather, Landlord may, from time to time, bring action against Tenant to collect amounts due by Tenant, without the necessity of Landlord's waiting until the expiration of the Term. Unless Landlord delivers written notice to Tenant expressly stating that it has elected to terminate this Lease, all actions taken by Landlord to exclude or dispossess Tenant of the Premises shall be deemed to be taken under this Section 20.(b). If Landlord elects to proceed under this Section 20.(b), it may at any time elect to terminate this Lease under Section 20.(a).

(c) Change the door locks and deny Tenant access to the Premises until such Event of Default is cured.

(d) Enter the Premises without being liable for prosecution or any claim for damages and do whatever Tenant is obligated to do under the terms of this Lease. Tenant agrees to reimburse Landlord on demand for any expenses which Landlord may incur in so doing. Tenant further agrees that Landlord shall not be liable for any damages resulting to the Tenant from such action.

(e) Tenant expressly waives notice as to the disposal of any property in the Premises as of default, lockout or termination, which has not claimed or redeemed within thirty (30) days.

21. **PAYMENT BY TENANT.** Upon any Event of Default, Tenant shall pay to Landlord all costs incurred by Landlord (including court costs and reasonable attorneys' fees) in (a) obtaining possession of the Premises, (b) removing and storing Tenant's or any other occupants' property, (c) repairing, restoring, altering, remodeling or otherwise putting the Premises into condition acceptable to a new tenant, (d) if Tenant is dispossessed of the Premises and this Lease is not terminated, reletting all or any part of the Premises (including brokerage commissions, costs of tenant finish work, and all other costs incidental to such reletting), (e) performing Tenant's obligations which Tenant failed to perform, and (f) enforcing, or advising Landlord of its rights, remedies, and recourses arising out of the Event of Default. After any default in payment by Tenant (i.e. late payment, a returned check or reversed credit card charge), the Landlord may require that Tenant make future payments by certified check, cashier's check, or money order, for so long as the Landlord may reasonably require.

22. **LANDLORD'S LIABILITY.** The liability of Landlord to Tenant for any default by Landlord under the terms of this Lease shall be limited to Tenant's actual direct, but not consequential, damages therefor and shall be recoverable from the interest of Landlord in the Building, and Landlord shall not be personally liable for any deficiency. Landlord's reservation of rights under this Lease, such as to enter upon or maintain the Premises, shall not be deemed to create any duty on the part of Landlord to exercise any such right. Landlord expressly advises Tenant that Landlord's intention is that Tenant shall have full responsibility for, and shall assume all risk to, persons and property while in, on or about the Premises.

23. **SURRENDER OF PREMISES.** No act of Landlord or its agents during the Term shall be deemed as acceptance of surrender of the Premises. No agreement to accept surrender of the Premises shall be valid unless the same is in writing and signed by the Landlord.

24. **ATTORNEYS FEES.** If Landlord employs an attorney to interpret, enforce or defend any of its rights or remedies hereunder, Tenant shall pay Landlord's reasonable attorney's fees incurred in such dispute.

25. **FORCE MAJEURE.** Whenever a period of time is prescribed for action to be taken by Landlord, Landlord shall not be liable or responsible for, and there shall be excluded from the computation for any such period of time, any delays due to strikes, riots, acts of God, shortages of labor or materials, war, governmental laws, regulations, or restrictions, or any other causes of any kind whatsoever which are beyond the control of the Landlord.

26. **GOVERNMENTAL REGULATIONS.** Tenant will comply with all laws, ordinances, orders, rules and regulations of all governmental agencies having jurisdiction over the Premises with reference to the use, construction, condition or occupancy of the Premises. Tenant agrees that any cabling installed by or for its use during its occupancy shall meet the requirements of all applicable national and local fire and safety codes.
27. **APPLICABLE LAW.** This Lease shall be governed by and construed pursuant to the laws of the state in which the Building is located.
28. **SUCCESSORS AND ASSIGNS.** Except as otherwise provided in this Lease, all of the covenants, conditions and provisions of this Lease shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, successors, and assigns.
29. **SEVERABILITY.** If any provision of this Lease or the application thereof to any person or circumstances shall be invalid or unenforceable to any extent, the remainder of this Lease and the application of such provisions to other persons or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by law.
30. **NAME.** Tenant shall not, without the written consent of Landlord, use the name of the Building for any purpose other than as the address of the business to be conducted by Tenant in the Premises, and in no event shall Tenant acquire any rights in or to such names.
31. **NOTICES.** Any notice or document required to be delivered hereunder shall be deemed to be delivered whether or not actually received, when deposited in the United States mail, postage prepaid, certified or registered mail, addressed to the parties hereto at their respective addresses set forth above, or when sent by facsimile transmission to the respective numbers set forth above, or delivered to Tenant's place of business in the Building, and when sent or delivered by Landlord or his representative, including its Management company for the Building.
32. **DEFINED TERMS AND MARGINAL HEADINGS.** The words "Landlord" and "Tenant" as used herein shall include the plural as well as the singular. If more than one person is named as Tenant, the obligations of such persons are joint and several. The headings and titles to the sections of this Lease are not part of this Lease and shall have no effect upon the construction or interpretation of any part thereof. Captions contained herein are for the convenience of reference only and in no way limit or enlarge the terms or conditions of this Lease.
33. **AUTHORITY.** If Tenant executes this Lease as a corporation or other entity, each of the persons executing this Lease on behalf of Tenant personally covenants and warrants that Tenant is duly authorized and validly existing, that Tenant is qualified to do business in the state in which the Building is located, that Tenant has full right and authority to enter into this Lease, and that each person signing on behalf of Tenant is authorized to do so. In the event Tenant provides an email address to Landlord, Tenant agrees that Landlord, its representative and agents may contact Tenant via the address, and deliver marketing information and other announcements to such address(es).
34. **LIQUIDATED DAMAGES.** If the Premises are not ready for occupancy by the Commencement Date, unless delayed by Tenant for any reason, the Basic Rent shall not commence until the Premises are ready for occupancy by Tenant. Such allowance for Basic Rent shall be in full settlement for any claim which Tenant might otherwise have by reason of the Premises not being ready for occupancy.
35. **INTEGRATED AGREEMENT.** This Lease contains the entire agreement of the parties with respect to any matter covered or mentioned in this Lease. No prior agreement, understanding or representation pertaining to any such matter shall be effective for any purpose. No provision of this Lease may be amended or added to except by an agreement in writing signed by the parties or their respective successors in interest.
36. **LATE FEE.** If Rent is not received by Landlord on or before the fifth (5th) day of any month, Tenant shall pay immediately upon written notice from Landlord a late fee equal to fifteen percent (15%) of the cumulative amount of Rent due, including Basic Rent and all other amounts payable by Tenant under this Lease, including any charges and previously assessed late fees. Failure by Tenant to make immediate payment of the delinquent Rent plus the late fee shall constitute an Event of Default. This provision, expressly, does not relieve the Tenant's obligation to pay Rent on the first of each month and is not a waiver by the Landlord to require payment on the **first** day of each month.
37. **INTEREST ON SUMS EXPENDED BY LANDLORD.** All sums paid and all expenses incurred by Landlord in performing Tenant's duties hereunder or curing Events of Default shall accrue interest at the rate of fifteen percent (15%) per annum from the date of payment of such amount by Landlord. In no event, however, shall the charges permitted under this Section 37 or elsewhere in this Lease, to the extent the same are considered to be interest under applicable law, exceed the maximum lawful rate of interest.
38. **INSURANCE.** Tenant will indemnify and hold harmless Landlord from and against any loss, theft, damage or liability relating to any Event of Default or any willful or negligent act on the part of Tenant, its agents, employees, or invitees, or persons permitted on the Premises by Tenant or by Landlord in accordance with Section 12. Tenant agrees to maintain, at Tenant's sole cost and expense, insurance policies covering Tenant's aforesaid indemnity with respect to Tenant's use and occupancy of the Premises, as well as coverage for theft and damage. Such policies shall be issued in the name of Tenant and Landlord as their interest may appear, or shall contain an "additional insured" endorsement in favor of Landlord, and with limits of liability of at least ONE MILLION DOLLARS (\$1,000,000.00) per occurrence for bodily injury and TWO HUNDRED THOUSAND DOLLARS (\$200,000.00) per occurrence for property damage. Duplicate originals of such policies and endorsements shall be delivered to Landlord within thirty (30) days from the execution date hereof. This indemnity and waiver obligation shall survive the termination or expiration of the Lease.

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39. **RULES.** Tenant shall abide by attached Building Rules and Regulations, which may be reasonably changed or amended, at any time, by Landlord to promote a safe, orderly and professional Building environment.

41. **PARKING.** Tenant and all Tenants' employees shall comply with all municipal, subdivisional or other restrictive covenants imposed on Landlord. Vehicles shall be towed at owner's expense for any of the following violations: (a) parking in any area other than as specifically designated by Landlord; or (b) lack of a properly displayed parking permit, if issued by Landlord; or (c) parking across stripes marking the parking spaces. Landlord, at its sole discretion, may designate the specific space or area in which vehicles shall be parked and may change the same from time to time. Landlord may make, modify, or enforce rules and regulations relating to the parking of vehicles, and Tenant hereby agrees to obey such rules and regulations. Tenant shall only use a prorata share of parking spaces as designated by Landlord. In the event the Building does not possess parking, Landlord shall not be responsible for providing parking.

BUILDING RULES AND REGULATIONS

1. No sign, picture, advertisement, name or notice shall be inscribed, displayed or affixed on or to any part of the inside of the Building or the Premises without the prior written consent of Landlord and Landlord shall have the right to remove any such item at the expense of Tenant. All approved signs or lettering on doors and the building directory shall be printed, painted, affixed or inscribed at the expense of Tenant by a person approved by Landlord. Tenant shall not place anything near the glass of any window, door, partition or wall which may appear unsightly from outside the Premises; provided, however, that Landlord may furnish and install a Building standard window covering at all exterior windows. Tenant shall not, without written consent of Landlord, cover or otherwise sunscreen any window.
2. Landlord shall approve in writing, prior to installation, any attachment of any object affixed to walls, ceilings, or doors other than pictures and similar items.
3. The directory of the Building will be provided exclusively for the display of the name and location of Tenant only, and Landlord reserves the right to exclude any other names therefrom.
4. The sidewalks, halls, passages, exits, entrances, elevators and stairways shall not be obstructed by Tenant or used by Tenant for any purpose other than ingress to and egress from the Premises. The halls, passages, exits, entrances, elevators, stairways, balconies and roof are not for the use of the general public and the Landlord shall in all cases retain the right to control and prevent access thereto by all persons whose presence in the judgment of the Landlord shall be prejudicial to the safety, character, reputation and interests of the Building and its tenants, provided that nothing herein contained shall be construed to prevent such access to persons with whom the Tenant normally deals in the ordinary course of Tenant's business, unless such persons are engaged in illegal activities. No tenant and no employees or invitees of any tenant shall go upon the roof of the Building. Tenant shall not prop open the entry doors to Building or Premises.
5. No additional locks or bolts of any kind shall be placed upon any of the doors or windows of the Premises or the Building by Tenant, nor shall any changes be made in existing locks or the mechanisms thereof without the prior written consent of the Landlord. Tenant must, upon the termination of its tenancy, return to Landlord all keys to the Premises. If Tenant fails to return any such key, Tenant shall pay to Landlord the cost of changing the locks to the Premises if Landlord deems it necessary to change such locks.
6. The toilet rooms, urinals, wash bowls and other apparatus in the Premises or Building shall not be used for any purpose other than that of which they were constructed and no foreign substance of any kind whatsoever shall be thrown therein. The expense of any breakage, stoppage or damage resulting from the violation of this rule shall be borne by Tenant.
7. Tenant shall not overload the floor of the Premises, mark on, or drive nails, screw or drill into the partitions, woodwork or plaster or in any way deface the Premises or any part thereof. No boring, cutting or stringing of wires shall be permitted except with the prior written consent of and as the Landlord may direct.
8. No furniture, freight or equipment of any kind shall be brought into the Building without the consent of Landlord and all moving of same into or out of the Building shall be done at such time and in such manner as Landlord shall designate. Landlord shall have the right to prescribe the weight, size and position of all safes and other heavy equipment brought into the Building and also the times and manner of moving the same in and out of the Building and any damage caused by moving or maintaining such safe or other property shall be repaired at the expense of Tenant. There shall not be used in any space, or in the public halls, of the Building, either by any tenant or others, any hand trucks except those equipped with rubber tires and side guards.
9. Tenant shall not employ any person or persons for the purpose of cleaning the Premises without the consent of Landlord. Landlord shall be in no way responsible to Tenant for any loss of property from the Premises or other damage caused by Landlord's janitorial service or any other person. Janitorial service will not include the cleaning of carpets and rugs, other than vacuuming. If the Premises requires more than building standard janitorial service, such excess service shall be at Tenant's cost.
10. No Tenant shall place anything in the hallways of the Building. No trash shall be placed in the common area.
11. Tenant shall only be permitted use as general office space. No tenant shall occupy or permit any portion of the Premises to be occupied for lodging or sleeping or for any illegal purposes or permit any pet within the Premises or Building.
12. Tenant shall not use or keep in the Premises or the Building any combustible fluid or material, including the use of space heaters, and shall not permit any open flame, including candles, incense, etc.
13. Landlord will direct electricians as to where and how telephone wiring shall be located. No boring or cutting for wires will be allowed without the written consent of Landlord. The location of telephones, call boxes and other office equipment affixed to the Premises shall be subject to the approval of Landlord.
14. No Tenant shall lay linoleum or other similar floor covering so that same shall be affixed to the floor of the Premises in any way except by a paste, or other material, which may easily be removed with water, the use of cement or other similar adhesive materials being expressly prohibited. The method of affixing any such linoleum or other similar floor covering to the floor, as well as the method of affixing carpets or rugs to the Premises, shall be subject to approval by Landlord. The expense of repairing any damage resulting from a violation of this rule shall be borne by the tenant by whom, or by whose agents, employees, or invitees, the damage shall have been caused.
15. Tenant shall provide and use chair pads and carpet protectors at all desk and furniture locations.
16. No furniture, packages, supplies, equipment or merchandise will be received in the Building or carried up or down in the elevators, except between such hours and in such elevators as shall be designated by Landlord.
17. On Saturdays, Sundays and legal holidays and on any other days between the hours of 6:00 p.m. and 6:30 a.m., Landlord reserves the right to keep all doors to the Building locked, and access to the Building, or to the halls, corridors, elevators or stairways in the Building or to the Premises may be refused unless the person seeking access is an employee of the Building or is properly identified as a tenant of the Building. The Landlord shall in no case be liable for damages for any error with regard to the admission to or exclusion from the Building of any person. In case of natural disaster, hurricane, tornado, evacuation, invasion, mob, riot, public excitement, or other commotion, the Landlord reserves the right to prevent access to the Building during the continuance of the same by closing the doors or closure of the Building for the safety of the tenants and protection of property in the Building.

18. Access to the Building and parking may be controlled by the use of electronic card key or by other method deemed necessary by Landlord. Tenant shall be issued card keys or other ingress/egress devices and a deposit for each card or device shall be paid upon issuance of the cards. In the event that Tenant shall damage or lose the card key(s) or device(s), then Tenant's deposit for such card or device will be forfeited, and Tenant will be required to pay another equal deposit.

19. Smoking is prohibited in the Premises and common areas of the Building at all times.

20. In order to receive a refund of its security deposit, if any, Tenant agrees to provide a forwarding address to Landlord, in writing, on or before the termination date of the Lease. Tenant agrees that it waives any rights and remedies with regard to the security deposit if it fails to provide such forwarding address to Landlord, in writing, on or before the termination date of the Lease, including waiver of the right to receive a refund and to receive a description of damages and charges. Landlord shall have sixty (60) days from the date Tenant surrenders the premises and Landlord's receipt of Tenant's forwarding address, to refund the security deposit and/or provide a written description of damages and charges.

21. Landlord reserves the right to charge Tenant, and require payment in advance, for services and/or expenses not required of Landlord under this Lease, or incurred in relation to the Lease. Such charges include, but are not limited to, processing "bounced" checks, changing locks, reviewing and signing lien waivers, lease assignments, sublet documents, providing after hours HVAC rates, etc. A list of charges can be obtained from the Landlord's representative. The charges are based on the cost to the Landlord or its management company to provide the service which is charged for, and are subject to change at anytime without notice.

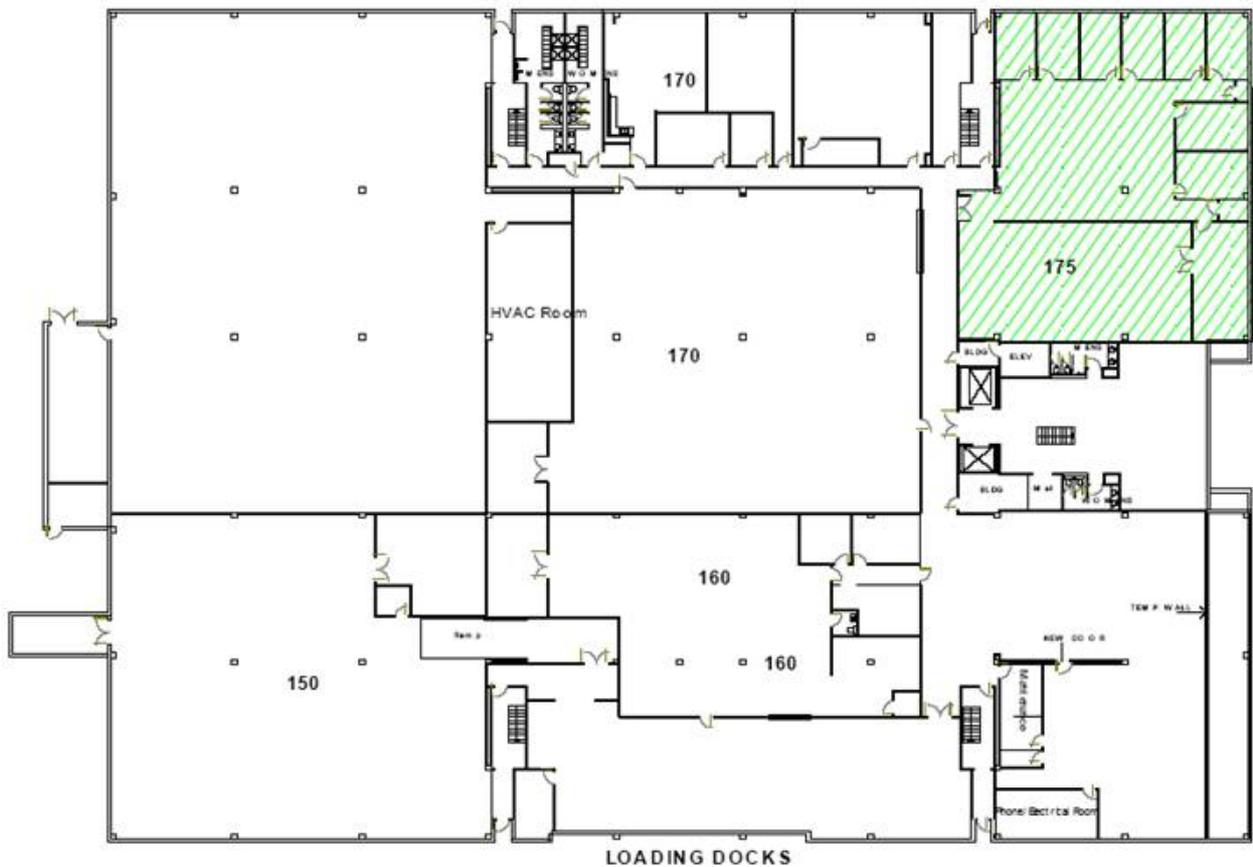
22. Landlord reserves the right to exclude or expel from the Building any person who, in the judgment of Landlord, is intoxicated or under the influence of liquor or drugs, or who shall in any manner do any act in violation of any of the Rules and Regulations of the Building.

Rules - 1

CHL

Tenant Initials

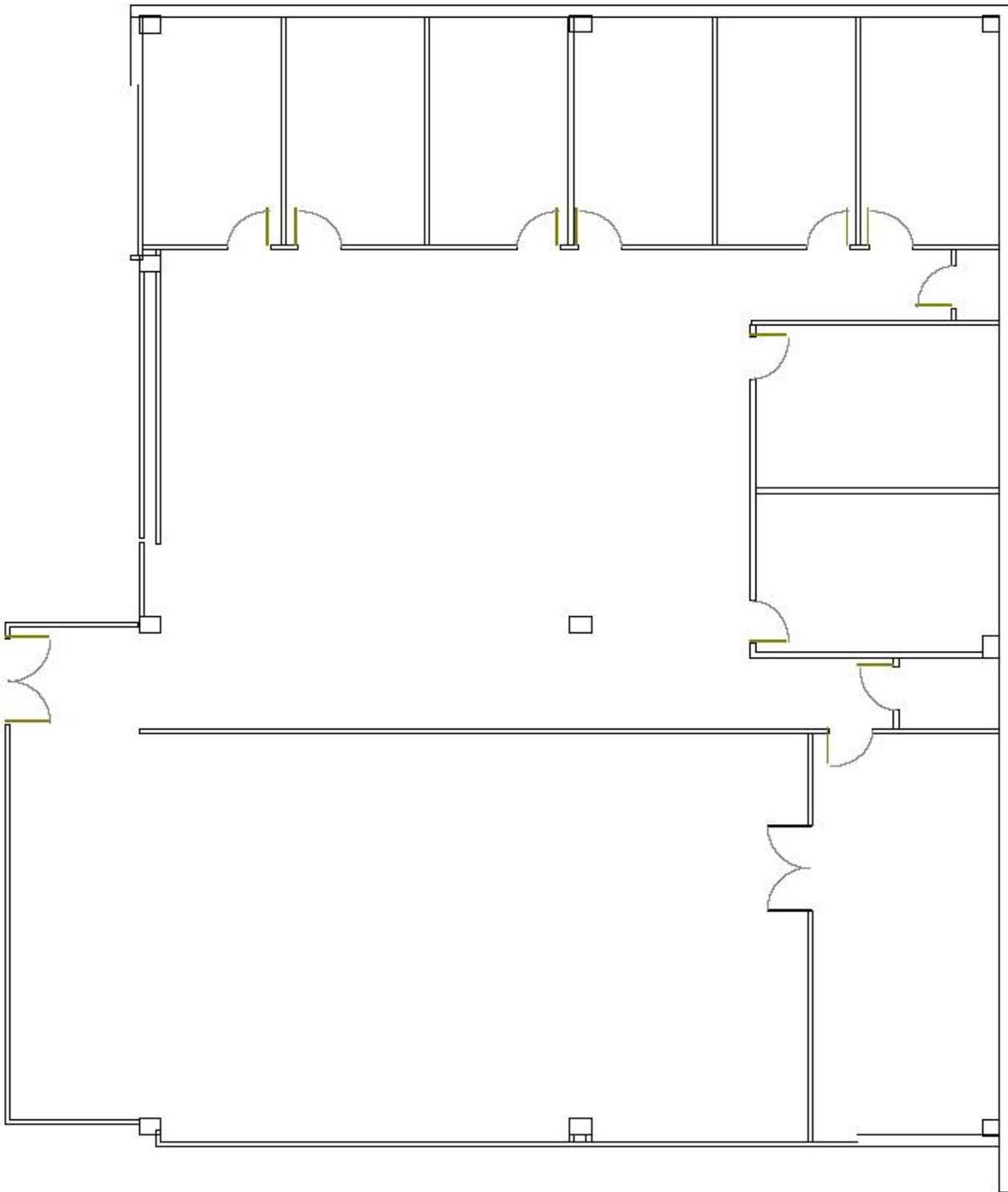
Exhibit "A"
12808 W. Airport
First (1st) Floor



CHL

Tenant Initials

Exhibit "B"
12808 W. Airport
Suite 175



CHL

 Tenant Initials

EXHIBIT "P"
Special Provision

Right to Occupy: Tenant shall have the right to occupy the Premises from the substantial completion of construction to April 30, 2012 at no additional charge.

Tenant Improvements: Landlord, at its sole cost, shall install forty three (43) feet of building standard wall, demo six (6) feet of wall, relocate one building standard double door, and install building standard vct tile in the bullpen area. Tenant is responsible for all other costs.

Option to Renew

So long as there does not exist an uncured Event of Default at the time it exercises this option, Tenant shall have the right to renew this Lease for an additional twenty-four (24) months beginning on May 1, 2014 and ending on April 30, 2016 at prevailing market rates with at least one hundred twenty (120) days and not more than one hundred eighty (180) days prior written notice to Landlord. This option to renew shall be null and void if the Tenant has been in Default for non-payment of Rent more than two (2) times during the original Lease term.

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 Tenant Initials

Tenant Representation Letter

Information about Brokerage Services

Before working with a real estate broker, you should know that the duties of a broker depend on whom the broker represents. If you are a prospective seller or landlord (owner) or a prospective buyer or tenant (buyer), you should know that the broker who lists the property for sale or lease is the owner's agent. A broker who acts as a subagent represents the owner in cooperation with the listing broker. A broker who acts as a buyer's agent represents the buyer. A broker may act as an intermediary between the parties if the parties consent in writing. A broker can assist you in locating a property, preparing a contract or lease, or obtaining financing without representing you. A broker is obligated by law to treat you honestly.

IF THE BROKER REPRESENTS THE OWNER:

The broker becomes the owner's agent by entering into an agreement with the owner, usually through a written listing agreement, or by agreeing to act as a subagent by accepting an offer of sub agency from the listing broker. A subagent may work in a different real estate office. A listing broker or subagent can assist the buyer but does not represent the buyer and must place the interests of the owner first. The buyer should not tell the owner's agent anything the buyer would not want the owner to know because an owner's agent must disclose to the owner any material information known to the agent.

IF THE BROKER REPRESENTS THE BUYER:

The broker becomes the buyer's agent by entering into an agreement to represent the buyer, usually through a written buyer representation agreement. A buyer's agent can assist the owner but does not represent the owner and must place the interests of the buyer first. The owner should not tell a buyer's agent anything the owner would not want the buyer to know because a buyer's agent must disclose to the buyer any material information known to the agent.

IF THE BROKER ACTS AS AN INTERMEDIARY:

A broker may act as an intermediary between the parties if the broker complies with The Texas Real Estate License Act. The broker must obtain the written consent of each party to the transaction to act as an intermediary. The written consent must state who will pay the broker and, in conspicuous bold or underlined print, set forth the broker's obligations as an intermediary. The broker is required to treat each party honestly and fairly and to comply with The Texas Real Estate License Act. A broker who acts as an intermediary in a transaction: (1) shall treat all parties honestly; (2) may not disclose that the owner will accept a price less than the asking price unless authorized in writing to do so by the owner; (3) may not disclose that the buyer will pay a price greater than the price submitted in a written offer unless authorized in writing to do so by the buyer; and (4) may not disclose any confidential information or any information that a party specifically instructs the broker in writing not to disclose unless authorized in writing to disclose the information or required to do so by The Texas Real Estate License Act or a court order or if the information materially relates to the condition of the property. With the parties' consent, a broker acting as an intermediary between the parties may appoint a person who is licensed under The Texas Real Estate License Act and associated with the broker to communicate with and carry out instructions of one party and another person who is licensed under that Act and associated with the broker to communicate with and carry out instructions of the other party. If you choose to have a broker represent you, you should enter into a written agreement with the broker that clearly establishes the broker's obligations and your obligations. The agreement should state how and by whom the broker will be paid. You have the right to choose the type of representation, if any, you wish to receive. Your payment of a fee to a broker does not necessarily establish that the broker represents you. If you have any questions regarding the duties and responsibilities of the broker, you should resolve those questions before proceeding.

TENANT REPRESENTATION

Tenant certifies that _____ (broker) represents Tenant in the negotiation and/or site selection of commercial space for lease. **Check x o if none.**

/s/ Chih-Hsiang Lin

TENANT (signature)

Chih-Hsiang Lin

TENANT (print name and title)

3/21/2012

Date

CHL
Tenant Initials

FIRST (1st) AMENDMENT TO THE LEASE BETWEEN APPLIED OPTOELECTRONICS, INC. and 12808 W. AIRPORT, LLC.

Landlord and Tenant agree to change commencement date of the Lease for the Premises commonly known as "Suite 175" at the 12808 W. Airport office building from May 1, 2012 to June 1, 2012.

Landlord and Tenant agree to the following rent schedule:

Two (2) years at: \$4,041.34 per month from June 1 2012, to May 31, 2014.

All rates subject to the "CPI" clause in this Amendment. The Term shall begin with June 1, 2012.

Tenant currently has \$4,041.34 on file as a security deposit.

Landlord's address for Rent payments: 12808 W. Airport, LLC
P.O. Box 4737
Houston, Texas 77210-4737

Landlord's address for all purposes other than rent payments: 720 N. Post Oak Rd., Suite 500
Houston, Texas 77024

All other provisions of the Lease shall remain the same.

Attested by:

Attested by:

/s/ Chih-Hsiang Lin
TENANT (signature)

LANDLORD: 12808 W. AIRPORT, LLC

Chih-Hsiang Lin, CEO
TENANT (print name and title)

By: Boxer Property Management Corp.
A Texas corporation
Management Company for Landlord

5-2-2012
Date

/s/ Douglas Pack
(signature)
Leasing Representative

6-15-12
Date



Office Lease Agreement

Whereas this Office Lease Agreement (the "**Lease Agreement**") is made by and between the undersigned:

LANDLORD: Admiral Overseas Corporation (hereafter referred to as Party A); and

TENANT: Applied Optoelectronics Incorporated (AOI) Taiwan (hereafter referred to as Party B).

The above two parties agree to the terms and conditions set forth below:

I. LEASED PREMISES: The four units owned by Party A at 4F., No. 700, Zhongzheng Rd., Zhonghe Dist., New Taipei City, 4F-6~4F-8 (the scope of the leased premises is shown in the attached graph) with a space of 355.23 pings (covering the leased premises and amortized public facilities), plus three parking spaces (No. 1575, 1578 and 1579) at B2 floor.

II. LEASE PERIOD:

1. The lease period is from Jan. 10, 2012 to Apr. 9, 2014, and the tenant/landlord relationship shall terminate when the lease expires.
2. If Party B wishes to renew the lease, Party B shall notify Party A in writing three (3) months prior to expiration of the Lease Agreement, upon Party A's consent, execute a new lease agreement in order to continue the use of the premises after expiration of the said Lease Agreement. If both parties fail to enter into a new lease agreement upon expiration of the Lease Agreement, the tenant/landlord relationship will be deemed terminated. If Party B otherwise continues to occupy and use the premises after the expiration of the Lease Agreement, it shall pay Party A the ill-gotten gain calculated according to the daily rental fee plus 5% for the additional occupying days, and is not allowed to claim any rights deemed applicable to non-scheduled continuous Lease Agreement as prescribed by Article 451 of the Civil Code.

III. PREMISES HANDOVER: Party A shall respectively hand over the Offices and parking spaces in their original condition to Party B on the day starting the lease.

IV. RENTAL:

1. Rent shall be calculated starting on Feb. 10, 2012, whereas the parking space rental shall start from Jan. 10, 2012. The rental of the leased premises shall be paid on a monthly basis. The Office rental is 319,707 NT Dollars per

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month and the parking space rental is 16,500 NT Dollars per month. Total rent will be 336,207 NT Dollars per month. The aforesaid rent includes all applicable taxes.

2. Upon executing the Lease Agreement, Party B shall execute and deliver to Party A checks pre-dated as of the first day of each month for the entire lease period, with an aforesaid amount of monthly rent as described in the preceding paragraph payable to Party A. After cashing the check each month, Party A shall issue a receipt to Party B, and the receipt will be kept as proof of payment.
3. If a check made out by Party B for the rent bounces, it shall be deemed that rent for the month was never paid.
4. In case of any delay in rent payment from Party B, Party B shall pay a 20% interest on the deferred rent calculated on daily basis to Party A. If rent payment is late for more than 15 days, in addition to interest paid, Party B will pay an additional late payment penalty equivalent to two times the rental fees for each day rent is overdue. Party A then will have the right to terminate the Lease Agreement.
5. Rent for the leased premise will be waived from Feb. 10, 2014 to Apr. 9, 2014. (the "**Rent Exemption Period**") (however, during this period, Party B will still need to pay rent for parking spaces). In the case that Party B fails to make rent payment during the lease period or there is any cause attributable to Party B resulting in the early termination of the Lease Agreement, the benefit of such waiver during the aforementioned period will be forfeited. If Party B fails to make rent payment or terminates the Lease Agreement prior to expiration, in addition to being held accountable for any penalty resulting in the default of the Lease Agreement, Party B shall also be liable for any rent waived in the Rent Exemption Periods.

V. SECURITY DEPOSIT:

1. When executing the Lease Agreement, Party B shall pay 1,008,621 NT Dollars to Party A as a security deposit. If during the lease period, Party B breaches or defaults on the Lease Agreement leading to any unpaid rent or other unpaid accrued expenses, or fails to pay interest on any deferred rent payment, default fine or damages as described herein by the Lease Agreement, Party A may

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deduct any amounts owed from the security deposit. If the security deposit is deducted at any point during the lease period, Party B will be obligated to make up the deficiency.

2. If Party B does not renew the lease upon the expiration of the lease or when the Lease Agreement becomes terminated through no fault of Party B, Party A shall return Party B's security deposit without interest when Party B vacates the leased premises (including relocation of the registered business address or dissolution of corporate existence or relocation of factory). However, in the event that Party B needs to terminate the Lease Agreement prior to expiration through no fault of Party B, Party B will need to process the early termination subject to Article 15, Section 1 of the Lease Agreement.

VI. IMPROVEMENT, SAFETY MAINTENANCE AND REPAIR OF THE LEASED PREMISES:

1. Within the lease period, Party B shall obtain Party A's approval before working on renovation, partition and equipment installation of the leased premises at Party B's own expense. However, any alteration to the lease premises should not cause damage to the building structure, safety equipment or exterior appearance.
2. If Party B needs to use any of the leased premises' equipment or additionally needs to use any vacant space or the building's public area or glass outer walls to place any advertising signs or boards, Party B will need to submit such request to the building's Administrative Committee for approval.
3. The safety equipment inside the leased premises shall be maintained by Party B during the lease period, and storage of combustible, contraband or hazardous articles is strictly prohibited.
4. During the lease period, except the structure of the leased premises as described in Article 1 of the Lease Agreement, which shall be maintained by Party A, Party B shall be responsible for the maintenance or improvement of any air-conditioning equipment, fire safety and electric power equipment inside the leased premises, regardless whether the original installation or repair was made by Party A.
5. Party B shall be responsible for repair of other public areas or facilities. Party B may submit such repair or maintenance request directly to the

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building's Administrative Committee. Party A shall not be held accountable for any maintenance other than as set forth in Article 1 of the Lease Agreement.

6. During the lease period, Party B shall use the leased premises with the precautionous obligation that a prudent administrator shall have. In case of any cause attributable to Party B (including Party B's employees, users and clients) leading to damage to the leased premises, Party B shall be responsible for repair.
7. The condition of the leased premises upon occupancy will be documented by photos showing the original condition of the leased premises attached herein as Appendix 1.

VII. RETURN OF THE LEASED PREMISES:

1. If Party B does not renew the Lease Agreement after expiration or when the Lease Agreement is terminated, Party B shall return the leased premises to Party A on the expiration or termination day. In case of any delay in returning the leased premises, Party A may, at its discretion, enter and recover the leased premises, for which Party B shall have no objection.
2. After the lease expires or the Lease Agreement is terminated, Party B shall unconditionally remove all installed equipment or removable fixtures and restore the leased premises to their original condition before returning the leased premises to Party A. Party B shall not cause any damage to the building and or existing equipment. In addition, Party A is not obligated to purchase or provide any compensation for any renovation or improvements performed by Party B.
3. If Party B does not vacate the leased premises and leaves behind any removable fixtures, equipment and articles in the leased premises after expiration or termination of the Lease Agreement, Party A may dispose the items left on the site as waste, and restore the premises to their original condition, for which all incurred expenses related to such disposal will be borne by Party B.

VIII. RESTRICTIONS ON USE OF THE LEASED PREMISES:

1. Party B shall abide by the regulations set forth by the Building Management Act. If any violation by Party B results in Party A's loss, Party B shall be

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liable for the loss.

2. Any operational permit or business license required by Party B for business operation shall be the responsibility of Party B. Party A will provide any necessary assistance by supplying any requisite documents for Party B's application. If Party B has registered its official registered place of business to the address of the leased premises, Party B agrees to amend such registration upon the expiration or termination of the Lease Agreement.
3. Without the consent or approval of Party A, Party B shall not transfer, assign, lease, sublease or lend the leased premises to any third parties for occupancy or use.
4. The permitted use of the lease premises will be that of office and manufacturing. Party B shall follow any local law or regulations regarding the permitted use. In the event that Party B does not use the leased premises as indicated in this Section violates a law that causes a legal authority to shut down business operations, such event shall not constitute grounds for Party B to terminate this Lease Agreement. Party B will still be liable for the remaining lease term.
5. Party B shall not use the leased premises as a site to engage in illegal businesses and activities.
6. When executing the Lease Agreement, Party B has been made aware of the current public safety and fire safety condition of the leased premises' public areas and relevant emergency exits, and has accepted the condition as is. If any subsequent events occur during the lease period that causes the current building to endanger the safety and health of the occupants or if any conditions impose a critical threat to occupants during an

emergency evacuation, Party B may have grounds for early termination of the Lease Agreement. Otherwise, Party B shall continue to fulfill its obligation as specified in Article 15, Section 1 of the Lease Agreement.

IX. ABANDONMENT OF INTEREST: During the lease period, if Party A decides to grant a security interest on the leased premises to a financial institution, Party B shall agree to abandon its interest as a lessee of the leased premises if the security interest holder decides to exercise its interest and early terminates the Lease Agreement. Any losses incurred by Party B (including relocation fee and equipment scrape value) will be borne by Party A.

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Party A shall compensate Party B for the losses (the aforesaid equipment scrape value refers to the value left from the book value of the equipment deducting the accumulated depreciation). At the same time, Party A shall return the security deposit without interest and all the remaining pre-dated checks received for purpose of rent payment to Party B.

X. TAXES:

1. All land or property taxes shall be paid by Party A.
2. Any utilities fees incurred during the renovation or improvement during the Rent Exemption Period shall be paid by Party B.
3. The building administrative fee and parking space cleaning fee incurred during the leased period, including the period in which rent was exempted as specified in this Lease Agreement shall be paid by Party B. These fees shall be collected by Party A to be paid to the building's administrative committee. According to current resident regulations, the monthly building administrative fee is 45 NT Dollars per ping and the parking space cleaning fee is 350 NT Dollars per space. The said leased premises will incur a monthly building administrative fee of 15,985 NT Dollars and monthly parking space cleaning fee of 1,050 NT Dollars, totaling 17,035 NT Dollars per month, subject to any adjustment. Any overpayment will be refunded to Party B and any deficiency will be paid by Party B.
4. According to the building administrative fee and parking space cleaning fee prescribed in the preceding paragraph, Party B shall upon the execution of the Lease Agreement, issue pre-dated checks for all fees payable on the beginning day of each monthly period during the lease period and deliver them to Party A. After cashing the checks each month, Party A will pay the aforesaid fees to the administrative committee for Party B and use the receipt issued by the administrative committee as the evidence of Party B's payment of the building administrative fee and parking space cleaning fee. In the event that Party B fails to provide the aforesaid checks to Party A or the pre-dated checks bounce, the Lease Agreement will be deemed terminated.
5. Any administrative expenses and business taxes incurred from Party B's business operation shall be paid by Party B.
6. Party A shall carry fire insurance for the building of the leased premises, whereas Party B shall purchase fire insurance on its own for any

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improvements and business equipment within the leased premises.

7. If the nature of Party B's business requires Party B to purchase accident liability insurance under the law, which results in an increase of fire insurance premium for other tenants, Party B shall reimburse all affected tenants of the amount in premium increase.

XI. EQUIPMENT IMPROVEMENT:

1. Any fumes, exhaust gas and sewage produced from Party B's business operations shall be filtered and disposed by Party B before being discharged. The discharge shall meet the standards prescribed by environmental protection regulations. In the event the discharge creates pollution to the building, Party B shall be responsible for any cleanup to maintain the environmental quality of the business park.
2. The fire safety and other related preventive equipment required by Party B in its business operations shall be purchased and installed by Party B.

XII. PUBLIC SAFETY INSPECTION, CERTIFICATION AND DECLARATION: Party B shall allow for any public safety inspection, certification and declaration for the exclusive part of the leased premises in accordance with the "Regulations for Inspecting and Reporting Buildings Public Security" during the lease period at its own expense. If any process requires Party A to provide any certification or documents, Party A shall be cooperative in providing all necessary documentation. In the event that Party B fails to comply with any required regulations or declarations, Party B shall be responsible for all the related liabilities.

XIII. FIRE SAFETY EQUIPMENT INSPECTION, REPAIR AND DECLARATION: Party B shall perform periodical inspections, repairs and declarations of the public fire safety equipment for the exclusive part of the leased premises in accordance with the "Standards for Fire Safety Equipment Inspection, Repair and Declaration at a Variety of Sites" during the leased period at its expense. In the case that Party B does not perform the inspection and repair in due time, or the inspection/repair result does not comply with the regulations, Party B shall be responsible for all the related liabilities.

XIV. DEFAULT PANALTIES:

1. In the event that either party violates the Lease Agreement and still fails to fulfill the Lease Agreement within the time limit after receiving the demand

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notice from the other party, the non-violating party may terminate the Lease Agreement. In addition to paying an amount equivalent to three months of the rental to the non-violating party as the default fine, the violating party shall also compensate the non-violating party for all other resulting losses.

2. In the case that the leased premises have been damaged and unusable, the Lease Agreement shall be ipso facto terminated. If the cause of damage is attributable to Party B, Party B shall pay the default fine and compensate for the damage as prescribed by the preceding paragraph.
3. In the event that Party B refuses to return the leased premises after the lease expires or the Lease Agreement is terminated, it shall pay Party A a punitive default fine calculated on a daily basis by doubling the daily rental of the last month before expiration of the lease and termination of the Lease Agreement from the day following expiration of the lease, or termination of the Lease Agreement until the day returning the leased premises.

XV. EARLY TERMINATION SPECIAL CLAUSES:

1. If any party wishes to terminate the Lease Agreement prior to expiration of the Lease Agreement, the terminating party shall notify the other party in writing three months in advance. Unless otherwise specified in the Lease Agreement, both parties agree to the following:

(1) If the early termination is proposed by Party B:

- i. Party B shall pay all rent and expenses for the period occupied. Party A will be entitled to keep the security deposit as the fee for default. However, Party A shall return any pre-dated checks for any unaccrued rental period to Party B.
- ii. Party B shall forfeit its right to waiver of rent during the Rent Exemption Period as stipulated in Paragraph 5 of Article 4, and shall pay Party A rent for the Rental Exemption Period.
- iii. If Party B has registered its official registered business address at the leased premises address, Party B shall promptly amend the registration when the Lease Agreement is terminated.

(2) If the early termination is proposed by Party A:

- i. Party A shall return the security deposit to Party B when Party B vacates the leased premises. In addition, Party A shall also pay a

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default fine equal to two times the security deposit to Party B as compensation.

- ii. When Party B vacates the leased premises, Party A shall return all remaining pre-dated checks for unaccrued rent to Party B.
2. Prior to termination of the Lease Agreement, Party B shall comply with the Lease Agreement to pay for any rent, utilities, administrative fee, common area electric bill, air-conditioner utilization fee, parking space cleaning fee, gas fee, the fee to reissue truck access card (to replace the damaged or lost one), any expenses incurred to amend or register official business address and any expenses for restoring the premises to the original condition. On the other hand, Party A may exercise its right to directly deduct the amount required to be paid by Party B as specified in this Section from the security deposit in accordance with Section 1 — (1) and (2) of the Article.
3. Unless otherwise specified in the Lease Agreement, either party shall not request the other party to provide any additional subsidy, compensation or payments of any kind.

XVI. SPECIAL CLAUSES FOR MAINTENANCE AND REPAIR OF AIR CONDITIONING EQUIPMENT: During the lease period, Party A shall hire workers to periodically maintain and repair the air conditioning equipment required for use within the leased premises, for which the cost of maintenance is 1,680 NT Dollars per air conditioner unit annually. The leased premises has 30 air conditioner units, so total maintenance and repair fees incurred during the leased period shall be 100,800 NT Dollars. According to Paragraph 4 of Article 6, such amount shall all be paid by Party B to Party A upon the execution of the Lease Agreement. In the event that Party B fails to make the payment or the check delivered to Party A for the payment bounces, the Lease Agreement shall be deemed agreed to be terminated.

XVII. AGREED GOVERNING VENUE: Both Party A and Party B are all willing to perform the Lease Agreement in good faith. In the event any disputes arise from the Lease Agreement leading to litigation, all court costs and attorney fees shall be paid by the breaching party. Both parties agree that the Taiwan Taipei District Court shall be the court of competent jurisdiction for the first instance.

XVIII. NOTICE DELIVERY ADDRESSES: Party A's office for execution of the Lease Agreement shall be the place for the delivery for any notices in relation to the Lease

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Agreement. Party B's address for delivery of notice shall be the location of the leased premises. Once notice is delivered to any of the aforesaid addresses, no matter whether the recipient refuses to receive the notice or does not receive the notice for any reasons, the notice shall be deemed to be lawfully delivered, for which both parties shall have no objection.

XIX. MISCELLANEOUS: Any matters not covered by the Lease Agreement shall be supplemented by both parties in writing. The Lease Agreement is made in duplicate, and both Party A and Party B shall retain one copy each as proof.

The undersigned:

Party A: Admiral Overseas Corporation

Person in charge: Li, Chao-Hsiung

/s/ Li, Chao-Hsiung

Business registration No.: 33115502

Address: 12F-3, No. 716, Zhongzheng Rd., Zhonghe Dist., New Taipei City

TEL: (02) 82273006

Party B: Applied Optoelectronics Incorporated (AOI) Taiwan

Person in charge: Lin, Chih-Hsiang

/s/ Lin, Chih-Hsiang

Business registration No.: 28410552

Address: 6F-1, No. 700, Zhongzheng Rd., Zhonghe Dist., New Taipei City

TEL: (02) 82279189

Date: December 22, 2011

Office Lease Agreement

Whereas this Office Lease Agreement (the "**Lease Agreement**") is made by and between the undersigned:

LANDLORD: Admiral Overseas Corporation (hereafter referred to as Party A); and

TENANT: Applied Optoelectronics Incorporated (AOI) Taiwan (hereafter referred to as Party B).

The above two parties agree to the terms and conditions set forth below:

I. LEASED PREMISES: The ten units owned by Party A at 4F., No. 700, Zhongzheng Rd., Zhonghe Dist., New Taipei City, 6F-1~6F-5 and 7F-1~7F-5 (the scope of the leased premises is shown in the attached graph) with a space of 850.48 pings (covering the leased premises and amortized public facilities) plus six parking spaces (No. 1482, 1484, 1576, 1577, 1580 and 1581) at B2 floor.

II. LEASE PERIOD:

1. The lease period is from Apr. 1, 2012 to Mar. 31, 2014, the parking space lease period is from May 1, 2012 to Mar. 31, 2014, and the tenant/landlord relationship shall terminate when the lease expires.
2. If Party B wishes to renew the lease, Party B shall notify Party A in writing three (3) months prior to expiration of the Lease Agreement, upon Party A's consent, execute a new lease agreement in order to continue the use of the premises after expiration of the said Lease Agreement. If both parties fail to enter into a new lease agreement upon expiration of the Lease Agreement, the tenant/landlord relationship will be deemed terminated. If Party B, otherwise, continues to occupy and use the premises after the expiration of the Lease Agreement, it shall pay Party A the ill-gotten gain calculated according to the daily rental fee plus 5% for the additional occupying days, and is not allowed to claim any rights deemed applicable to non-scheduled continuous Lease Agreement as prescribed by Article 451 of the Civil Code.

III. PREMISES HANDOVER: Party A shall respectively hand over the leased premises and parking spaces in their original condition to Party B on the starting day of the lease. (If this Lease Agreement is a renewal of an existing lease and Party B is currently occupying the leased premises, then the starting day of the Leased Agreement shall be deemed the day of

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first occupancy, which previously occupied leased premises are not required to be handed over separately).

IV. RENTAL:

1. Rent shall be calculated starting on Apr. 1, 2012, whereas the parking space rental shall start from May 1, 2012. The rental of the leased premises shall be paid on a monthly basis. The Office rental is 765,432 NT Dollars per month and the parking space rental is 33,000 NT Dollars per month. Total rent will be 798,432 NT Dollars per month. The aforesaid rent includes all applicable taxes.
2. Upon executing the Lease Agreement, Party B shall execute and deliver to Party A checks pre-dated for the first day of each month for the entire lease period, with an aforesaid amount of monthly rent as described in the preceding paragraph payable to Party A. After cashing the check each month, Party A shall issue a receipt to Party B, and the receipt will be kept as proof of payment.
3. If a check made out by Party B for the rent bounces, it shall be deemed that rent for the month was never paid.
4. In case of any delay in rent payment from Party B, Party B shall pay a 20% interest on the deferred rent calculated on daily basis to Party A. If rent payment is late for more than 15 days, in addition to interest paid, Party B will pay an additional late payment penalty equivalent to two times the rental fees for each day rent is overdue. Party A then will have the right to terminate the Lease Agreement.

V. SECURITY DEPOSIT:

1. When executing the Lease Agreement, Party B shall pay 2,395,296 NT Dollars to Party A as a security deposit. If during the lease period, Party B breaches or defaults on the Lease Agreement leading to any unpaid rent or other unpaid accrued expenses, or fails to pay interest on any deferred rent payment, default fine or damages as described herein by the Lease Agreement, Party A may deduct any amounts owed from the security deposit. If the security deposit is deducted at any point during the lease period, Party B will be obligated to make up the deficit.
2. If Party B does not renew the lease upon the expiration of the lease or the

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when the Lease Agreement becomes terminated through no fault of Party B, Party A shall return Party B's security deposit without interest when Party B vacates the leased premises (including relocation of the registered business address or dissolution of corporate existence or relocation of factory). However, in the event that Party B needs to terminate the Lease Agreement prior to expiration through no fault of Party B, Party B will need to process the early termination subject to Article 15, Section 1 of the Lease Agreement.

VI. IMPROVEMENT, SAFETY MAINTENANCE AND REPAIR OF THE LEASED PREMISES:

1. Within the lease period, Party B shall obtain Party A's approval before working on renovation, partition and equipment installation of the leased premises at Party B's own expense. However, any alteration to the lease premises should not cause damage to the building structure, safety equipment or exterior appearance.

2. If Party B needs to use any of the leased premises' equipment or additionally needs to use any vacant space or the building's public area or glass outer walls to place any advertising signs or boards, Party B will need to submit such request to to the building's Administrative Committee for approval.
3. The safety equipment inside the leased premises shall be maintained by Party B during the lease period, and storage of combustible, contraband or hazardous articles is strictly prohibited.
4. During the lease period, except the structure of the leased premises as described in Article 1 of the Lease Agreement, which shall be maintained by Party A, Party B shall be responsible for the maintenance or improvement of any air-conditioning equipment, fire safety and electric power equipment inside the leased premises, regardless whether the original installation or repair was made by Party A.
5. Party B shall be responsible for repair of other public areas or facilities or Party B may submit such repair or maintenance request directly to the building's Administrative Committee. Party A shall not be held accountable for any maintenance other than as set forth in Article 1 of the Lease Agreement.
6. During the lease period, Party B shall use the leased premises with the

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precautious obligation that a prudent administrator shall have. In case of any cause attributable to Party B (including Party B's employees, users and clients) leading to damage to the leased premises, Party B shall be responsible for repair.

7. The condition of the leased premises upon occupancy will be documented by photos showing the original condition of the leased premises attached in the original lease and existing lease.

VII. RETURN OF THE LEASED PREMISES:

1. If Party B does not renew the Lease Agreement after expiration or when the Lease Agreement is terminated, Party B shall return the leased premises to Party A on the expiration or termination day. In case of any delay in returning the leased premises, Party A may at its discretion enter and recover the leased premises, for which Party B shall have no objection.
2. After the lease expires or the Lease Agreement is terminated, Party B shall unconditionally remove all installed equipment or removable fixtures and restore the leased premises to their original condition before returning the leased premises to Party A. Party B shall not cause any damage to the building and or existing equipment. In addition, Party A is not obligated to purchase or provide any compensation for any renovation or improvements performed by Party B.
3. If Party B does not vacate the leased premises and leaves behind any removable fixtures, equipment and articles in the leased premises after expiration or termination of the Lease Agreement, Party A may dispose the items left on the site as waste, and restore the premises to their original condition, for which all incurred expenses related to such disposal will be borne by Party B.
4. Given that the said Lease Agreement is a renewal of an existing lease, when the said Lease Agreement is terminated or the said Lease Agreement has expired, Party B shall restores the leased premises to the original condition as stated in the original lease.

VIII. RESTRICTIONS ON USE OF THE LEASED PREMISES:

1. Party B shall abide by the regulations set forth by the Building Management Act. If any violation by Party B results in Party A's loss, Party B shall be

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liable for the loss.

2. Any operational permit or business license required by Party B for business operation shall be the responsibility of Party B. Party A will provide any necessary assistance by supplying any requisite documents for Party B's application. If Party B has registered its official registered place of business to the address of the leased premises, Party B agrees to amend such registration upon the expiration or termination of the Lease Agreement.
3. Without the consent or approval of Party A, Party B shall not transfer, assign, lease, sublease or lend the leased premises to any third parties for occupancy or use.
4. The permitted use of the lease premises will be that of office and manufacturing. Party B shall follow any local law or regulations regarding the permitted use. In the event that Party B does not use the leased premises as indicated in this Section violates a law that causes a legal authority to shut down business operations, such event shall not constitute grounds for Party B to terminate this Lease Agreement. Party B will still be liable for the remaining lease term.
5. Party B shall not use the leased premises as a site to engage in illegal businesses and activities.
6. When executing the Lease Agreement, Party B has been made aware of the current public safety and fire safety condition of the leased premises' public areas and relevant emergency exits, and has accepted the condition as is. If any subsequent events occur during the lease period that causes the current building to endanger the safety and health of the occupants or if any conditions impose a critical threat to occupants during an emergency evacuation, Party B may have grounds for early termination of the Lease Agreement. Otherwise, Party B shall continue to fulfill its obligation as specified in Article 15, Section 1 of the Lease Agreement.

IX. ABANDONMENT OF INTEREST: During the lease period, if Party A decides to grant a security interest on the leased premises to a financial institution, Party B shall agree to abandon its interest as a lessee of the leased premises if the security interest holder decides to exercise its interest and early terminates the Lease Agreement. Any losses incurred by Party B (including relocation fee and equipment scrape value) will be borne by Party A. Party A

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shall compensate Party B for the losses (the aforesaid equipment scrape value refers to the value left from the book value of the equipment deducting the accumulated depreciation). At the same time, Party A shall return the security deposit without interest and all the remaining pre-dated checks received for purpose of rent payment to Party B.

X. TAXES:

1. All land or property taxes shall be paid by Party A.
2. Any utilities fees incurred during the renovation or improvement during the Rent Exemption Period shall be paid by Party B.
3. The building administrative fee and parking space cleaning fee incurred during the leased period, including the period in which rent was exempted as specified in this Lease Agreement shall be paid by Party B. These fees shall be collected by Party A to be paid to the building's administrative committee. According to current resident regulations, the monthly building administrative fee is 45 NT Dollars per ping and the parking space cleaning fee is 350 NT Dollars per space. The said leased premises will incur a monthly building administrative fee of 38,269 NT Dollars and monthly parking space cleaning fee of 2,100 NT Dollars, totaling 40,369 NT Dollars per month, subject to any adjustment. Any overpayment will be refunded to Party B and any deficiency will be paid by Party B.
4. According to the building administrative fee and parking space cleaning fee prescribed in the preceding paragraph, Party B shall upon the execution of the Lease Agreement, issue pre-dated checks for all fees payable on the beginning day of each monthly period during the lease period and deliver them to Party A. After cashing the checks each month, Party A will pay the aforesaid fees to the administrative committee for Party B and use the receipt issued by the administrative committee as the evidence of Party B's payment of the building administrative fee and parking space cleaning fee. In the event that Party B fails to provide the aforesaid checks to Party A or the pre-dated checks bounce, the Lease Agreement will be deemed terminated.
5. Any administrative expenses and business taxes incurred from Party B's business operation shall be paid by Party B.
6. Party A shall carry fire insurance for the building of the leased premises whereas Party B shall purchase fire insurance on its own for any

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improvements and business equipment within the leased premises.

7. If the nature of Party B's business requires Party B to purchase accident liability insurance under the law, which results in an increase of fire insurance premium for other tenants, Party B shall reimburse all affected tenants of the amount in premium increase.

XI. EQUIPMENT IMPROVEMENT:

1. Any fumes, exhaust gas and sewage produced from Party B's business operations shall be filtered and disposed by Party B before being discharged. The discharge shall meet the standards prescribed by environmental protection regulations. In the event the discharge creates pollution to the building, Party B shall be responsible for any cleanup to maintain the environmental quality of the business park.
2. The fire safety and other related preventive equipment required by Party B in its business operations shall be purchased, and installed by Party B.

XII. PUBLIC SAFETY INSPECTION, CERTIFICATION AND DECLARATION: Party B shall allow for any public safety inspection, certification and declaration for the exclusive part of the leased premises in accordance with the "Regulations for Inspecting and Reporting Buildings Public Security" during the lease period at its own expense. If any process requires Party A to provide any certification or documents, Party A shall be cooperative in providing all necessary documentation. In the event that Party B fails to comply with any required regulations or declarations, Party B shall be responsible for all the related liabilities.

XIII. FIRE SAFETY EQUIPMENT INSPECTION, REPAIR AND DECLARATION: Party B shall perform periodical inspections, repairs and declarations of the public fire safety equipment for the exclusive part of the leased premises in accordance with the "Standards for Fire Safety Equipment Inspection, Repair and Declaration at a Variety of Sites" during the leased period at its expense. In the case that Party B does not perform the inspection and repair in due time, or the inspection/repair result does not comply with the regulations, Party B shall be responsible for all the related liabilities.

XIV. DEFAULT PANALTIES:

1. In the event that either party violates the Lease Agreement and still fails to fulfill the Lease Agreement within the time limit after receiving the demand

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notice from the other party, the non-violating party may terminate the Lease Agreement. In addition to paying an amount equivalent to three months of the rental to the non-violating party as the default fine, the violating party shall also compensate the non-violating party for all of other resulting losses.

2. In the case that the leased premises have been damaged and unusable, the Lease Agreement shall be ipso facto terminated. If the cause of damage is attributable to Party B, Party B shall pay the default fine and compensate for the damage as prescribed by the preceding paragraph.

3. In the event that Party B refuses to return the leased premises after the lease expires or the Lease Agreement is terminated, it shall pay Party A a punitive default fine calculated on a daily basis by doubling the daily rental of the last month before expiration of the lease and termination of the Lease Agreement from the day following expiration of the lease or termination of the Lease Agreement until the day returning the leased premises.

XV. EARLY TERMINATION SPECIAL CLAUSES:

1. If any party wishes to terminate the Lease Agreement prior to expiration of the Lease Agreement, the terminating party shall notify the other party in writing three months in advance. Unless otherwise specified in the Lease Agreement, both parties agree to the following:

(1) If the early termination is proposed by Party B:

- i. Party B shall pay all rent and expenses for the period occupied. Party A will be entitled to keep the security deposit as the fee for default. However, Party A shall return any pre-dated checks for any unaccrued rental period to Party B.
- ii. Party B shall forfeit its right to waiver of rent during the Rent Exemption Period as stipulated in Paragraph 5 of Article 4, and shall pay Party A rent for the Rental Exemption Period.

(2) If the early termination is proposed by Party A:

- i. Party A shall return the security deposit to Party B when Party B vacates the leased premises. In addition, Party A shall also pay a default fine equal to two times the security deposit to Party B as compensation.
- ii. When Party B vacates the leased premises, Party A shall return all

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remaining pre-dated checks for unaccrued rent to Party B.

2. Prior to termination of the Lease Agreement, Party B shall comply with the Lease Agreement to pay for any rent, utilities, administrative fee, common area electric bill, air-conditioner utilization fee, parking space cleaning fee, gas fee, the fee to reissue truck access card (to replace the damaged or lost one), any expenses incurred to amend or register official business address and any expenses for restoring the premises to the original condition. On the other hand, Party A may exercise its right to directly deduct the amount required to be paid by Party B as specified in this Section from the security deposit in accordance with Section 1 — (1) and (2) of the Article.
3. Unless otherwise specified in the Lease Agreement, either party shall not request the other party to provide any additional subsidy, compensation or payments of any kind.

XVI. SPECIAL CLAUSES FOR MAINTENANCE AND REPAIR OF AIR CONDITIONING EQUIPMENT: During the lease period, Party A shall hire workers to periodically maintain and repair the air conditioning equipment required for use within the leased premises, for which the cost of maintenance is 1,680 NT Dollars per air conditioner unit annually. The leased premises have 64 air conditioner units, so total maintenance and repair fees incurred during the leased period shall be 215,040 NT Dollars. According to Paragraph 4 of Article 6, such amount shall all be paid by Party B to Party A upon the execution of the Lease Agreement. In the event that Party B fails to make the payment or the check delivered to Party A for the payment bounces, the Lease Agreement shall be deemed agreed to be terminated.

XVII. CO-SIGNER:

1. Party B's legal representative agrees to be Party B's co-signer and guarantees Party B's performance of its obligations stated in the respective clauses of the Lease Agreement. If Party B breaches the Lease Agreement, co-signer will take joint liability and fulfills the obligations which would have been performed by Party B.
2. In the event of change of Party B's aforesaid legal representative after the execution of the Lease Agreement, Party B shall promptly notify Party A and proceed to change co-signer. However, prior to completion of affecting the change of cosigner, the original legal representative shall still bear the aforesaid liability,

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which shall not be waived until the change is affected.

XVIII. AGREED GOVERNING VENUE: Both Party A and Party B are all willing to perform the Lease Agreement in good faith. In the event any disputes arise from the Lease Agreement leading to litigation, all court costs and attorney fees shall be paid by the breaching party. Both parties agree that the Taiwan Taipei District Court shall be the court of competent jurisdiction for the first instance.

XIX. NOTICE DELIVERY ADDRESSES: Party A's office for execution of the Lease Agreement shall be the place for the delivery for any notices in relation to the Lease Agreement. Party B's address for delivery of notice shall be the location of the leased premises. Once notice is delivered to any of the aforesaid addresses, no matter whether the recipient refuses to receive the notice or does not receive the notice for any reasons, the notice shall be deemed to be lawfully delivered, for which both parties shall have no objection.

XX. MISCELLANEOUS: Any matters not covered by the Lease Agreement shall be supplemented by both parties in writing. The Lease Agreement is made in duplicate, and both Party A and Party B shall retain one copy each as proof.

The undersigned:

Party A: Admiral Overseas Corporation

Person in charge: Li, Chao-Hsiung

/s/ Li, Chao-Hsiung

Business registration No.: 33115502

Address: 12F-3, No. 716, Zhongzheng Rd., Zhonghe Dist., New Taipei City

TEL: (02) 82273006

Party B: Applied Optoelectronics Incorporated (AOI) Taiwan

Person in charge: Lin, Chih-Hsiang

/s/ Lin, Chih-Hsiang

Business registration No.: 28410552

Address: 6F-1, No. 700, Zhongzheng Rd., Zhonghe Dist., New Taipei City

TEL: (02) 82279189

Party B's back-up guarantor (**co-signer**): Lin, Chih-Hsiang

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/s/ Lin, Chih-Hsiang

Business registration No.: 28410552

Address:

TEL:

Date: December 22, 2011

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APPLIED OPTOELECTRONICS, INC.

UNITED COMMERCIAL BANK

AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

This AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (the "Agreement") is effective as of May 20, 2009, by and between United Commercial Bank ("Bank") and Applied Optoelectronics, Inc., a Texas corporation ("Borrower").

RECITALS

Bank and Borrower are parties to that certain Loan and Security Agreement, dated as of September 6, 2007, as amended as amended from time to time (the "Original Agreement"). Borrower and Bank wish to amend and restate the terms of the Original Agreement. This Agreement sets forth the terms on which Bank will advance credit to Borrower and Borrower will repay the amounts owing to Bank.

AGREEMENT

The parties agree as follows:

1. DEFINITIONS AND CONSTRUCTION.

1.1 **Definitions.** As used in this Agreement, all capitalized terms shall have the following definitions:

"Accounts" means all presently existing and hereafter arising accounts, contract rights, payment intangibles and all other forms of obligations owing to Borrower arising out of the sale or lease of goods (including, without limitation, the licensing of software and other technology) or the rendering of services by Borrower and any and all credit insurance, guaranties, and other security therefor, as well as all merchandise returned to or reclaimed by Borrower and Borrower's Books relating to any of the foregoing.

"Advance" or "Advances" means a cash advance or cash advances under the Revolving Line.

"Affiliate" means, with respect to any Person, any Person that owns or controls directly or indirectly such Person, any Person that controls or is controlled by or is under common control with such Person, and each of such Person's senior executive officers, directors, and partners.

"Bank Expenses" means all reasonable costs or expenses (including reasonable attorneys' fees and expenses, whether generated in-house or by outside counsel) incurred in connection with the preparation, negotiation, administration, and enforcement of the Loan Documents; reasonable Collateral audit fees; and Bank's reasonable attorneys' fees and expenses (whether generated in-house or by outside counsel) incurred in amending, enforcing or defending the Loan Documents (including fees and expenses of appeal), incurred before, during and after an Insolvency Proceeding, whether or not suit is brought.

"Borrower Agreement" means the Export-Import Bank of the United States Revolving Guarantee Program Borrower Agreement of even date between Bank and Borrower.

"Borrower's Books" means all of Borrower's books and records including: ledgers; records concerning Borrower's assets or liabilities, the Collateral, business operations or financial condition; and all computer programs, or tape files, and the equipment, containing such information.

"Business Day" means any day that is not a Saturday, Sunday, or other day on which banks in the State of California are authorized or required to close.

"Cash" means unrestricted cash and cash equivalents.

"Change in Control" shall mean a transaction in which any "person" or "group" (within the meaning of Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934) becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of a sufficient number of shares of all

classes of stock then outstanding of Borrower ordinarily entitled to vote in the election of directors, empowering such "person" or "group" to elect a majority of the Board of Directors of Borrower, who did not have such power before such transaction.

"Closing Date" means the date of this Agreement.

"Code" means the California Uniform Commercial Code as amended or supplemented from time to time.

"Collateral" means the property described on **Exhibit A** attached hereto and all Negotiable Collateral and Intellectual Property Collateral to the extent not described on **Exhibit A**, except to the extent any such property (i) is nonassignable by its terms without the consent of the licensor thereof or another party (but only to the extent such prohibition on transfer is enforceable under applicable law, including, without limitation, Sections 9406 and 9408 of the Code), (ii) the granting of a security interest therein is contrary to applicable law, provided that upon the cessation of any such restriction or prohibition, such property shall automatically become part of the Collateral, or (iii) constitutes the capital stock of a controlled foreign corporation (as defined in the IRC), in excess of 65% of the voting power of all classes of capital stock of such controlled foreign corporations entitled to vote.

"Contingent Obligation" means, as applied to any Person, any direct or indirect liability, contingent or otherwise, of that Person with respect to (i) any indebtedness, lease, dividend, letter of credit or other obligation of another, including, without limitation, any such obligation directly or indirectly guaranteed,

endorsed, co-made or discounted or sold with recourse by that Person, or in respect of which that Person is otherwise directly or indirectly liable; (ii) any obligations with respect to undrawn letters of credit, corporate credit cards or merchant services issued for the account of that Person; and (iii) all obligations arising under any interest rate, currency or commodity swap agreement, interest rate cap agreement, interest rate collar agreement, or other agreement or arrangement designed to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; provided, however, that the term "Contingent Obligation" shall not include endorsements for collection or deposit in the ordinary course of business. The amount of any Contingent Obligation shall be deemed to be an amount equal to the stated or determined amount of the primary obligation in respect of which such Contingent Obligation is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by such Person in good faith; provided, however, that such amount shall not in any event exceed the maximum amount of the obligations under the guarantee or other support arrangement.

"Copyrights" means any and all copyright rights, copyright applications, copyright registrations and like protections in each work or authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret, now or hereafter existing, created, acquired or held.

"Credit Extension" means each Advance, Equipment Advance, Real Estate Advance, EXIM Advance, or any other extension of credit by Bank to or for the benefit of Borrower hereunder.

"Current Assets" means, as of any applicable date, all amounts that should, in accordance with GAAP, be included as current assets on the consolidated balance sheet of Borrower and its Subsidiaries as at such date.

"Current Liabilities" means, as of any applicable date, all amounts that should, in accordance with GAAP, be included as current liabilities on the consolidated balance sheet of Borrower and its Subsidiaries, as at such date. Notwithstanding the foregoing, if the credit extensions issued by Bank's affiliate entity in China to Global Technology, Inc. is (a) collateralized by real estate owned by Global Technology, Inc. and (b) such credit extension(s) has a maturity of less than one year, then only one-third of the total credit extensions issued to Global Technology, Inc. shall be included in "Current Liabilities."

"Current Ratio" means a ratio of Current Assets to Current Liabilities.

"Domestic Borrowing Base" means an amount equal to 80% of Eligible Accounts plus the lesser of 30% of Eligible Inventory or \$1,000,000, as determined by Bank with reference to the most recent Borrowing Base Certificate delivered by Borrower. Notwithstanding the foregoing, Eligible Inventory shall not exceed 50% of the total Domestic Borrowing Base.

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"EBITDASO" means earnings before interest, taxes, depreciation amortization and stock option expenses.

"Economic Impact Certification" means the Economic Impact Certification as defined in the Borrower Agreement.

"Eligible Accounts" means those Accounts that arise in the ordinary course of Borrower's business that comply with all of Borrower's representations and warranties to Bank set forth in Section 5.16; provided, that Bank may change the standards of eligibility by giving Borrower 30 days prior written notice. Unless otherwise agreed to by Bank, Eligible Accounts shall not include the following:

(a) Accounts that the account debtor has failed to pay in full within 90 days of invoice date, unless such Accounts are backed by credit insurance in form and substance satisfactory to Bank, in which case such Accounts shall be excluded from Eligible Accounts if the account debtor has failed to pay in full within the "eligible claim days" as set forth in the applicable credit insurance agreement(s);

(b) Accounts with respect to an account debtor, 50% of whose Accounts the account debtor has failed to pay (i) within 90 days of invoice date or (ii) has failed to pay within the "eligible claim days" as set forth in the applicable credit insurance agreement(s) for any such Accounts that are backed by credit insurance in form and substance satisfactory to Bank

(c) Accounts with respect to an account debtor, including Subsidiaries and Affiliates, whose total obligations to Borrower exceed twenty five percent (25%) of all Accounts (the "Concentration Limit"), to the extent such obligations exceed the aforementioned percentage, except as approved in writing by Bank and except that the Concentration Limit for Accounts with respect to which the account debtor is Cisco/SA shall be forty percent (40%);

(d) Accounts with respect to which the account debtor does not have its principal place of business in the United States, except for Eligible Foreign Accounts;

(e) Accounts with respect to which the account debtor is the United States or any department, agency, or instrumentality of the United States;

(f) Accounts with respect to which Borrower is liable to the account debtor for goods sold or services rendered by the account debtor to Borrower, but only to the extent of any amounts owing to the account debtor against amounts owed to Borrower;

(g) Accounts with respect to which goods are placed on consignment, guaranteed sale, sale or return, sale on approval, bill and hold, demo or promotional, retentions and hold-backs, credit memo or other terms by reason of which the payment by the account debtor may be conditional;

(h) Accounts with respect to which the account debtor is an officer, employee, agent or Affiliate of Borrower;

(i) Accounts that have not yet been billed to the account debtor or that relate to deposits (such as good faith deposits) or other property of the account debtor held by Borrower for the performance of services or delivery of goods which Borrower has not yet performed or delivered;

(j) Accounts with respect to which the account debtor disputes liability or makes any claim with respect thereto as to which Bank believes, in its sole discretion, that there may be a basis for dispute (but only to the extent of the amount subject to such dispute or claim), or is subject to any Insolvency Proceeding, or becomes insolvent, or goes out of business;

(k) Customer deposits; and

(l) Accounts the collection of which Bank reasonably determines to be doubtful.

“Eligible Foreign Accounts” means Accounts with respect to which the account debtor does not have its principal place of business in the United States and that arise from “drop shipment” (invoiced by Borrower but shipped from Global Technology, Inc., Applied Optoelectronics Taiwan or other foreign contractors of Borrower) whereby such Accounts are (i) backed by foreign credit insurance or letters of credit reasonably acceptable to Bank or (ii) with publicly traded foreign companies or a foreign subsidiary of a U.S. publicly traded company; and approved by EXIM Bank and EXIM Program s Department of Bank on a case-by-case basis. All Eligible Foreign Accounts must be calculated in U.S. Dollars.

“Eligible Export-Related Accounts” means Eligible Export-Related Accounts Receivable as defined in the Borrower Agreement. Unless otherwise agreed to by Bank, Eligible Export-Related Accounts shall not include the following: Eligible Accounts, ineligible receivables as specified in the Borrower Agreement, receivables that do not comply with the requirements of EXIM’s most recent Country Limitation Schedule; or Accounts that the account debtor has failed to pay in full within 60 days of invoice date.

“Eligible Export-Related Inventory” means eligible Export-Related Inventory as defined under Borrower Agreement and EXIM guidelines and as acceptable to Bank, including without limitation, minimum domestic content of fifty percent (50%). Unless otherwise agreed to by Bank, Eligible Export-Related Inventory shall not include the following: Eligible Inventory, Inventory not supported by export purchase orders, or ineligible inventory as specified in the Borrower Agreement.

“Eligible Inventory” means finished goods inventory located in the United States that is acceptable to Bank.

“Environmental Laws” means all laws, rules, regulations, orders and the like issued by any federal state, local foreign or other governmental or quasi-governmental authority or any agency pertaining to the environment or to any hazardous materials or wastes, toxic substances, flammable, explosive or radioactive materials, asbestos or other similar materials.

“Equipment” means all present and future machinery, equipment, tenant improvements, furniture, fixtures, vehicles, tools, parts and attachments in which Borrower has any interest.

“Equipment Advance(s)” means a cash advance or cash advances under the Equipment Line.

“Equipment Facility” or “Equipment Line” means a Credit Extension of up to \$2,137,243.61.

“Equipment Maturity Date” means September 6, 2010.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended, and the regulations thereunder.

“Event of Default” has the meaning assigned in Article 8.

“EXIM” means the Export Import Bank of the United States.

“EXIM Advance” means a cash advance or cash advances under the EXIM Line.

“EXIM Borrowing Base” means an amount equal to 90% of Eligible Export-Related Accounts plus 75% of Eligible Export-Related Inventory, as determined by Bank with reference to the most recent Export Related Borrowing Base Certificate delivered by Borrower; provided, however that Eligible Export-Related Inventory shall not exceed sixty percent (60%) of the aggregate EXIM Borrowing Base.

“EXIM Line” means a Credit Extension of up to \$3,500,000.

“EXIM Maturity Date” means May 20, 2010.

“GAAP” means generally accepted accounting principles, consistently applied, as in effect from time to time.

“Indebtedness” means (a) all indebtedness for borrowed money or the deferred purchase price of property or services, including without limitation reimbursement and other obligations with respect to surety bonds and letters of credit, (b) all obligations evidenced by notes, bonds, debentures or similar instruments, (c) all capital lease obligations, and (d) all Contingent Obligations.

“Insolvency Proceeding” means any proceeding commenced by or against any Person or entity under any provision of the United States Bankruptcy Code, as amended, or under any other bankruptcy or insolvency law, including assignments for the benefit of creditors.

“Intellectual Property Collateral” means all of Borrower’s right, title, and interest in and to the following:

- (a) Copyrights, Trademarks and Patents;
- (b) Any and all trade secrets, and any and all intellectual property rights in computer software and computer software products now or hereafter existing, created, acquired or held;
- (c) Any and all design rights which may be available to Borrower now or hereafter existing, created, acquired or held;
- (d) Any and all claims for damages by way of past, present and future infringement of any of the rights included above, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the intellectual property rights identified above;
- (e) All licenses or other rights to use any of the Copyrights, Patents or Trademarks, and all license fees and royalties arising from such use to the extent permitted by such license or rights;

(f) All amendments, renewals and extensions of any of the Copyrights, Trademarks or Patents; and

(g) All proceeds and products of the foregoing, including without limitation all payments under insurance or any indemnity or warranty payable in respect of any of the foregoing.

“Inventory” means all present and future inventory in which Borrower has any interest.

“Investment” means any beneficial ownership of (including stock, partnership or limited liability company interest or other securities) any Person, or any loan, advance or capital contribution to any Person.

“IRC” means the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

“Lien” means any mortgage, lien, deed of trust, charge, pledge, security interest or other encumbrance.

“Liquidity” means the sum of Cash plus the net amount of Credit Extensions available under the Revolving Line.

“Loan Documents” means, collectively, this Agreement, any note or notes executed by Borrower, and any other document, instrument or agreement entered into in connection with this Agreement, including the Borrower Agreement, all as amended or extended from time to time.

“Material Adverse Effect” means a material adverse effect on (i) the business operations, condition (financial or otherwise) or prospects of Borrower and its Subsidiaries taken as a whole, (ii) the ability of Borrower to repay the Obligations or otherwise perform its obligations under the Loan Documents, (iii) Borrower’s interest in, or the value, perfection or priority of Bank’s security interest in the Collateral.

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“Negotiable Collateral” means all of Borrower’s present and future letters of credit of which it is a beneficiary, drafts, instruments (including promissory notes), securities, documents of title, and chattel paper, and Borrower’s Books relating to any of the foregoing.

“Obligations” means all debt, principal, interest, Bank Expenses and other amounts owed to Bank by Borrower pursuant to this Agreement or any other agreement, whether absolute or contingent, due or to become due, now existing or hereafter arising, including any interest that accrues after the commencement of an Insolvency Proceeding and including any debt, liability, or obligation owing from Borrower to others that Bank may have obtained by assignment or otherwise.

“Orderly Liquidation Value” means the estimated gross amount, expressed in terms of money, that could typically be realized from a failed facility, assuming that the entire facility would be sold intact with a limited time to complete the sale (6 months) as of a specified date, e.g., the effective appraisal date.

“Patents” means all patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

“Periodic Payments” means all installments or similar recurring payments that Borrower may now or hereafter become obligated to pay to Bank pursuant to the terms and provisions of any instrument, or agreement now or hereafter in existence between Borrower and Bank.

“Permitted Indebtedness” means:

(a) Indebtedness of Borrower in favor of Bank arising under this Agreement or any other Loan Document;

(b) Indebtedness existing on the Closing Date and disclosed in the Schedule;

(c) Indebtedness not to exceed \$50,000 in the aggregate in any fiscal year of Borrower secured by a lien described in clause (c) of the defined term “Permitted Liens,” provided such Indebtedness does not exceed the lesser of the cost or fair market value of the equipment financed with such Indebtedness;

(d) Subordinated Debt;

(e) Indebtedness to trade creditors incurred in the ordinary course of business; and

(f) Extensions, refinancings and renewals of any items of (a) through (e), provided that the principal amount is not increased or the terms modified to impose more burdensome terms upon Borrower or its Subsidiaries, as the case may be.

“Permitted Investment” means:

(a) Investments existing on the Closing Date disclosed in the Schedule;

(b) other Investments with Bank’s consent which shall not be unreasonably withheld or delayed.

“Permitted Liens” means the following:

(a) Any Liens existing on the Closing Date and disclosed in the Schedule (excluding Liens to be satisfied with the proceeds of the Advances) or arising under this Agreement or the other Loan Documents;

(b) Liens for taxes, fees, assessments or other governmental charges or levies, either not delinquent or being contested in good faith by appropriate proceedings and for which Borrower maintains adequate reserves, provided the same have no priority over any of Bank’s security interests;

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(c) Liens not to exceed \$50,000 in the aggregate (i) upon or in any Equipment (other than Equipment financed by an Equipment Advance) acquired or held by Borrower or any of its Subsidiaries to secure the purchase price of such Equipment or indebtedness incurred solely for the purpose of financing the acquisition or lease of such Equipment, or (ii) existing on such Equipment at the time of its acquisition, provided that the Lien is confined solely to the property so acquired and improvements thereon, and the proceeds of such Equipment;

(d) Liens incurred in connection with the extension, renewal or refinancing of the indebtedness secured by Liens of the type described in clauses (a) and (c) above, provided that any extension, renewal or replacement Lien shall be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness being extended, renewed or refinanced does not increase; and

“Permitted Transfer” means the conveyance, sale, lease, transfer or disposition by Borrower or any Subsidiary of:

- (a) Inventory in the ordinary course of business;
- (b) licenses and similar arrangements for the use of the property of Borrower or its Subsidiaries in the ordinary course of business;
- (c) worn-out or obsolete Equipment; or
- (d) other assets of Borrower or its Subsidiaries that do not in the aggregate exceed \$150,000 during any fiscal year.

“Person” means any individual, sole proprietorship, partnership, limited liability company, joint venture, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or governmental agency.

“Prime Rate” means the variable rate of interest, per annum as published in The Wall Street Journal on the date of measurement.

“Real Estate” means (a) the property located at 13115 Jess Pirtle Blvd., Sugar Land, Texas 77478 and (b) the property located on the tract of land containing 2.8911 acres (125,936 square feet) situated in the Brown & Belknap League, Abstract No. 14, Fort Bend County, Texas..

“Real Estate Advance” means a cash advance or cash advances under the Real Estate Facility.

“Real Estate Maturity Date” means September 6, 2010.

“Real Estate Facility” means a Credit Extension of up to \$3,740,919.

“Responsible Officer” means each of the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer and the Controller of Borrower.

“Revolving Facility” or “Revolving Line” means a Credit Extension of up to three million five hundred thousand dollars (\$3,500,000).

“Revolving Maturity Date” means May 20, 2010.

“Schedule” means the schedule of exceptions attached hereto and approved by Bank, if any.

“Shares” means the capital stock of all of Borrower’s Subsidiaries, including without limitation, Prime World International Holdings, Ltd. and Vale Systems, Inc.

“Subordinated Debt” means any debt incurred by Borrower that is subordinated in writing to the debt owing by Borrower to Bank on terms reasonably acceptable to Bank (and identified as being such by Borrower and Bank).

“Subsidiary” means any corporation, partnership or limited liability company or joint venture in which (i) any general partnership interest or (ii) more than 50% of the stock, limited liability company interest or joint venture of which by the terms thereof ordinary voting power to elect the Board of Directors, managers or trustees of the entity, at the time as of which any determination is being made, is owned by Borrower, either directly or through an Affiliate.

“Tangible Net Worth” means at any date as of which the amount thereof shall be determined, the sum of the capital stock, partnership interest or limited liability company interest of Borrower and its Subsidiaries minus intangible assets, determined in accordance with GAAP.

“Total Liabilities” means at any date as of which the amount thereof shall be determined, all obligations that should, in accordance with GAAP be classified as liabilities on the consolidated balance sheet of Borrower, including in any event, to the extent not already included, all Indebtedness.

“Trademarks” means any trademark and servicemark rights, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business of Borrower connected with and symbolized by such trademarks.

“Working Capital Facility” means the Revolving Facility.

1.2 Accounting Terms. Any accounting term not specifically defined in Section 1.1 shall be construed in accordance with GAAP and all calculations shall be made in accordance with GAAP. The term “financial statements” shall include the accompanying notes and schedules.

2. LOAN AND TERMS OF PAYMENT.

2.1 Credit Extensions.

(a) **Promise to Pay.** Borrower promises to pay to Bank, in lawful money of the United States of America, the aggregate unpaid principal amount of all Credit Extensions made by Bank to Borrower, together with interest on the unpaid principal amount of such Credit Extensions at rates in accordance with the terms hereof.

(b) Advances Under Revolving Line.

(i) Amount. Subject to and upon the terms and conditions of this Agreement (1) Borrower may request Advances in an aggregate outstanding amount not to exceed the lesser of (A) the Revolving Line or (B) the Borrowing Base; and (2) amounts borrowed pursuant to this Section 2.1(b) may be repaid and reborrowed at any time prior to the Revolving Maturity Date, at which time all Advances under this Section 2.1(b) shall be immediately due and payable. Borrower may prepay any Advances without penalty or premium. Borrower shall deliver to Bank a promissory note for the Advances in substantially the form attached hereto as **Exhibit B-1**. Bank may enforce its rights in respect of the Advances under this Agreement without such note.

(ii) Borrowing Procedure. Whenever Borrower desires an Advance, Borrower will notify Bank by facsimile transmission of an advance request in substantially the form of **Exhibit C** hereto no later than noon Pacific Time on the Business Day that is one (1) Business Day prior to the Business Day on which an Advance is made. Bank is authorized to make Advances under this Agreement, based upon instructions received from a Responsible Officer or a designee of a Responsible Officer. Bank will credit the amount of Advances made under this Section 2.1(b) to a Borrower's deposit account, as specified by Borrower.

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(iii) Payments. Borrower shall pay interest on the aggregate outstanding principal amount of the Advances on the fifth day of each month for so long as any Advances are outstanding. All Advances shall be due and payable on the Revolving Maturity Date.

(iv) Optional Prepayment of the Advances; Termination. Borrower may at any time prepay any Advance, in whole or in part, without premium or penalty; and may terminate this Agreement and any other Loan Documents by giving notice of termination to Bank and the performance or payment in full of all outstanding Obligations hereunder.

(c) Equipment Advances.

(i) Amount. Subject to and upon the terms and conditions of this Agreement, Bank has made Equipment Advances to Borrower, and the aggregate amount of such Equipment Advances is two million one hundred thirty seven thousand two hundred forth three dollars and sixty one cents (\$2,137,243.61). No further Equipment Advances shall be made to Borrower. Borrower shall deliver to Bank a promissory note for the Equipment Advance in substantially the form attached hereto as **Exhibit B-2**. Bank may enforce its rights in respect of the Equipment Advance under this Agreement without such note.

(ii) Payment. On the fifth day of each month until the Equipment Advance Maturity Date, Borrower shall repay the outstanding Equipment Advance in equal monthly installments constituting principal plus accrued interest as prescribed by Bank. The entire principal balance and all accrued but unpaid interest on the Equipment Advance shall be due and payable on the Equipment Advance Maturity Date.

(d) Real Estate Facility.

(i) Amount. Subject to and upon the terms and conditions of this Agreement, a Bank has made one Real Estate Advance to Borrower (recorded as loan number 288-000072-0), and the aggregate principal amount of such Real Estate Advance is three million five hundred thirty six thousand six hundred seventy nine dollars and seventy eight cents (\$3,536,679.78). No further Real Estate Advances shall be made to Borrower. Borrower shall deliver to Bank a promissory note for the Real Estate Advance in substantially the form attached hereto as **Exhibit B-3**. Bank may enforce its rights in respect of the Real Estate Advance under this Agreement without such note.

(ii) Payment. On the fifth day of each of each until the Real Estate Maturity Date, Borrower shall repay the Real Estate Advance in equal installments of principal and interest as prescribed by Bank. The entire principal balance and all accrued but unpaid interest on the Real Estate Advance shall be due and payable on the Real Estate Maturity Date.

(e) Advances Under EXIM Line.

(i) Amount. Subject to and upon the terms and conditions of this Agreement, Borrower may request EXIM Advances in an aggregate outstanding amount not to exceed the lesser of (A) the EXIM Line or (B) the EXIM Borrowing Base. Amounts borrowed pursuant to this Section 2.1(e) may be repaid and reborrowed at any time prior to the EXIM Maturity Date, at which time all EXIM Advances under this Section 2.1(e) shall be immediately due and payable. Borrower may prepay any Advances without penalty or premium. Borrower shall deliver to Bank a promissory note for the EXIM Advances in substantially the form attached hereto as **Exhibit B-4**. Bank may enforce its rights in respect of the EXIM Advances under this Agreement without such note.

(ii) Borrowing Procedure. Whenever Borrower desires an EXIM Advance, Borrower will notify Bank by facsimile transmission of an advance request in substantially the form of **Exhibit C** hereto no later than noon Pacific Time on the Business Day that is one (1) Business Day prior to the Business Day on which an EXIM Advance is made. Bank is authorized to make EXIM Advances under this Agreement, based upon instructions received from a Responsible Officer or a designee of a Responsible Officer. Bank will credit the amount of Advances made under this Section 2.1(d) to a Borrower's deposit account, as

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specified by Borrower.

(iii) Payments. Borrower shall pay interest on the aggregate outstanding principal amount of the EXIM Advances on the fifth day of each month for so long as any EXIM Advances are outstanding. All EXIM Advances shall be due and payable on the EXIM Maturity Date.

(iv) Additional Conditions. The obligation of Bank to make the initial EXIM Advance is subject to the condition precedent that Bank shall have received, in form and substance satisfactory to Bank, the Borrower Agreement and an Economic Impact Certification.

2.2 Overadvances. If the aggregate amount of the outstanding Advances exceeds the lesser of the Revolving Line or the Borrowing Base at any time, Borrower shall immediately pay to Bank, in cash, the amount of such excess.

2.3 Interest Rates, Payments, and Calculations.

(a) Interest Rates.

(i) **Revolving Advance Interest Rate.** Except as set forth in Section 2.3(b), the outstanding principal balance of each Revolving Advance shall bear interest (computed daily on the basis of a 360 day year and actual days elapsed), at a floating rate per annum equal to the Prime Rate plus 3.25%.

(ii) **Equipment Advance Interest Rate.** Except as set forth in Section 2.3(b), the outstanding principal balance of the Equipment Advance shall bear interest (computed daily on the basis of a 360 day year and actual days elapsed), at a variable rate equal to the Prime Rate plus 3.00%.

(iii) **Real Estate Advance Interest Rate.** Except as set forth in Section 2.3(b), the outstanding principal balance of the Real Estate Advance shall bear interest (computed daily on the basis of a 360 day year and actual days elapsed), at a variable rate equal to the Prime Rate plus 3.00%.

(iv) **EXIM Advance Interest Rate.** Except as set forth in Section 2.3(b), the outstanding principal balance of the EXIM Advances shall bear interest (computed daily on the basis of a 360 day year and actual days elapsed), at a variable rate equal to the Prime Rate plus 3.25%.

Notwithstanding the foregoing, at no time shall the interest rate applied to any Credit Extension be less than 7.50% per annum (computed daily on the basis of a 360 day year and actual days elapsed) (the "Floor Rate"); provided however, in the event Borrower (A) consummates its next round of equity financing (currently contemplated as a Series F Preferred Stock financing) whereby Borrower receives proceeds of at least \$13,500,000 (including the conversion of any outstanding convertible debt securities into Borrower's equity securities) and (B) Borrower achieves at least one calendar quarter with a minimum quarterly EBITDASO of at least \$500,000, then the Floor Rate applied to all Credit Extensions shall be 6.50% per annum (computed daily on the basis of a 360 day year and actual days elapsed).

(b) **Late Fee/Default Rate.** All Obligations shall bear interest, from and after the occurrence and during the continuance of an Event of Default, at a rate equal to five (5) percentage points above the interest rate applicable immediately prior to the occurrence of the Event of Default. If any payment is not made within 10 days after the date such payment is due, Borrower shall pay Agent a late fee equal to the lesser of (i) 5% of the amount of such unpaid amount or (ii) the maximum amount permitted to be charged under applicable law.

(c) **Payments.** Any interest not paid when due shall be compounded by becoming a part of the Obligations, and such interest shall thereafter accrue interest at the rate then applicable hereunder. All payments shall be made free and clear of, and without deduction or withholding for, any present or future taxes or other charges imposed by any jurisdiction. Payments will be made via auto debit from the Borrower's account at Bank.

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(d) **Computation.** The applicable rate of interest hereunder shall be increased or decreased effective as of the day the Prime Rate is changed as provided in the definition thereof, by an amount equal to such change in the Prime Rate.

(e) **Crediting Payments.** Prior to the occurrence of an Event of Default, Bank shall credit a wire transfer of funds, check or other item of payment to such deposit account or Obligation as Borrower specifies. After the occurrence and continuance of an Event of Default, the receipt by Bank of any wire transfer of funds, check, or other item of payment shall be immediately applied to conditionally reduce Obligations, but shall not be considered a payment on account unless such payment is of immediately available federal funds or unless and until such check or other item of payment is honored when presented for payment. Notwithstanding anything to the contrary contained herein, any wire transfer or other payment received by Bank after 12:00 noon Pacific time shall be deemed to have been received by Bank as of the opening of business on the immediately following Business Day. Any wire transfer or other payment received by Bank before 12:00 noon Pacific time shall be deemed to have been received by Bank as of the opening of business on such Business Day. Whenever any payment to Bank under the Loan Documents would otherwise be due (except by reason of acceleration) on a date that is not a Business Day, such payment shall instead be due on the next Business Day, and additional fees or interest, as the case may be, shall accrue and be payable for the period of such extension.

2.4 Fees. Borrower shall pay to Bank the following:

(a) **Facility Fee.** On the Closing Date, a fee equal to \$33,850 (which includes an EXIM fee of \$16,350) which shall be nonrefundable;

(b) **Bank Expenses.** On the Closing Date, all Bank Expenses incurred through the Closing Date, and, after the Closing Date, all Bank Expenses, as and when they become due; and

(c) **EXIM Fee.** Such other fees as EXIM may charge from time to time.

2.5 **Term.** This Agreement shall become effective on the Closing Date and, subject to Section 12.7, shall continue in full force and effect for so long as any Obligations remain outstanding or Bank has any obligation to make Credit Extensions under this Agreement. Notwithstanding the foregoing, Bank shall have the right to terminate its obligation to make Credit Extensions under this Agreement immediately and without notice upon the occurrence and during the continuance of an Event of Default.

3. CONDITIONS OF LOANS.

3.1 **Conditions Precedent to Initial Credit Extension.** The obligation of Bank to make the initial Credit Extension is subject to the condition precedent that Bank shall have received, in form and substance satisfactory to Bank, the following:

(a) this Agreement;

(b) a financing statement (Form UCC-1);

- Bank;
- (c) an audit of the Collateral conducted by an auditor satisfactory to Bank, the results of which shall be reasonably satisfactory to Bank;
 - (d) a certificate of the Secretary of Borrower with respect to incumbency and resolutions authorizing the execution and delivery of this Agreement;
 - (e) a certificate of insurance naming Bank as loss payee and additional insured;
 - (f) payment of the fees and Bank Expenses then due specified in Section 2.4;

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- (g) current financial statements, including audited statements for Borrower's most recently ended fiscal year, together with an unqualified opinion, company prepared consolidated and consolidating balance sheets and income statements for the most recently ended month in accordance with Section 6.2, and such other updated financial information as Bank may reasonably request;
- (h) an intellectual property security agreement
- (i) a Warrant in form and substance satisfactory to Bank;
- (j) good standing certificates of Borrower;
- (k) a ratification and confirmation of the continuing effectiveness of the Deeds of Trust, in form and substance satisfactory to Bank;
- (l) a Compliance Certificate in the form of **Exhibit C** attached hereto, or other mutually agreeable form of such certificate;
- (m) an endorsement from Bank's title insurance company to Bank's title insurance policy with respect to the Deeds of Trust, in form and substance satisfactory to Bank;
- (n) delivery of the share certificates representing the Shares and for each share certificate, four instruments of assignment ("Assignment Separate from Certificate") in substantially similar form as those attached hereto, and any pledge agreement or other documentation as Bank or its legal counsel may reasonably deem necessary or appropriate to perfect Bank's security interest in the Shares;
- (o) evidence of Bank's perfected security interest in the shares of Global Technology Inc., a corporation organized in the British Virgin Islands and wholly-owned subsidiary of Prime World International Holdings, Ltd. including the delivery of the share certificates of Global Technology Inc. and any share pledge agreement or other documentation, as Bank or its legal counsel may reasonably deem necessary or appropriate; and
- (p) such other documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate.

3.2 Conditions Precedent to all Credit Extensions. The obligation of Bank to make each Credit Extension, including the initial Credit Extension, is further subject to the following conditions:

- (a) timely receipt by Bank of the Payment/Advance Form as provided in Section 2.1; and
- (b) the representations and warranties contained in Section 5 shall be true and correct in all material respects on and as of the date of such Payment/Advance Form and on the effective date of each Credit Extension as though made at and as of each such date, and no Event of Default shall have occurred and be continuing, or would exist after giving effect to such Credit Extension (provided, however, that those representations and warranties expressly referring to another date shall be true, correct and complete in all material respects as of such date). The making of each Credit Extension shall be deemed to be a representation and warranty by Borrower on the date of such Credit Extension as to the accuracy of the facts referred to in this Section 3.2(b).

4. CREATION OF SECURITY INTEREST.

4.1 Grant of Security Interest. Borrower grants and pledges to Bank a continuing security interest in all presently existing and hereafter acquired or arising Collateral in order to secure prompt payment of any and all Obligations and in order to secure prompt performance by Borrower of Borrower's covenants and duties under the Loan Documents. Except as set forth in the Schedule and with respect to motor vehicles and trailers, such security interest constitutes a valid, first priority security interest in the presently existing Collateral, and will

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constitute a valid, first priority security interest in Collateral acquired after the date hereof. Borrower also hereby agrees not to sell, transfer, assign, mortgage, pledge, lease, grant a security interest in, or encumber any of its intellectual property.

4.2 Delivery of Additional Documentation Required. Borrower shall from time to time execute and deliver to Bank, at the request of Bank, all Negotiable Collateral, all financing statements and other documents that Bank may reasonably request, in form satisfactory to Bank, to perfect and continue perfected Bank's security interests in the Collateral and in order to fully consummate all of the transactions contemplated under the Loan Documents.

4.3 Right to Inspect. Bank (through any of its officers, employees, or agents) shall have the right, upon reasonable prior notice, from time to time during Borrower's usual business hours but no more than once a year (unless an Event of Default has occurred and is continuing), to inspect Borrower's Books and to make copies thereof and to check, test, and appraise the Collateral in order to verify Borrower's financial condition or the amount, condition of, or any other matter relating to, the Collateral.

4.4 Deeds of Trust. Borrower acknowledges Bank's continuing security interest pursuant to the Deed of Trust, Assignments, Fixture Filing and Security Agreement dated as of May 19, 2004 and recorded as instrument number 2004063868, by and between Borrower as Trustor (as defined therein), U.F.

Service Corporation as Trustee (as defined therein), and Bank as Beneficiary (as defined therein), as amended and supplemented from time to time; and Borrower also acknowledges Bank's continuing security interest in the property located on the tract of land containing 2.8911 acres (125,936 square feet) situated in the Brown & Belknap League, Abstract No. 14, Fort Bend County, Texas, recorded as instrument number 2008024303 (collectively, the "Deeds of Trust").

4.5 EXIM. Upon the occurrence and continuation of an Event of Default, in the event EXIM seeks to exercise remedies with respect to the Collateral, Bank will assign such portion of its security interest in the Loan Documents and the Collateral as EXIM reasonably requests to effect such exercise.

4.6 Pledge of Shares. Borrower pledges, assigns and grants to Bank a security interest in all the Shares held or owned of record by Borrower, together with all proceeds and substitutions thereof, all cash, stock and other moneys and property paid thereon, all rights to subscribe for securities declared or granted in connection therewith, and all other cash and noncash proceeds of the foregoing, as security for the performance of the Obligations. On the Closing Date, the certificate or certificates for the Shares will be delivered to Bank, accompanied by instruments of assignment duly executed in blank by Borrower. To the extent required by the terms and conditions governing the Shares, Borrower shall cause the books of each entity whose Shares are part of the Collateral and any transfer Bank to reflect the pledge of the Shares. Unless an Event of Default shall have occurred and be continuing, Borrower shall be entitled to exercise any voting rights with respect to the relevant Shares and to give consents, waivers and ratifications in respect thereof, provided that no vote shall be cast or consent, waiver or ratification given or action taken which would be inconsistent with any of the terms of this Agreement or which would constitute or create any violation of any of such terms. All such rights to vote and give consents, waivers and ratifications shall be suspended upon the occurrence and continuance of an Event of Default.

5. REPRESENTATIONS AND WARRANTIES.

Borrower represents and warrants as follows:

5.1 Due Organization and Qualification. Borrower and each Subsidiary is a corporation duly existing under the laws of the state in which it is incorporated and qualified and licensed to do business in any state in which the conduct of its business or its ownership of property requires that it be so qualified, except where the failure to do so would not reasonably be expected to cause a Material Adverse Effect.

5.2 Due Authorization; No Conflict. The execution, delivery, and performance of the Loan Documents are within Borrower's powers, have been duly authorized, and are not in conflict with nor constitute a breach of any provision contained in Borrower's Certificate of Incorporation or Bylaws, nor will they constitute an event of default under any material agreement by which Borrower is bound. Borrower is not in default under any

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agreement by which it is bound, except to the extent such default would not reasonably be expected to cause a Material Adverse Effect.

5.3 No Prior Encumbrances. Borrower has good and marketable title to the Collateral, free and clear of Liens, except for Permitted Liens as determined to exist from time to time.

5.4 Collateral. Borrower has rights in or the power to transfer the Collateral, and its title to the Collateral is free and clear of Liens, adverse claims, and restrictions on transfer or pledge except for Permitted Liens. All Collateral is located solely in the United States. Except as set forth in the Schedule, none of the Collateral is maintained or invested with a Person other than Bank or Bank's Affiliates.

5.5 Merchantable Inventory. All Inventory is in all material respects of good and marketable quality, free from all material defects other than defects at such rate of occurrence as are customary and usual for information technology and consumer electronic goods and software.

5.6 Intellectual Property Collateral. Borrower is the sole owner of the Intellectual Property Collateral, except for non-exclusive licenses granted by Borrower to its customers or other third parties in the ordinary course of business. Each of the Patents is valid and enforceable, and no part of the Intellectual Property Collateral has been judged invalid or unenforceable, in whole or in part, and except as disclosed in the Schedule, no claim has been made that any part of the Intellectual Property Collateral violates the rights of any third party. Borrower's rights as licensees of any individual licensor of intellectual property do not give rise to more than five percent (5%) of its gross revenue in any given quarter, including without limitation revenue derived from the sale, licensing, rendering or disposition of any product or service. Except as set forth in the Schedule, Borrower is not a party to, or bound by, any agreement that restricts the grant by Borrower of a security interest in Borrower's rights under such agreement other than agreements entered into by Borrower with licensors, vendors and business partners in the ordinary course of Borrower's business.

5.7 Name; Location of Chief Executive Office. Except as disclosed in the Schedule, Borrower has not done business under any name other than that specified on the signature page hereof, and its exact legal name is as set forth in the first paragraph of this Agreement. The chief executive office of Borrower is located in the United States at the address indicated in Section 10 hereof.

5.8 Litigation. Except as set forth in the Schedule, there are no actions or proceedings pending by or against Borrower or any Subsidiary before any court or administrative agency in which a likely adverse decision would reasonably be expected to have a Material Adverse Effect.

5.9 No Material Adverse Change in Financial Statements. All consolidated and consolidating financial statements related to Borrower and any Subsidiary that are delivered by Borrower to Bank fairly present in all material respects Borrower's consolidated and consolidating financial condition as of the date thereof and Borrower's consolidated and consolidating results of operations for the period then ended. There has not been a material adverse change in the consolidated or in the consolidating financial condition of Borrower since the date of the most recent of such financial statements submitted to Bank.

5.10 Solvency, Payment of Debts. Borrower is able to pay its debts (including trade debts) as they mature; the fair saleable value of Borrower's assets (including goodwill minus disposition costs) exceeds the fair value of its liabilities; and Borrower is not left with unreasonably small capital after the transactions contemplated by this Agreement.

5.11 Compliance with Laws and Regulations. Borrower and each Subsidiary have met the minimum funding requirements of ERISA with respect to any employee benefit plans subject to ERISA. No event has occurred resulting from Borrower's failure to comply with ERISA that is reasonably likely to result in Borrower's incurring any liability that could have a Material Adverse Effect. Borrower is not an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940. Borrower is not engaged principally, or as one of the important activities, in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulations T and U of the

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Board of Governors of the Federal Reserve System). Borrower has complied in all material respects with all the provisions of the Federal Fair Labor Standards Act. Borrower is in compliance with all Environmental Laws, regulations and ordinances except where the failure to comply is not reasonably likely to have a Material Adverse Effect. Borrower has not violated any statutes, laws, ordinances or rules applicable to it, the violation of which would reasonably be expected to have a Material Adverse Effect. Borrower and each Subsidiary have filed or caused to be filed all tax returns required to be filed, and have paid, or have made adequate provision for the payment of, all taxes reflected therein except those being contested in good faith with adequate reserves under GAAP or where the failure to file such returns or pay such taxes would not reasonably be expected to have a Material Adverse Effect.

5.12 Subsidiaries. Except as disclosed on the Schedule, Borrower does not own any stock, partnership interest or other equity securities of any Person, except for Permitted Investments.

5.13 Government Consents. Borrower and each Subsidiary have obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all governmental authorities that are necessary for the continued operation of Borrower's business as currently conducted, except where the failure to do so would not reasonably be expected to cause a Material Adverse Effect.

5.14 Inbound Licenses. Except as disclosed on the Schedule, Borrower is not a party to, nor is bound by, any license or other agreement that prohibits or otherwise restricts Borrower from granting a security interest in Borrower's interest in such license or agreement or any other property.

5.15 Bona Fide Accounts. The Accounts are bona fide existing obligations. The property giving rise to such Accounts has been delivered to the account debtor or to the account debtor's agent for immediate shipment to and unconditional acceptance by the account debtor.

5.16 Shares. Borrower has full power and authority to create a first lien on the Shares and no disability or contractual obligation exists that would prohibit Borrower from pledging the Shares pursuant to this Agreement. There are no subscriptions, warrants, rights of first refusal or other restrictions on transfer relative to, or options exercisable with respect to the Shares. The Shares have been and will be duly authorized and validly issued, and are fully paid and non-assessable. The Shares are not the subject of any present or threatened suit, action, arbitration, administrative or other proceeding, and Borrower knows of no reasonable grounds for the institution of any such proceedings.

5.17 Full Disclosure. No representation, warranty or other statement made by Borrower in any certificate or written statement furnished to Bank taken together with all such certificates and written statements furnished to Bank contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained in such certificates or statements not misleading, it being recognized by Bank that the projections and forecasts provided by Borrower in good faith and based upon reasonable assumptions are not to be viewed as facts and that actual results during the period or periods covered by any such projections and forecasts may differ from the projected or forecasted results.

6. AFFIRMATIVE COVENANTS.

Borrower shall do all of the following:

6.1 Good Standing and Government Compliance. Borrower shall maintain its and each of its Subsidiaries' corporate existence and good standing in each jurisdiction under whose laws Borrower and its Subsidiaries are organized, and shall maintain qualification and good standing in each other jurisdiction in which the failure to so qualify would reasonably be expected to have a Material Adverse Effect. Borrower shall meet, and shall cause each Subsidiary to meet, the minimum funding requirements of ERISA with respect to any employee benefit plans subject to ERISA. Borrower shall comply in all material respects with all applicable Environmental Laws, and maintain all material permits, licenses and approvals required thereunder where the failure to do so would reasonably be expected to have a Material Adverse Effect. Borrower shall comply, and shall cause each Subsidiary to comply, with all statutes, laws, ordinances and government rules and regulations to which it is subject, and shall

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maintain, and shall cause each of its Subsidiaries to maintain, in force all licenses, approvals and agreements, the loss of which or failure to comply with which would reasonably be expected to have a Material Adverse Effect.

6.2 Financial Statements, Reports, Certificates. Borrower shall deliver to Bank:

(a) as soon as available, but in any event within 20 days after the end of each calendar month, a company prepared consolidated and consolidating balance sheet and income statement covering Borrower's operations during such period, in a form reasonably acceptable to Bank and certified by a Responsible Officer; (ii) as soon as available, but in any event within 150 days after the end of Borrower's fiscal year, audited consolidated and consolidating financial statements of Borrower prepared in accordance with GAAP, consistently applied, together with an opinion which is unqualified or otherwise consented to in writing by Bank on such financial statements of an independent certified public accounting firm reasonably acceptable to Bank; (iii) if applicable, copies of all statements, reports and notices sent or made available generally by Borrower to its security holders or to any holders of Subordinated Debt and all reports on Forms 10-K and 10-Q filed with the Securities and Exchange Commission; (iv) promptly upon receipt of notice thereof, a report of any legal actions pending or threatened against Borrower or any Subsidiary that could result in damages or costs to Borrower or any Subsidiary of \$100,000 or more; (v) promptly upon receipt, each management letter prepared by Borrower's independent certified public accounting firm regarding Borrower's management control systems; and (vi) such budgets, sales projections, operating plans or other financial information generally prepared by Borrower in the ordinary course of business as Bank may reasonably request from time to time. Notwithstanding the foregoing, Borrower shall deliver its audited consolidated and consolidating financial statements for 2008 no later than June 30, 2009.

(b) Within 20 days after the last day of each month, Borrower shall deliver to Bank a Borrowing Base Certificate signed by a Responsible Officer in substantially the form of **Exhibit D-1** hereto, together with an inventory report in format satisfactory to Bank and aged listings by invoice date of accounts receivable and accounts payable. Within 20 days after the last day of each month in which EXIM Advances are outstanding, Borrower shall deliver to Bank an Export Related Borrowing Base Certificate signed by a Responsible Officer in substantially the form of **Exhibit D-2** hereto, together with aged listings by payment due date of foreign accounts receivable and accounts payable, a summary report of export purchase orders and an inventory report in format satisfactory to Bank

(c) Within 20 days after the last day of each month, Borrower shall deliver to Bank with the monthly financial statements a Compliance Certificate certified as of the last day of the applicable month and signed by a Responsible Officer in substantially the form of **Exhibit E** hereto.

(d) As soon as possible and in any event within three (3) Business Days after becoming aware of the occurrence or existence of an Event of Default hereunder, a written statement of a Responsible Officer setting forth details of the Event of Default, and the action which Borrower has taken or proposes to take with respect thereto.

(e) Within 30 days of the last day of each fiscal quarter, a report signed by Borrower, in form reasonably acceptable to Bank, listing any applications or registrations that Borrower has made or filed in respect of any Patents, Copyrights or Trademarks and the status of any outstanding applications or registrations, as well as any material change in Borrower's Intellectual Property Collateral, including but not limited to any subsequent ownership right of Borrower in or to any Trademark, Patent or Copyright not specified in Exhibits A, B, and C of any Intellectual Property Security Agreement delivered to Bank by Borrower in connection with this Agreement.

(f) Within 20 days after the last day of each month, Borrower shall deliver to Bank a monthly summary of Export Purchase Orders, and within 20 days after the last of each quarter, Borrower shall deliver to Bank copies of approximately ten percent (10%) of all actual Export Purchase Orders, as a sample representation of all Export Purchase Orders.

Borrower may deliver to Bank on an electronic basis any certificates, reports or information required pursuant to this Section 6.2, and Bank shall be entitled to rely on the information contained in the electronic files, provided that Bank in good faith believes that the files were delivered by a Responsible Officer. If Borrower

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delivers this information electronically, it shall also deliver to Bank by U.S. Mail, reputable overnight courier service, hand delivery, facsimile or .pdf file within 5 Business Days of submission of the unsigned electronic copy the certification of monthly financial statements, the intellectual property report, the Domestic Borrowing Base Certificate, the Export Related Borrowing Base Certificate and the Compliance Certificate, each bearing the physical signature of the Responsible Officer.

6.3 Collateral Audits. Bank shall have a right from time to time hereafter to audit Borrower's Accounts and appraise Collateral at Borrower's expense, provided that such audits will be conducted no more often than twice every twelve months unless an Event of Default has occurred and is continuing.

6.4 Current Ratio. Borrower shall maintain, as of the last day of each month starting with month ending May 31, 2009, a Current Ratio equal to or greater than 1.20 to 1.00.

6.5 Total Liabilities to Tangible Net Worth Ratio. Borrower shall maintain as of the last day of each month starting with month ending May 31, 2009 and through month ending June 30, 2010, a ratio of Total Liabilities to Tangible Net Worth not greater than 1.20 to 1.00; and as of the last day of each month following June 30, 2010, a ratio of Total Liabilities to Tangible Net Worth not greater than 1.10 to 1.00.

6.6 Minimum EBITDASO. Borrower shall maintain a minimum quarterly EBITDASO of at least the following amounts:

<u>Quarter(s) Ending</u>	<u>Amount</u>
June 30, 2009:	(loss not to exceed \$600,000)
September 30, 2009:	\$500,000
December 31, 2009:	\$1,000,000
March 31 of each year starting 2010:	\$300,000
June 30, September 30 and December 31 of each year starting 2010:	\$1,000,000

6.7 Inventory; Returns. Borrower shall keep all Inventory in good and merchantable condition, free from all material defects except for Inventory for which adequate reserves have been made. Borrower shall cause all returns by their customers and terminations of customer agreements to be on the same basis and in accordance with the usual customary practices of Borrower, as they exist from time to time. Borrower shall promptly notify Bank of all terminations of customer agreements, and of all customer disputes and customer claims, where the termination, dispute or claim involves more than two hundred fifty thousand dollars (\$250,000).

6.8 Taxes. Borrower shall make, and cause each Subsidiary to make, due and timely payment or deposit of all material federal, state, and local taxes, assessments, or contributions required of it by law, including, but not limited to, those laws concerning income taxes, F.I.C.A., F.U.T.A. and state disability, and will execute and deliver to Bank, on demand, proof satisfactory to Bank indicating that Borrower or a Subsidiary has made such payments or deposits and any appropriate certificates attesting to the payment or deposit thereof; provided that Borrower or a Subsidiary need not make any payment if the amount or validity of such payment is contested in good faith by appropriate proceedings and is reserved against (to the extent required by GAAP) by Borrower.

6.9 Insurance.

(a) Borrower, at its expense, shall keep the Collateral insured against loss or damage by fire, theft, explosion, sprinklers, and all other hazards and risks, and in such amounts, as ordinarily insured against by other owners in similar businesses conducted in the locations where Borrower's business is conducted on the date hereof, but no less than the sum of the book value of domestic Equipment and domestic Inventory. Borrower shall also maintain liability and other insurance in amounts and of a type that are customary to businesses similar to Borrower's. Borrower, at its expense, shall keep the Real Estate insured against loss or damage by fire, theft, explosion, sprinklers, and all other hazards and risks, and in an amount no less than the replacement cost and on terms reasonably acceptable to Bank.

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(b) All such policies of insurance shall be in such form, with such companies, and in such amounts as reasonably satisfactory to Bank. All policies of property insurance shall contain a lender's loss payable endorsement, in a form satisfactory to Bank, showing Bank as an additional loss payee, and all liability insurance policies shall show Bank as an additional insured and specify that the insurer must give at least 20 days notice to Bank before canceling its policy for any reason. Upon Bank's request, Borrower shall deliver to Bank certified copies of the policies of insurance and evidence of all premium payments. If no Event of Default has occurred and is continuing, proceeds payable under any casualty policy will, at Borrower's option, be payable to Borrower to replace the property subject to the claim, provided that any such replacement property shall be deemed Collateral in which Bank has been granted a first priority

security interest. If an Event of Default has occurred and is continuing, all proceeds payable under any such policy shall, at Bank's option, be payable to Bank to be applied on account of the Obligations.

6.10 Primary Depository. Borrower shall maintain all its depository and operating accounts with Bank and its investment accounts with Bank or Bank's Affiliates.

6.11 Registration of Intellectual Property Rights.

(a) Borrower shall register or cause to be registered on an expedited basis (to the extent not already registered) with the United States Patent and Trademark Office or the United States Copyright Office, as the case may be, those registrable intellectual property rights now owned or hereafter developed or acquired by Borrower, to the extent that Borrower, in its reasonable business judgment, deems it appropriate to so protect such intellectual property rights.

(b) Borrower shall promptly give Bank written notice of any applications or registrations of intellectual property rights filed with the United States Patent and Trademark Office, including the date of such filing and the registration or application numbers, if any.

(c) Borrower shall (i) give Bank not less than 30 days prior written notice of the filing of any applications or registrations with the United States Copyright Office, including the title of such intellectual property rights to be registered, as such title will appear on such applications or registrations, and the date such applications or registrations will be filed; (ii) prior to the filing of any such applications or registrations, execute such documents as Bank may reasonably request for Bank to maintain its perfection in such intellectual property rights to be registered by Borrower; (iii) upon the request of Bank, either deliver to Bank or file such documents simultaneously with the filing of any such applications or registrations; (iv) upon filing any such applications or registrations, promptly provide Bank with a copy of such applications or registrations together with any exhibits, evidence of the filing of any documents requested by Bank to be filed for Bank to maintain the perfection and priority of its security interest in such intellectual property rights, and the date of such filing.

(d) Borrower shall execute and deliver such additional instruments and documents from time to time as Bank shall reasonably request to perfect and maintain the perfection and priority of Bank's security interest in the Intellectual Property Collateral.

(e) Borrower shall (i) protect, defend and maintain the validity and enforceability of the trade secrets, Trademarks, Patents and Copyrights, (ii) use commercially reasonable efforts to detect infringements of the Trademarks, Patents and Copyrights and promptly advise Bank in writing of material infringements detected and (iii) not allow any material Trademarks, Patents or Copyrights to be abandoned, forfeited or dedicated to the public without the written consent of Bank, which shall not be unreasonably withheld.

(f) Bank may audit Borrower's Intellectual Property Collateral to confirm compliance with this Section 6.11, provided such audit may not occur more often than once per year, unless an Event of Default has occurred and is continuing. Bank shall have the right, but not the obligation, to take, at Borrower's sole expense, any actions that Borrower is required under this Section 6.11 to take but which Borrower fails to take, after 15 days' notice to Borrower. Borrower shall reimburse and indemnify Bank for all reasonable costs and reasonable expenses incurred in the reasonable exercise of its rights under this Section 6.11.

6.12 Global Technology Inc. Borrower shall cause Prime World International Holdings, Ltd. to execute and deliver such instruments and take such action as may reasonably be requested by Bank to effectuate the perfection of Bank's security interest in the capital stock of Global Technology Inc.

6.13 Further Assurances. At any time and from time to time Borrower shall execute and deliver such further instruments and take such further action as may reasonably be requested by Bank to effect the purposes of this Agreement.

7. NEGATIVE COVENANTS.

Borrower will not do any of the following:

7.1 Dispositions. Convey, sell, lease, transfer or otherwise dispose of (collectively, a "Transfer"), or permit any of its Subsidiaries to Transfer, all or any part of its business, assets or property, other than Transfers in the ordinary course of business.

7.2 Change in Name or Executive Management; Change in Business; Change in Fiscal Year; Change in Control. Change its name without 30 days prior written notification to Bank; terminate or replace its chief executive officer or chief financial officer or other executive level officer without prior written approval of Bank; engage in any business, or permit any of its Subsidiaries to engage in any business, other than or reasonably related or incidental to the businesses currently engaged in by Borrower; change its fiscal year end; or have a Change in Control.

7.3 Mergers or Acquisitions. With prior written consent of Bank, which consent shall not be unreasonably withheld, merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with or into any other business organization (other than mergers or consolidations of a Subsidiary into another Subsidiary or into any Borrower), or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person except where (i) such transactions do not in the aggregate exceed the payment of any amount or the incurrence of any liability greater than \$250,000 during any fiscal year, (ii) no Event of Default has occurred, is continuing or would exist after giving effect to such transactions, (iii) such transactions do not result in a Change in Control, and (iv) Borrower is the surviving entity.

7.4 Indebtedness. Create, incur, assume, guarantee or be or remain liable with respect to any Indebtedness, or permit any Subsidiary so to do, other than Permitted Indebtedness, or prepay any Indebtedness or take any actions which impose on any Borrower an obligation to prepay any Indebtedness, except Indebtedness to Bank.

7.5 Encumbrances. Create, incur, assume or suffer to exist any Lien with respect to any of its property, or assign or otherwise convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries so to do, except for Permitted Liens, or enter into any agreement with any Person other than Bank that prohibits or otherwise restricts Borrower from encumbering any of its property other than restrictions in equipment leases or equipment financing documents on Liens on the specific equipment being leased or financed.

7.6 Distributions. Pay any dividends or make any other distribution or payment on account of or in redemption, retirement or purchase of any capital stock, except that Borrower may repurchase the stock of employees or former employees pursuant to stock repurchase agreements as long as an Event

of Default does not exist prior to such repurchase or would not exist after giving effect to such repurchase without the consent of Bank.

7.7 Investments. Directly or indirectly acquire or own, or make any Investment in or to any Person, or permit any of its Subsidiaries so to do, other than Permitted Investments.

7.8 Transactions with Affiliates. Except as set forth in the Schedule, directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower except for transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms that are no less favorable to Borrower than would be obtained in an arm's length transaction with a non-affiliated Person.

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7.9 Subordinated Debt. Make any payment in respect of any Subordinated Debt, or permit any of its Subsidiaries to make any such payment, except in compliance with the terms of such Subordinated Debt, or amend any provision contained in any documentation relating to the Subordinated Debt without Bank's prior written consent.

7.10 Inventory and Equipment. Store the Eligible Inventory with a bailee, warehouseman, or similar party (for the avoidance of doubt, such "similar party" shall not include a landlord) unless Bank has received a pledge of the warehouse receipt covering such Inventory. Except for Inventory sold in the ordinary course of business and except for such other locations as Borrower may determine is reasonably necessary for the conduct of its business, Borrower shall keep the Eligible Inventory only at the location set forth in Section 10 hereof, the locations set forth in the Schedule and such other locations of which Borrower give Bank prior notice.

7.11 Compliance. Become an "investment company" or be controlled by an "investment company," within the meaning of the Investment Company Act of 1940, or become principally engaged in, or undertake as one of its important activities, the business of extending credit for the purpose of purchasing or carrying margin stock, or use the proceeds of any Credit Extension for such purpose, or fail to meet the minimum funding requirements of ERISA, permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur, fail to comply in any material respect with the Federal Fair Labor Standards Act or violate any law or regulation, which violation is reasonably likely to have a Material Adverse Effect, or a material adverse effect on the Collateral or the priority of Bank's Lien on the Collateral, or permit any of its Subsidiaries to do any of the foregoing.

8. EVENTS OF DEFAULT.

Any one or more of the following events shall constitute an Event of Default by Borrower under this Agreement:

8.1 Payment Default. If Borrower fails to pay any of the Obligations when due;

8.2 Covenant Default.

(a) If Borrower fails to perform any obligation under Article 6 or violates any of the covenants contained in Article 7 of this

Agreement; or

(b) If Borrower fails or neglects to perform or observe any other material term, provision, condition, covenant contained in this Agreement, in any of the Loan Documents, or in any other present or future agreement between Borrower and Bank and as to any default under such other term, provision, condition or covenant that can be cured, has failed to cure such default within 10 days after Borrower receives notice thereof or any officer of Borrower becomes aware thereof; provided, however, that if the default cannot by its nature be cured within the 10 day period or cannot after diligent attempts by Borrower be cured within such 10 day period, and such default is likely to be cured within a reasonable time, then Borrower shall have an additional reasonable period (which shall not in any case exceed 30 days) to attempt to cure such default, and within such reasonable time period the failure to have cured such default shall not be deemed an Event of Default but no Credit Extensions will be made;

8.3 Material Adverse Change. If there occurs any circumstance that could have a Material Adverse Effect.

8.4 Attachment. If any material portion of a Borrower's assets is attached, seized, subjected to a writ or distress warrant, or is levied upon, or comes into the possession of any trustee, receiver or person acting in a similar capacity and such attachment, seizure, writ or distress warrant or levy has not been removed, discharged or rescinded within thirty (30) days or in any event not less than five (5) Business Days prior to the date of any proposed sale thereunder, or if a Borrower is enjoined, restrained, or in any way prevented by court order from continuing to conduct all or any material part of its business affairs, or if a material judgment or other claim becomes a lien or encumbrance upon any material portion of a Borrower's assets, or if a notice of lien, levy, or

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assessment is filed of record with respect to any of a Borrower's assets by the United States Government, or any department, agency, or instrumentality thereof, or by any state, county, municipal, or governmental agency, and the same is not paid within thirty (30) days after a Borrower receives notice thereof, provided that none of the foregoing shall constitute an Event of Default where such action or event is stayed or an adequate bond has been posted pending a good faith contest by such Borrower (provided that no Credit Extensions will be required to be made during such cure period);

8.5 Insolvency. If Borrower becomes insolvent, or if an Insolvency Proceeding is commenced by Borrower, or if an Insolvency Proceeding is commenced against Borrower and is not dismissed or stayed within 30 days (provided that no Credit Extensions will be made prior to the dismissal of such Insolvency Proceeding);

8.6 Other Agreements. If there is a default or other failure to perform in any agreement to which Borrower is a party with a third party or parties resulting in a right by such third party or parties, whether or not exercised, to accelerate the maturity of any Indebtedness in an amount in excess of \$100,000 or that would reasonably be expected to have a Material Adverse Effect;

8.7 Global Technology, Inc. If there is a default or other failure to perform by Global Technology, Inc. with respect to its credit facility and/or loan agreement with Bank's affiliated lender in China.

8.8 Subordinated Debt. If Borrower makes any payment on account of Subordinated Debt, except to the extent the payment is allowed under any subordination agreement entered into with Bank;

8.9 Judgments. If a judgment or judgments for the payment of money in an amount, individually or in the aggregate, of at least \$100,000 shall be rendered against Borrower and shall remain unsatisfied and unstayed for a period of 30 days (provided that no Credit Extensions will be made prior to the satisfaction or stay of the judgment);

8.10 Misrepresentations. If any material misrepresentation or material misstatement exists now or hereafter in any warranty or representation set forth herein or in any certificate delivered to Bank by any Responsible Officer pursuant to this Agreement or to induce Bank to enter into this Agreement or any other Loan Document;

9. BANK'S RIGHTS AND REMEDIES.

9.1 Rights and Remedies. Upon the occurrence and during the continuance of an Event of Default, Bank may, at its election, without notice of its election and without demand, do any one or more of the following, all of which are authorized by Borrower:

(a) Declare all Obligations, whether evidenced by this Agreement, by any of the other Loan Documents, or otherwise, immediately due and payable (provided that upon the occurrence of an Event of Default described in Section 8.5 (insolvency), all Obligations shall become immediately due and payable without any action by Bank);

(b) Cease advancing money or extending credit to or for the benefit of Borrower under this Agreement or under any other agreement between a Borrower and Bank;

(c) Require that Borrower (i) deposit cash with Bank in an amount equal to the amount of any letters of credit remaining undrawn, as collateral security for the repayment of any future drawings under such letter of credit, and Borrower shall forthwith deposit and pay such amounts, and (ii) pay in advance all letters of credit fees scheduled to be paid or payable over the remaining term of the letters of credit;

(d) Settle or adjust disputes and claims directly with account debtors for amounts, subject to a notice sent to the Borrower, upon terms and in whatever order that Bank reasonably considers advisable;

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(e) Make such payments and do such acts as Bank considers necessary or reasonable to protect its security interest in the Collateral. Borrower agrees to assemble the Collateral if Bank so requires, and to make the Collateral available to Bank as Bank may designate. Borrower authorizes Bank to enter the premises where the Collateral is located, to take and maintain possession of the Collateral, or any part of it, and to pay, purchase, contest, or compromise any encumbrance, charge, or lien which in Bank's determination appears to be prior or superior to its security interest and to pay all expenses incurred in connection therewith. With respect to any of Borrower's owned premises, Borrower hereby grants Bank a license to enter into possession of such premises and to occupy the same, without charge, in order to exercise any of Bank's rights or remedies provided herein, at law, in equity, or otherwise;

(f) Set off and apply to the Obligations any and all (i) balances and deposits of Borrower held by Bank, and (ii) indebtedness at any time owing to or for the credit or the account of Borrower held by Bank;

(g) Ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell (in the manner provided for herein) the Collateral. Bank is hereby granted a license or other right, solely pursuant to the provisions of this Section 9.1, to use, without charge, Borrower's labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks, service marks, and advertising matter, or any property of a similar nature, as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and, in connection with Bank's exercise of its rights under this Section 9.1, Borrower's rights under all licenses and all franchise agreements shall inure to Bank's benefit;

(h) Dispose of the Collateral at either a public or private sale, or both, by way of one or more contracts or transactions, for cash or on terms, in such manner and at such places (including Borrower's premises) as Bank determines is commercially reasonable, and apply any proceeds to the Obligations in whatever manner or order Bank deems appropriate. Bank may sell the Collateral without giving any warranties as to the Collateral;

(i) Bank may credit bid and purchase at any public sale;

(j) Apply for the appointment of a receiver, trustee, liquidator or conservator of the Collateral, without notice and without regard to the adequacy of the security for the Obligations and without regard to the solvency of Borrower, any guarantor or any other Person liable for any of the Obligations; and

(k) Any deficiency that exists after disposition of the Collateral as provided above will be paid immediately by Borrower.

Bank may comply with any applicable state or federal law requirements in connection with a disposition of the Collateral and compliance will not be considered adversely to affect the commercial reasonableness of any sale of the Collateral.

9.2 Power of Attorney. Effective only upon the occurrence and during the continuance of an Event of Default, Borrower hereby irrevocably appoints Bank (and any of Bank's designated officers, or employees) as Borrower's true and lawful attorney to: (a) send requests for verification of Accounts or notify account debtors of Bank's security interest in the Accounts; (b) endorse Borrower's name on any checks or other forms of payment or security that may come into Bank's possession; (c) sign Borrower's name on any invoice or bill of lading relating to any Account, drafts against account debtors, schedules and assignments of Accounts, verifications of Accounts, and notices to account debtors; (d) dispose of any Collateral; (e) make, settle, and adjust all claims under and decisions with respect to Borrower's policies of insurance; (f) settle and adjust disputes and claims respecting the accounts directly with account debtors, for amounts and upon terms which Bank determines to be reasonable; (g) enter into a short-form intellectual property security agreement consistent with the terms of this Agreement for recording purposes only or modify, in its sole discretion, any intellectual property security agreement entered into between Borrower and Bank without first obtaining Borrower's approval or of signature to such modification by amending Exhibits A, B, and C thereof, as appropriate, to include reference to any right, title or interest in any Copyrights, Patents or Trademarks acquired by Borrower after the execution hereof or to delete any reference to any right, title or interest in any Copyrights, Patents or Trademarks in which Borrower no longer has or

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claims to have any right, title or interest; and (h) file, in its sole discretion, one or more financing or continuation statements and amendments thereto, relative to any of the Collateral without the signature of Borrower where permitted by law; provided Bank may exercise such power of attorney to sign the name of Borrower on any of the documents described in clauses (g) and (h) above, regardless of whether an Event of Default has occurred. The appointment of Bank as Borrower's attorney in fact, and each and every one of Bank's rights and powers, being coupled with an interest, is irrevocable until all of the Obligations have been fully repaid and performed and Bank's obligation to provide advances hereunder is terminated.

9.3 Accounts Collection. After the occurrence of an Event of Default that continues, Bank may notify any Person owing funds to Borrower of Bank's security interest in such funds and verify the amount of such Account. Borrower shall collect all amounts owing to Borrower, receive in trust all payments as Bank's trustee, and immediately deliver such payments to Bank in their original form as received from the account debtor, with proper endorsements for deposit.

9.4 Right of Set-off. Subject to Section 2, in addition to any rights now or hereafter granted under applicable law or otherwise, and not by way of limitation of any such rights, upon the occurrence and during the continuation of an Event of Default, Bank is authorized at any time or from time to time, without presentment, demand, protest or other notice of any kind to Borrower or to any other Person, any such notice being hereby expressly waived, to set off and to appropriate and apply any and all deposits (general or special) and any other Indebtedness at any time held or owing by Bank (including, without limitation, by branches and agencies of Bank wherever located) to or for the credit or the account of Borrower against and on account of the Obligations and liabilities of Borrower to Bank under this Agreement or under any of the other Loan Documents, and all other claims of any nature or description arising out of or connected with this Agreement or any other Loan Document, irrespective of whether or not Bank shall have made any demand hereunder and although said Obligations, liabilities or claims, or any of them, shall be contingent or unmatured.

9.5 Bank Expenses. If Borrower fails to pay any amounts or furnish any required proof of payment due to third persons or entities, as required under the terms of this Agreement, then Bank may do any or all of the following after reasonable notice to Borrower: (a) make payment of the same or any part thereof; (b) set up such reserves under the Revolving Line or EXIM Line as Bank deems necessary to protect Bank from the exposure created by such failure; or (c) obtain and maintain insurance policies of the type discussed in Section 6.8 of this Agreement, and take any action with respect to such policies as Bank deems prudent. Any amounts so paid or deposited by Bank shall constitute Bank Expenses, shall be immediately due and payable, and shall bear interest at the then applicable rate hereinabove provided, and shall be secured by the Collateral. Any payments made by Bank shall not constitute an agreement by Bank to make similar payments in the future or a waiver by Bank of any Event of Default under this Agreement. After the occurrence of an Event of Default which continues, Borrower shall reimburse Bank, upon demand, for all costs and expenses, including reasonable attorney's fees, incurred in connection with any of the Loan Documents.

9.6 Bank's Liability for Collateral. So long as Bank (i) complies with reasonable banking practices, (ii) is not grossly negligent, or (iii) does not engage in willful misconduct with respect to the Collateral, Bank shall not in any way or manner be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage thereto occurring or arising in any manner or fashion from any cause; (c) any diminution in the value thereof; or (d) any act or default of any carrier, warehouseman, bailee, forwarding agency, or other person whomsoever. All risk of loss, damage or destruction of the Collateral not consented to by Bank shall be borne by Borrower. Any surplus remaining after payment in full of the Obligations from the proceeds of the liquidation of any of the Collateral, shall be paid to Borrower as provided by law.

9.7 Shares. Borrower recognizes that Bank may be unable to effect a public sale of any or all the Shares, by reason of certain prohibitions contained in federal securities laws and applicable state securities laws or otherwise, and may be compelled to resort to one or more private sales thereof to a restricted group of purchasers which will be obliged to agree, among other things, to acquire such securities for their own account for investment and not with a view to the distribution or resale thereof. Borrower acknowledges and agrees that any such private sale may result in prices and other terms less favorable than if such sale were a public sale and, notwithstanding such circumstances, agrees that any such private sale shall be deemed to have been made in a commercially reasonable manner. Bank shall be under no obligation to delay a sale of any of the Shares for the

period of time necessary to permit the issuer thereof to register such securities for public sale under federal securities laws or under applicable state securities laws, even if such issuer would agree to do so. Upon the occurrence of an Event of Default which continues, Bank shall have the right to exercise all such rights as a secured party under the California Uniform Commercial Code as it, in its sole judgment, shall deem necessary or appropriate, including without limitation the right to liquidate the Shares and apply the proceeds thereof to reduce the Obligations. Effective only upon the occurrence and during the continuance of an Event of Default, Borrower hereby irrevocably appoints Bank (and any of Bank's designated officers, or employees) as Borrower's true and lawful attorney to enforce Borrower's rights against any Subsidiary, including the right to compel any Subsidiary to make payments or distributions owing to Borrower.

9.8 Remedies Cumulative. Bank's rights and remedies under this Agreement, the Loan Documents, and all other agreements shall be cumulative. Bank shall have all other rights and remedies not inconsistent herewith as provided under the Code, by law, or in equity. No exercise by Bank of one right or remedy shall be deemed an election, and no waiver by Bank of any Event of Default on Borrower's part shall be deemed a continuing waiver. No delay by Bank shall constitute a waiver, election, or acquiescence by it. No waiver by Bank shall be effective unless made in a written document signed on behalf of Bank and then shall be effective only in the specific instance and for the specific purpose for which it was given. Borrower expressly agrees that this Section 9.7 may not be waived or modified by Bank by course of performance, conduct, estoppel or otherwise.

9.9 Demand; Protest. Borrower waives demand, protest, notice of protest, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees at any time held by Bank on which Borrower may in any way be liable.

10. NOTICES.

Unless otherwise provided in this Agreement, all notices or demands by any party relating to this Agreement or any other agreement entered into in connection herewith shall be in writing and (except for financial statements and other informational documents which may be sent by first-class mail, postage prepaid) shall be personally delivered or sent by a recognized overnight delivery service, certified mail, postage prepaid, return receipt requested, or by telefacsimile to Borrower or to Bank, as the case may be, at its addresses set forth below:

If to Borrower:

APPLIED OPTOELECTRONICS, INC.
13115 Jess Pirtle Blvd.
Sugar Land, TX 77478

Attn: Thompson Lin
Attn: N. Stephan Kinsella
FAX: (281) 295-1889

If to Bank:

UNITED COMMERCIAL BANK
United Commercial Bank
555 Montgomery Street, 4th Floor
San Francisco, CA 94111

Attn: Technology Banking Group #288
Phone : (408) 496-5406
Fax: (408) 748-1268

Additional Contact Person: Yu-Fu Lin
FAX: (408) 748-1268

The parties hereto may change the address at which they are to receive notices hereunder, by notice in writing in the foregoing manner given to the other.

11. JURY TRIAL WAIVER, JUDICIAL REFERENCE.

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This Agreement shall be governed by, and construed in accordance with, the internal laws of the State of California, without regard to principles of conflicts of law. Each of Borrower and Bank hereby submits to the exclusive jurisdiction of the state and Federal courts located in the County of Santa Clara, State of California. BORROWER AND BY ITS ACCEPTANCE OF THE BENEFITS HEREOF, BANK AGREES TO WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREIN. The scope of this waiver is intended to be all-encompassing of any and all disputes that may be filed in any court and that relate to the subject matter of this transaction, including without limitation contract claims, tort claims, breach of duty claims and all other common law and statutory claims. Borrower and, by its acceptance of the benefits hereof, Bank each (i) acknowledges that this waiver is a material inducement for Borrower and Bank to enter into a business relationship, that Borrower and Bank have already relied on this waiver in entering into this Agreement or accepting the benefits thereof, as the case may be, and that each will continue to rely on this waiver in their related future dealings, and (ii) further warrants and represents that each has reviewed this waiver with its legal counsel, and that each knowingly and voluntarily waives its jury trial rights following consultation with legal counsel. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT. In the event of litigation, this Agreement may be filed as a written consent to a trial by the court. IF THIS JURY TRIAL WAIVER IS NOT ENFORCEABLE THE PARTIES HERETO WILL RESOLVE ALL CLAIMS, DISPUTES AND OTHER MATTERS BY JUDICIAL REFERENCE UNDER CODE OF CIVIL PROCEDURE SECTION 638 ET SEQ. BEFORE A MUTUALLY ACCEPTABLE REFEREE OR, IF NONE, BY A REFEREE APPOINTED BY THE PRESIDING JUDGE OF THE CALIFORNIA SUPERIOR COURT FOR SANTA CLARA COUNTY.

12. GENERAL PROVISIONS.

12.1 Successors and Assigns. This Agreement shall bind and inure to the benefit of the respective successors and permitted assigns of each of the parties and shall bind all persons who become bound as a debtor to this Agreement; provided, however, that neither this Agreement nor any rights hereunder may be assigned by Borrower without Bank's prior written consent, which consent may be granted or withheld in Bank's sole discretion. Bank shall have the right without the consent of or notice to Borrower to sell, transfer, negotiate, or grant participation in all or any part of, or any interest in, Bank's obligations, rights and benefits hereunder.

12.2 Indemnification. Borrower shall defend, indemnify and hold harmless Bank and its officers, employees, and agents against: (a) all obligations, demands, claims, and liabilities claimed or asserted by any other party in connection with the transactions contemplated by this Agreement; and (b) all losses or Bank Expenses in any way suffered, incurred, or paid by Bank, its officers, employees and agents as a result of or in any way arising out of, following, or consequential to transactions between Bank and Borrower whether under this Agreement, or otherwise (including without limitation reasonable attorneys fees and expenses), except for losses caused by Bank's gross negligence or willful misconduct.

12.3 Time of Essence. Time is of the essence for the performance of all obligations set forth in this Agreement.

12.4 Severability of Provisions. Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

12.5 Restatement; Amendments in Writing, Integration. This Agreement amends and restates, without novation, the terms under which Bank will advance credit to Borrower and Borrower will repay Bank. All security agreements and financing statements previously executed or filed continue to perfect the security interest of Bank in Borrower's property. All amendments to or terminations of this Agreement or the other Loan Documents must be in writing. All prior agreements, understandings, representations, warranties, and negotiations between the parties hereto with respect to the subject matter of this Agreement and the other Loan Documents, if any, are merged into this Agreement and the Loan Documents.

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12.6 Counterparts. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement.

12.7 Survival. All covenants, representations and warranties made in this Agreement shall continue in full force and effect so long as any Obligations remain outstanding or Bank has any obligation to make any Credit Extension to Borrower. The obligations of Borrower to indemnify Bank with respect to the expenses, damages, losses, costs and liabilities described in Section 12.2 shall survive until all applicable statute of limitations periods with respect to actions that may be brought against Bank have run.

12.8 Confidentiality. In handling any confidential information, Bank and all employees and agents of Bank shall exercise the same degree of care that Bank exercises with respect to its own proprietary information of the same types to maintain the confidentiality of any non-public information thereby received or received pursuant to this Agreement except that disclosure of such information may be made (i) to the subsidiaries or Affiliates of Bank in connection with their present or prospective business relations with Borrower, (ii) to prospective transferees or purchasers of any interest in the Loans, provided that they have entered into a comparable confidentiality agreement in favor of Borrower and have delivered a copy to Borrower, (iii) as required by law, regulations, rule or order, subpoena, judicial order or similar order, (iv) as may be required in connection with the examination, audit or similar investigation of Bank and (v) as Bank may determine in connection with the enforcement of any remedies hereunder. Confidential information hereunder shall not include information that either: (a) is in the public domain or in the knowledge or possession of Bank when disclosed to Bank, or becomes part of the public domain after disclosure to Bank through no fault of Bank; or (b) is disclosed to Bank by a third party, provided Bank does not have actual knowledge that such third party is prohibited from disclosing such information.

12.9 Borrower Agreement. The terms of the Borrower Agreement shall control in the event of any conflict between the terms of this Agreement and the Borrower Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first above written.

APPLIED OPTOELECTRONICS, INC.

By: /s/ Lin, Chih-Hsiang

Title: President/CEO

UNITED COMMERCIAL BANK

By: /s/ Yu-Fu Lin

Title: FVP and Manager

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DEBTOR: APPLIED OPTOELECTRONICS, INC.

SECURED PARTY: UNITED COMMERCIAL BANK

EXHIBIT A

COLLATERAL DESCRIPTION ATTACHMENT TO LOAN AND SECURITY AGREEMENT

The Collateral shall consist of all right, title and interest of Borrower in and to the property of Borrower, whether presently existing or hereafter created or acquired, and wherever located, including, but not limited to:

(a) all accounts (including health-care-insurance receivables), chattel paper (including tangible and electronic chattel paper), deposit accounts, documents (including negotiable documents), equipment (including all accessions and additions thereto), general intangibles (including payment intangibles and software), goods (including fixtures), instruments (including promissory notes), inventory (including all goods held for sale or lease or to be furnished under a contract of service, and including returns and repossessions), investment property (including securities and securities entitlements), letter of credit rights, money, and all of Debtor's books and records with respect to any of the foregoing, and the computers and equipment containing said books and records;

(b) all common law and statutory copyrights and copyright registrations, applications for registration, now existing or hereafter arising, in the United States of America or in any foreign jurisdiction, obtained or to be obtained on or in connection with any of the foregoing, or any parts thereof or any underlying or component elements of any of the foregoing, together with the right to copyright and all rights to renew or extend such copyrights and the right (but not the obligation) of Secured Party to sue in its own name and/or in the name of the Debtor for past, present and future infringements of copyright;

(c) all trademarks, service marks, trade names and service names and the goodwill associated therewith, together with the right to trademark and all rights to renew or extend such trademarks and the right (but not the obligation) of Secured Party to sue in its own name and/or in the name of the Debtor for past, present and future infringements of trademark;

(d) all (i) patents and patent applications filed in the United States Patent and Trademark Office or any similar office of any foreign jurisdiction, and interests under patent license agreements, including, without limitation, the inventions and improvements described and claimed therein, (ii) licenses pertaining to any patent whether Debtor is licensor or licensee, (iii) income, royalties, damages, payments, accounts and accounts receivable now or hereafter due and/or payable under and with respect thereto, including, without limitation, damages and payments for past, present or future infringements thereof, (iv) right (but not the obligation) to sue in the name of Debtor and/or in the name of Secured Party for past, present and future infringements thereof, (v) rights corresponding thereto throughout the world in all jurisdictions in which such patents have been issued or applied for, and (vi) reissues, divisions, continuations, renewals, extensions and continuations-in-part with respect to any of the foregoing; and

(e) any and all cash proceeds and/or noncash proceeds of any of the foregoing, including, without limitation, insurance proceeds, and all supporting obligations and the security therefor or for any right to payment. All terms above have the meanings given to them in the California Uniform Commercial Code, as amended or supplemented from time to time.

EXHIBIT B-1

WORKING CAPITAL FACILITY NOTE

\$8,000,000

September , 2007
Santa Clara, California

FOR VALUE RECEIVED, the undersigned, Applied Optoelectronics, Inc. (the "**Borrower**"), **HEREBY PROMISES TO PAY** to the order of United Commercial Bank (the "**Bank**") at its Principal Office located at 5201 Great American Parkway, Suite 300, Santa Clara, CA 95054, or at such other place as Bank may from time to time designate in writing, in lawful money of the United States and in immediately available funds, the principal amount of **EIGHT MILLION DOLLARS** (\$8,000,000) or so much of the Advances (as defined in the Loan Agreement (defined below)) as may be advanced from time to time, together with interest from the date of disbursement computed on the principal balances hereof from time to time outstanding as set forth in the Loan and Security Agreement dated as of the date hereof by and between Bank and Borrower (the "**Loan Agreement**"). The Loan Agreement is incorporated herein by this reference in its entirety. Capitalized terms used but not otherwise defined herein are used in this Working Capital Facility Note as defined in the Loan Agreement.

This Working Capital Facility Note is entitled to the benefits of, the Loan Agreement. The Loan Agreement, among other things, contains provisions for acceleration of the maturity of this Working Capital Facility Note upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity of this Working Capital Facility Note upon the terms and conditions specified in the Loan Agreement. This Working Capital Facility Note is also secured by the Collateral described in the Loan Agreement, and reference to the Loan Agreement is hereby made for a description of the rights of Borrower and Bank in respect to such Collateral.

Borrower further promises to pay interest on the unpaid principal amount hereof outstanding from time to time from the date hereof until payment in full hereof at the rate (or rates) from time to time applicable to the Advances as determined in accordance with the Loan Agreement. Interest shall be calculated on the basis of a three hundred sixty (360) day year for the actual days elapsed.

Borrower waives demand, presentment and protest, and notice of demand, presentment, protest and nonpayment. Except as otherwise provided in the Loan Agreement or other Loan Documents, Borrower waives all rights to notice and hearing of any kind upon the occurrence of an Event of Default prior to the exercise by Bank of its rights to repossess the Collateral without judicial process or to replevy, attach or levy upon the Collateral without notice or hearing.

If this Working Capital Facility Note is not paid when due, whether at its specified or accelerated maturity date, Borrower promises to pay all costs of collection and enforcement of this Working Capital Facility Note, including, but not limited to, reasonable attorneys' fees and costs, incurred by Bank hereof on account of such collection or enforcement, whether or not suit is filed hereon.

This Working Capital Facility Note shall be governed and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Working Capital Facility Note as of the date and year first above written.

APPLIED OPTOELECTRONICS, INC.

By: _____

Title: _____

EXHIBIT B-2

EQUIPMENT ADVANCE NOTE

\$4,500,000

September , 2007
Santa Clara, California

FOR VALUE RECEIVED, the undersigned, Applied Optoelectronics, Inc. (the "**Borrower**"), **HEREBY PROMISES TO PAY** to the order of United Commercial Bank (the "**Bank**") at its Principal Office located at 5201 Great American Parkway, Suite 300, Santa Clara, CA 95054, or at such other place as Bank may from time to time designate in writing, in lawful money of the United States and in immediately available funds, the principal amount of **FOUR MILLION FIVE HUNDRED THOUSAND DOLLARS** (\$4,500,000) or so much of the Equipment Advances (as defined in the Loan Agreement (defined below)) as may be advanced from time to time, together with interest from the date of disbursement computed on the principal balances hereof from time to time outstanding as set forth in the Loan and Security Agreement dated as of the date hereof by and between Bank and Borrower (the "**Loan Agreement**"). The Loan Agreement is incorporated herein by this reference in its entirety. Capitalized terms used but not otherwise defined herein are used in this Equipment Advance Note as defined in the Loan Agreement.

This Equipment Advance Note (the "**Equipment Advance Note**") is entitled to the benefits of, the Loan Agreement. The Loan Agreement, among other things, contains provisions for acceleration of the maturity of this Equipment Advance Note upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity of this Equipment Advance Note upon the terms and conditions specified in the Loan Agreement. This Equipment Advance Note is also secured by the Collateral described in the Loan Agreement, and reference to the Loan Agreement is hereby made for a description of the rights of Borrower and Bank in respect to such Collateral.

Borrower further promises to pay interest on the unpaid principal amount hereof outstanding from time to time from the date hereof until payment in full hereof at the rate (or rates) from time to time applicable to the Equipment Advances as determined in accordance with the Loan Agreement. Interest shall be calculated on the basis of a three hundred sixty (360)-day year for the actual days elapsed.

Borrower waives demand, presentment and protest, and notice of demand, presentment, protest and nonpayment. Except as otherwise provided in the Loan Agreement or other Loan Documents, Borrower waives all rights to notice and hearing of any kind upon the occurrence of an Event of Default prior to the exercise by Bank of its rights to repossess the Collateral without judicial process or to replevy, attach or levy upon the Collateral without notice or hearing.

If this Equipment Advance Note is not paid when due, whether at its specified or accelerated maturity date, Borrower promises to pay all costs of collection and enforcement of this Equipment Advance Note, including, but not limited to, reasonable attorneys' fees and costs, incurred by Bank hereof on account of such collection or enforcement, whether or not suit is filed hereon.

This Equipment Advance Note shall be governed and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Equipment Advance Note as of the date and year first above written.

APPLIED OPTOELECTRONICS, INC.

By: _____

Title: _____

EXHIBIT B-3

REAL ESTATE ADVANCE NOTE

\$3,756,031

September , 2007
Santa Clara, California

FOR VALUE RECEIVED, the undersigned, Applied Optoelectronics, Inc. (the "**Borrower**"), **HEREBY PROMISES TO PAY** to the order of United Commercial Bank (the "**Bank**") at its Principal Office located at 5201 Great American Parkway, Suite 300, Santa Clara, CA 95054, or at such other place as Bank may from time to time designate in writing, in lawful money of the United States and in immediately available funds, the principal amount of **THREE MILLION SEVEN HUNDRED FIFTY SIX THOUSAND THIRTY ONE DOLLARS** (\$3,756,031) or so much of the Real Estate Advance (as defined in the Loan Agreement (defined below)) as may be advanced from time to time, together with interest from the date of disbursement computed on the principal balances hereof from time to time outstanding as set forth in the Loan and Security Agreement dated as of the date hereof by and between Bank and Borrower (the "**Loan Agreement**"). The Loan Agreement is incorporated herein by this reference in its entirety. Capitalized terms used but not otherwise defined herein are used in this Equipment Advance Note as defined in the Loan Agreement.

This Real Estate Advance Note (the "**Real Estate Advance Note**") is entitled to the benefits of, the Loan Agreement. The Loan Agreement, among other things, contains provisions for acceleration of the maturity of this Real Estate Advance Note upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity of this Real Estate Advance Note upon the terms and conditions specified in the Loan Agreement. This Real Estate Advance Note is also secured by the Collateral described in the Loan Agreement, and reference to the Loan Agreement is hereby made for a description of the rights of Borrower and Bank in respect to such Collateral.

Borrower further promises to pay interest on the unpaid principal amount hereof outstanding from time to time from the date hereof until payment in full hereof at the rate (or rates) from time to time applicable to the Real Estate Advances as determined in accordance with the Loan Agreement. Interest shall be calculated on the basis of a three hundred sixty (360)-day year for the actual days elapsed.

Borrower waives demand, presentment and protest, and notice of demand, presentment, protest and nonpayment. Except as otherwise provided in the Loan Agreement or other Loan Documents, Borrower waives all rights to notice and hearing of any kind upon the occurrence of an Event of Default prior to the exercise by Bank of its rights to repossess the Collateral without judicial process or to replevy, attach or levy upon the Collateral without notice or hearing.

If this Real Estate Advance Note is not paid when due, whether at its specified or accelerated maturity date, Borrower promises to pay all costs of collection and enforcement of this Real Estate Advance Note, including, but not limited to, reasonable attorneys' fees and costs, incurred by Bank hereof on account of such collection or enforcement, whether or not suit is filed hereon.

This Real Estate Advance Note shall be governed and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Real Estate Advance Note as of the date and year first above written.

APPLIED OPTOELECTRONICS, INC.

By: _____

Title: _____

EXHIBIT B-4

EXIM LINE PROMISSORY NOTE

\$5,000,000

February , 2008
Santa Clara, California

FOR VALUE RECEIVED, the undersigned, **APPLIED OPTOELECTRONICS, INC.** (the "**Borrower**"), **HEREBY PROMISES TO PAY** to the order of United Commercial Bank (the "**Bank**") at its Principal Office located at 5201 Great American Parkway, Suite 300, Santa Clara, CA 95054, or at such other place as Bank may from time to time designate in writing, in lawful money of the United States and in immediately available funds, the principal amount of five million dollars (\$5,000,000) or so much of the EXIM Advances (as defined in the Loan Agreement (defined below)) as may be advanced from time to time, together with interest from the date of disbursement computed on the principal balances hereof from time to time outstanding as set forth in the Loan and Security

Agreement dated the date hereof by and between Bank and Borrower (the "Loan Agreement"). The Loan Agreement is incorporated herein by this reference in its entirety. Capitalized terms used but not otherwise defined herein are used in this EXIM Line Promissory Note as defined in the Loan Agreement.

This EXIM Line Promissory Note is entitled to the benefits of, the Loan Agreement. The Loan Agreement, among other things, contains provisions for acceleration of the maturity of this EXIM Line Promissory Note upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity of this EXIM Line Promissory Note upon the terms and conditions specified in the Loan Agreement. This EXIM Line Promissory Note is also secured by the Collateral described in the Loan Agreement, and reference to the Loan Agreement is hereby made for a description of the rights of Borrower and Bank in respect to such Collateral.

Borrower further promises to pay interest on the unpaid principal amount hereof outstanding from time to time from the date hereof until payment in full hereof at the rate (or rates) from time to time applicable to the EXIM Advances as determined in accordance with the Loan Agreement. Interest shall be calculated on the basis of a three hundred sixty (360)-day year for the actual days elapsed.

Borrower waives demand, presentment and protest, and notice of demand, presentment, protest and nonpayment. Except as otherwise provided in the Loan Agreement or other Loan Documents, Borrower waives all rights to notice and hearing of any kind upon the occurrence of an Event of Default prior to the exercise by Bank of its rights to repossess the Collateral without judicial process or to replevy, attach or levy upon the Collateral without notice or hearing.

If this EXIM Line Promissory Note is not paid when due, whether at its specified or accelerated maturity date, Borrower promises to pay all costs of collection and enforcement of this EXIM Line Promissory Note, including, but not limited to, reasonable attorneys' fees and costs, incurred by Bank hereof on account of such collection or enforcement, whether or not suit is filed hereon.

This EXIM Line Promissory Note shall be governed and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the undersigned has executed and delivered this EXIM Line Promissory Note as of the date and year first above written.

APPLIED OPTOELECTRONICS, INC.

By: _____

Title: _____

EXHIBIT C

LOAN ADVANCE/PAYDOWN REQUEST FORM

TO: United Commercial Bank
FAX #: (408) 748-1268

DATE:

TIME:

FROM: APPLIED OPTOELECTRONICS, INC.

TELEPHONE REQUEST (For Bank Use Only):

Authorized Signer's Name

The following person is authorized to request the loan payment transfer/loan advance on the designated account and is known to me.

Authorized Signature (Borrower)

Authorized Request & Phone #

PHONE #: _____

Received by (Bank) & Phone #

FROM ACCOUNT#:
(please include Note number, if applicable)

TO ACCOUNT #:
(please include Note number, if applicable)

Authorized Signature (Bank)

REQUESTED TRANSACTION TYPE

REQUESTED DOLLAR AMOUNT

For Bank Use Only

PRINCIPAL INCREASE* (ADVANCE)

\$

Date Rec'd:

PRINCIPAL PAYMENT (ONLY)

\$

Time:

Comp. Status:

YES

NO

OTHER INSTRUCTIONS:

Status Date:

Time:

Approval:

All representations and warranties of Borrower stated in the Loan Agreement are true, correct and complete in all material respects as of the date of the telephone request for an advance confirmed by this Borrowing Certificate, including without limitation the representation that Borrower has paid for and owns the equipment financed by the Bank; provided, however, that those representations and warranties expressly referring to another date shall be true, correct and complete in all material respects as of such date.

*IS THERE A WIRE REQUEST TIED TO THIS LOAN ADVANCE? (PLEASE CIRCLE ONE)

YES

NO

If YES, the Outgoing Wire Transfer Instructions must be completed below.

OUTGOING WIRE TRANSFER INSTRUCTIONS

Fed Reference Number

Bank Transfer Number

The items marked with an asterisk (*) are required to be completed.

*Beneficiary Name
 *Beneficiary Account Number
 *Beneficiary Address
 Currency Type
 *ABA Routing Number (9 Digits)
 *Receiving Institution Name
 *Receiving Institution Address
 *Wire Account

US DOLLARS ONLY

\$

EXHIBIT D-1

DOMESTIC BORROWING BASE CERTIFICATE

East West Bank - Asset Based Lending
Borrowing Base Certificate - Domestic ABL

The undersigned certifies to East West Bank that:
 The following accounts are true and correct as of

A. Accounts Receivable

1. Previous Accounts Receivable Ending Balance			
2. Plus: New sales as posted through:		\$	—
3. Plus: Other additions (debit adjustments, etc)		\$	—
4. Total Additions: (line 2 + line 3):			\$ —
5. Less: Collections as posted through		\$	—
6. Less: Credit memo, discounts, credit adjustments, etc		\$	—
7. Total Deductions: (Line 5 + Line 6)			\$ —
8. Accounts Receivable as of:			\$ —
9. Less: Ineligible Accounts Receivable			
Over 90 Days from invoice date			
Cross-Aging > 50%	\$	—	
Credit Memos > 90 Days from invoice date	\$	—	
Affiliate/Inter-Company/Employee	\$	—	
Foreign Receivables	\$	—	
Concentration > 25%	\$	—	
Concentration > 40% -Cisco			
C. O. D., etc.	\$	—	
Contra Accounts	\$	—	
Government	\$	—	
Total Ineligible Accounts Receivable		\$	—
10. Eligible Receivables		\$	—
11. Times Rate of Advance (% of Line 10)		80%	\$ —
12. Accounts Receivable Borrowing Base (not to exceed)	\$	3,500,000	\$ —

B. Inventory

13. Gross Inventories as of			
14. Less: Ineligible Inventory			
Work in Progress	\$	—	
Supplies	\$	—	
Packaging Materials	\$	—	
Allowance/Provision for Obsolete Inventory			
Total Ineligible Inventory		\$	—
15. Eligible Inventory		\$	—
16. Times Rate of Advance (% of Line 15) with 50% of Total Base		30%	\$ —
17. Inventory cap	\$	1,000,000	
18. Inventory Borrowing Base with 50% of Total Base (not to exceed line 17)			\$ —

C. Equipment

19. Orderly Liquidation Value as of			
20. Times Rate of Advance (% of Line 19)		50%	\$ —
21. Equipment cap	\$	1,550,000	
22. Equipment Borrowing Base (not to exceed line 22)			\$ —
23. Total Eligible AR, Inventory & Equipment (\$3,500,000 or Line 12 plus Line 18, whichever is less)			\$ —
24. East West Bank Obligations			
Clean Advances /Revolving Working Capital			
25. Total East West Bank Obligations as of:			\$ —
26. Net Availability (Line 23 - Line 25)			\$ —

(Note: if Negative — Repayment Required)

The above listed collateral is subject to a security interest in favor of East West Bank pursuant to the terms of the Loan Agreement[s] executed between the Bank and the undersigned. Borrower represents and warrants that inventory listed above is owned by Borrower free and clear of any and all liens and encumbrances other than said security interest in favor of East West Bank. The undersigned hereby warrants and represents to Bank that the Borrower is in full compliance with the Terms and Conditions of the Agreement, and related documents, that the collateral is bona fide and accurate, and certifies that the foregoing and any attachments to this report are true and correct.

Applied Optoelectronics, Inc.

 (Signature) (Date)

 (Title)

EXHIBIT D-2

EXIM BORROWING BASE CERTIFICATE

**Export-Import Bank of the United States
 Working Capital Guarantee Program — Optional Form of Borrowing Base Certificate (Rev. 11/05)**

Borrower: Applied Optoelectronics, Inc

Ex-Im Bank Guarantee No.:

Covers Period From:

To:

<u>Line:</u>		<u>For Borrowing Base Certificates "as of" month-end:</u>
1	Beginning Gross A/R (Line 5, previous Certificate)	
2	Add: Export sales since last Certificate	5(a) Total Ending A/R this Borrowing Base, Line 5:
3	Less: - Payments Received	5(b) Total A/R per General Ledger:
4	- Credit Memos/other adjustments	Gen. Ledger Date:
5	Ending Gross A/R (carry to Line 1, next Certificate)	5(c) Total A/R per Accounts Receivable Aging:
	Less A/R Exclusions from Borrowing Base, per most recent A/R aging:	A/R Aging Date:
6	- Ineligible Retainages	Attach reconciliation of differences between Lines 5(a), 5(b), and 5(c).
7	- Past Due —>	—> Over 60 days past due, OR over 90 days past due if insured.
8	- Other, Drop Shipment	
9	Eligible RETAINAGE A/R —>	—> EX-IM BANK APPROVAL IS REQUIRED!
10	@ Advance Rate	
11	Eligible A/R (NON-RETAINAGE)	
12	@ Advance Rate	
13	Eligible Export-Related Overseas A/R —>	—> EX-IM BANK APPROVAL IS REQUIRED!
14	@ Advance Rate	* OPTIONAL - OR use month-end figures throughout the month (without reporting intra-month activity)
15	Beginning Inventory (Line 18 of previous Certificate)	
* 16	Add: "Ins" since last Certificate	** PROVIDE BREAKDOWN OF LINE 18: (Total should equal Line 18)
* 17	Less: "Outs" since last Certificate	
** 18	Ending Inventory (carry to Line 15 of next Certificate)	Raw Materials: 0
19	Less Inventory Exclusions from Borrowing Base (if any)	Work In Process: 0
20	Eligible Inventory	Finished Goods: 0
21	@ Advance Rate	Total Inventory: 0
22	Eligible Export-Related Overseas Inventory —>	—> EX-IM BANK APPROVAL IS REQUIRED!
23	@ Advance Rate	
*** 24	Cash or Cash Equivalents (if any) @ 100% =	0
25	Other Collateral (if any) - Describe: Amount:	0.00
26	Advance Rate for Collateral on Line 25:	0.00% Loanable Value: 0

TOTAL LOANABLE COLLATERAL
 Reserves for Letters of Credit
 Less: (L/Cs)

27	- Non-Warranty L/Cs (from Line D below)	0.00	@ 25% =	0	*** Warranty Letters of Credit MUST be at least 100% collateralized, OF WHICH at least 25% MUST consist of cash and/or cash equivalents.
*** 28	- Warranty L/Cs (from Line G below)	0.00	@ 100% =	0	
29	LOANABLE COLLATERAL AVAILABLE TO SUPPORT DISBURSEMENTS		=	—	

<u>Line:</u>		<u>Line:</u>		<u>(Yes/No)</u>	If the answers to M, N, O, and P are all "Yes", it is anticipated that the Borrowing Base parameters will be acceptable for the Lender to make a Disbursement and/or issue a Letter of Credit.
A	Authorized Ex-Im Bank Maximum Amount	0.00	M	Is Line H greater than or equal to Line L?	Yes
	<u>Less Set-aside for Letters of Credit (L/Cs) (both Standby and Commercial L/Cs):</u>		N	Is Line 29 greater than or equal to Line L?	Yes
B	- NON-Warranty Letters of Credit: ...previously issued (Line D from previous Certificate)	0.00	O	Does Borrowing Base comply with maximum 60% Inventory Reliance (MGA, Section 4.06)? (See Sample Borr. Base Calc., Appenix B to Manual, for examples.)	
C	...to be issued per this request	0.00		Do all Eligible A/R & Inv comply with Country Limitation Schedule?	
D	Total NON-Warranty L/Cs (carry to Line B, next Cert.)	0.00	P		
E	- WARRANTY Letters of Credit: ...previously issued (Line G from previous Certificate)	0.00			
F	...to be issued per this request	0.00			
G	Total Warranty L/Cs (carry to Line E, next Certificate)	0.00			
	Total Letters of Credit (Lines D + G) PORTION OF MAXIMUM AMOUNT	0.00			
H	(Line A) AVAILABLE FOR DISBURSEMENTS	0.00			
I	Beginning Loan Balance (Line L, previous Certificate)			By: (Sign)	
J	Less: Principal Payments Received	0.00		(Print)	
K	Add: Disbursement(s) Requested	0.00		Title:	
L	Ending Loan Balance (carry to Line I, next Certificate)	0.00		Date:	
		0.00			

CERTIFICATION OF BORROWER:

**EXHIBIT E
COMPLIANCE CERTIFICATE**



Borrower:	Applied Optoelectronic, Inc. 13115 Jess Pirtle Blvd., Sugar Land, TX 77478	Lender:	Technology & Commercial Banking Group 2305 Mission College Blvd, #988 Santa Clara, CA 95054
Loan Number:	A) 87813118 / B) 87811520 C) 87812755 / D) 87812756	Account Officer:	Lisa Chang
Commitment:	A) \$3,500,000 EXIM RLOC B) \$3,500,000 RLOC C) \$2,137,000 Equipment Loan D) \$3,537,000 CRE	Underwriter:	Lisa Chang

The undersigned is authorized Officer of **Applied Optoelectronic, Inc** hereby certifies that in accordance with the terms and conditions of the Loan & Security Agreement dated **September 6, 2007**, Amendment to Loan and Security Agreement dated **February 20, 2008**, Amendment to Loan and Security Agreement dated **March 31, 2009**, Amendment to Loan and Security Agreement dated **April 1, 2009**, Amended and Restated Loan and Security Agreement dated **June 30, 2009**, the Borrower is in complete compliance for the period ended _____ of all required terms and conditions except as noted below. Attached herewith are the required documents supporting the above certification. The Officer further certifies that these are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and are consistent from one period to the next except as explained in an accompanying letter of footnotes.

Please indicate compliance status by circling Met/Not Met under "Complies" column.

REPORTING COVENANTS	REQUIRED	COMPLIANCE
Annual CPA Audited Financial Statements	w/in 150 days from FYE (12/31)	MET/NOT MET
Monthly Co. prepared Financial Statements	w/in 20 days from Monthly end	MET/NOT MET
Monthly Compliance Certificate	w/in 20 days from Monthly end	MET/NOT MET
Monthly A/R aging, A/P reports and Inventory list	w/in 20 days from Monthly end	MET/NOT MET
Monthly Borrowing Base Certificate	w/in 20 days from Monthly end	MET/NOT MET
Monthly EXIM Borrowing Base Certificate	w/in 20 days from Monthly end	MET/NOT MET
Monthly Foreign A/R Aging, AP Aging and Inventory list	w/in 20 days from Monthly end	MET/NOT MET

FINANCIAL COVENANTS	REQUIRED	ACTUAL	COMPLIES
Minimum Monthly Current Ratio:	1.20:1.00	:1.00	MET/NOT MET

(Note: if the loan (or line of credit) borrowed by Global Technology, Inc. in China by pledging the real estate collateral has a term of 1 year or shorter, only 1/3 of the loan shall be counted as current liability.)

Minimum Quarterly EBITDASO:			
(a) 04/01/09 to 06/30/09	\$	(600,000)	MET/NOT MET
(b) 07/01/09 to 09/30/09	\$	500,000	MET/NOT MET
(c) 09/30/09 to 12/31/09	\$	1,000,000	MET/NOT MET
(d) Each of Q1 after 12/31/09	\$	300,000	MET/NOT MET
(e) Each of Q2, Q3 and Q4 after 12/31/09	\$	1,000,000	MET/NOT MET

EBITDASO: Earning Before Interest, Tax, Depreciation, Amortization and Stock Option Expense

Maximum Monthly Debt/Tangible Net Worth ("TNW")	1.20:1.00 until 6-30-10)	:1.00	MET/NOT MET
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OTHERS:

Comments regarding exceptions:

Very truly yours,

By:
Name: Chih-Hsiang Lin (aka Thompson Lin)
Title: CEO & Chairman

**NINTH AMENDMENT
TO
AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT**

This Ninth Amendment to Amended and Restated Loan and Security Agreement is entered into as of April 11th, 2013 (the "Amendment"), by and between APPLIED OPTOELECTRONICS, INC. ("Borrower") and EAST WEST BANK ("Bank").

RECITALS

Borrower and Bank are parties to that certain Amended and Restated Loan and Security Agreement dated as of May 20, 2009 and as amended from time to time including that certain First Amendment to Amended and Restated Loan and Security Agreement dated as of May 3rd, 2010, that certain Second Amendment to Amended and Restated Loan and Security Agreement dated as of October 28th, 2010, that certain Third Amendment to Amended and Restated Loan and Security Agreement dated as of December 6th, 2010, that certain Fourth Amendment to Amended and Restated Loan and Security Agreement dated as of May 5th, 2011, that certain letter dated September 30, 2011, that certain Fifth Amendment to Amended and Restated Loan and Security Agreement dated as of November 30th, 2011, that certain Sixth Amendment to Amended and Restated Loan and Security Agreement dated as of March 29th, 2012, that certain Seventh Amendment to Amended and Restated Loan and Security Agreement dated as of June 29, 2012, that certain Eighth Amendment to Amended and Restated Loan and Security Agreement dated as of November 2nd, 2012 and that certain Assignment, Assumption and Amendment Agreement (this "Agreement") dated as of March 25, 2013 (collectively, the "Agreement"). The parties desire to amend the Agreement in accordance with the terms of this Amendment.

AGREEMENT

NOW, THEREFORE, the parties agree as follows:

1. Bank consents to the incurrence of an aggregate of Indebtedness, without limitation as to amount, by Global Technology, Inc. (the "GTI Debt"), a wholly owned subsidiary of Prime World International Holdings, Ltd. (which is a wholly owned subsidiary of Borrower), provided that (i) Borrower is not a co-borrower or guarantor to the GTI Debt, or in any way obligated or liable with respect to the GTI Debt, (ii) none of Borrower's assets shall be pledged or used to secure the GTI Debt, and (iii) Borrower shall not make any Investment into Global Technology, Inc. in support of the GTI Debt.
2. The following defined terms set forth in Section 1.1 of the Agreement are amended and restated in their entirety to read as follows:
 - "EXIM Maturity Date" means November 15, 2014.
 - "Real Estate Maturity Date" means November 15, 2014.
 - "Revolving Line Maturity Date" means November 15, 2014.
 - "Revolving Line II Maturity Date" means November 15, 2014.
3. Notwithstanding anything to the contrary in Section 2.1(g), the Cash Secured Advance, and all accrued interest, shall be due and payable on May 5, 2013. Once repaid, Cash Secured Advances may not be reborrowed.
4. Section 2.3(a) of the Agreement is amended in its entirety to read as follows:
 - (a) Interest Rates.
 - (i) Except as set forth in Section 2.3(b), (A) the outstanding principal balance of each Revolving Advance, Equipment Advance, EXIM Advance and Line II

Advance shall bear interest at a variable rate per annum equal to the Prime Rate plus 1.25%, provided however, that at no time shall the interest rate applied to any such Credit Extension be less than 4.5% per annum; (B) on and after Bank's receipt of evidence, in form and substance satisfactory to Bank, that Borrower's EBITDA is not less than (\$263,000) for quarter ended March 31, 2013 (the "Q1 Milestone"), the outstanding principal balance of each Revolving Advance, Equipment Advance, EXIM Advance and Line II Advance shall bear interest at a variable rate per annum equal to the Prime Rate plus 1.125%, provided however, that at no time shall the interest rate applied to any such Credit Extension be less than 4.375% per annum; and (C) on and after Borrower's achievement of the Q1 Milestone and Borrower's initial underwritten public offering that results in at least \$20,000,000 in cash proceeds to Borrower, the outstanding principal balance of each Revolving Advance, Equipment Advance, EXIM Advance and Line II Advance shall bear interest at a variable rate per annum equal to the Prime Rate plus 1.0%, provided however, that at no time shall the interest rate applied to any such Credit Extension be less than 4.25% per annum.

(ii) Except as set forth in Section 2.3(b), the outstanding principal balance of each Real Estate Advance, shall bear interest at a variable rate per annum equal to the Prime Rate plus 0.90%, provided however, that at no time shall the interest rate applied to any Real Estate Advance be less than 5.375% per annum (the "Floor Rate") unless Borrower has entered into an interest rate swap contract in form and substance satisfactory to Bank, upon which time the Floor Rate shall not apply. Notwithstanding the foregoing, on and after Borrower's initial underwritten public offering that results in at least \$20,000,000 in cash proceeds to Borrower, the outstanding principal balance of the Real Estate Advance shall bear interest at a variable rate per annum equal to the Prime Rate plus 0.75%, provided however, that at no time shall the interest rate applied to any Real Estate Advance be less than 4.0% per annum.

(iii) Except as set forth in Section 2.3(b), the outstanding principal balance of each Cash Secured Advance shall bear interest at a variable rate per annum equal to the Prime Rate minus 2.0%.

(iv) Interest shall be computed daily on the basis of a 360 day year and actual days elapsed.

5. Unless otherwise defined, all initially capitalized terms in this Amendment shall be as defined in the Agreement. The Agreement, as amended hereby, shall be and remains in full force and effect in accordance with its terms and hereby is ratified and confirmed in all respects. Except as expressly set forth herein, the execution, delivery, and performance of this Amendment shall not operate as a waiver of, or as an amendment of, any right, power, or remedy of Bank under the Agreement, as in effect prior to the date hereof. Borrower ratifies and reaffirms the continuing effectiveness of all instruments, documents and agreements entered into in connection with the Agreement.

6. Borrower represents and warrants that the representations and warranties contained in the Agreement are true and correct as of the date of this Amendment, and that no Event of Default has occurred and is continuing.

7. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument.

8. As a condition to the effectiveness of this Amendment, Bank shall have received, in form and substance satisfactory to Bank, the following:

- (a) this Amendment, duly executed by Borrower;
- (b) Amendment to Warrant;

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- (c) payment an amendment fee of \$15,095, plus any fees required by EXIM, plus all Bank Expenses incurred through the date of this Amendment;
 - (d) such other documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate.
- and

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the first date above written.

APPLIED OPTOELECTRONICS, INC.

By: /s/ Chih-Hsiang (Thompson) Lin

Title: CEO

EAST WEST BANK

By: /s/ Lisa Chang

Title: Vice President

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Contract No.: 1230 ·

between

GLOBAL TECHNOLOGY INC.

as Borrower

and

CHINA CONSTRUCTION BANK - NINGBO YINZHOU BRANCH

as Lender

RMB WORKING CAPITAL LOAN AGREEMENT

This **RMB Loan Agreement** (the “**Contract**”) is entered into in order for the company’s daily operation expense [, including material purchase payment and employee’s salary], by and between:

GLOBAL TECHNOLOGY INC., located at NO. 88, QIUSHI RD, WANGCHUN INDUSTRIAL PART, NINGBO, CHINA, P.C.315176 with CHIH-HSIANG LIN as its legal representative and its fax number 88133820 and its telephone number 574-88133818 as borrower (“**Party A**”); and

CHINA CONSTRUCTION BANK - NINGBO YINZHOU BRANCH, located at TAIKANG ZHONG RD S. COMMERCIAL AREA 2ND FL, GUOHUA INT’L BLDG NO. 500, 315040 with · as its principal officer and its fax number being 87370029 and its telephone number being 87374267, as lender (“**Party B**”).

WHEREAS

- (1) Party A wishes to apply to Party B for a loan, and Party B agrees to extend to Party A such loan.
- (2) NOW THEREFORE upon consultation in accordance with applicable laws and regulations, both parties hereto agree as follows:

1. LOAN AMOUNT

The amount of the loan that Party B provides to Party A hereunder shall be RMB [see **Schedule A**] (the “**Loan**”).

2. PURPOSE OF THE LOAN AND SOURCES OF FUNDS FOR REPAYMENT

Party A shall utilize the loan for the purpose of the routine production operation.

The information relating to specific purposes of such loan under the Contract and sources of funds for repayment shall be determined in Schedule 1 “**Loan Information**”.

3. TERM OF THE LOAN

The term of the Loan shall be 12 months, commencing from [see **Schedule A**] and expiring on [see **Schedule A**] (the “**Term**”).

Where the above commencement date is inconsistent with the date set forth on the loan-to deposit certificate (the “**LDC**” or “**Loan Receipt**”, the date set forth on the LDC for the first advance of the Loan shall be the commencement date of the Term and the expiry date of the Term shall be adjusted accordingly. The LDC shall constitute an integral part of the Contract and have the equal legal force as the Contract.

4. INTEREST RATE ON THE LOAN, DEFAULT INTEREST RATE, INTEREST CALCULATION AND SETTLEMENT

4.1 Interest Rate on the Loan (the “**Loan Rate**”)

The Loan Rate hereunder shall be an annual rate set forth in item (2) below:

- (1) a fixed interest rate of % which shall remain the same during the Term;
- (2) [See **Schedule A**] on the date when interest commences to accrue (the “**Interest Commencement Date**”). Such interest rate shall remain the same during the Term; or
- (3) a floating interest rate equal to (100% a floating percentage of %) (the “**Floating Percentage**”) of the Base Rate (as defined below) on the date when interest commences to accrue (the “**Interest Commencement Date**”). The Loan Rate shall, during the period between the Interest Commencement Date and the date when all the principal amount and interest accrued thereon under the Contract have been fully repaid, be

Commencement Date in the month when such interest is adjusted. If there is no such a date corresponding to the Interest Commencement Date in such month, the adjustment date for the interest rate shall be the last day of such month.

4.2 Default Interest Rate

- (1) If Party A does not use the Loan hereunder for purposes set forth herein (“**Misappropriation**”), the default interest rate on such Loan shall be (100% plus 100%) of the Loan Rate. If the Loan Rate is adjusted according to Article 4.1 (3) above, the default interest rate shall be adjusted in accordance with the adjusted Loan Rate and the upward floating percentage set out in this Article 4.2 (1).
- (2) The default interest rate on overdue Loan shall be (100% plus 50 %) of the Loan Rate. If the Loan Rate is adjusted according to Article 4.1 (3) above, such default interest rate shall be adjusted in accordance with the adjusted Loan Rate and the upward floating percentage set out in this Article 4.2 (2).
- (3) If Misappropriation and overdue payment occur concurrently, the default interest shall be calculated and compounded in accordance with the higher of the two default interest rates provided for in Articles 4.2(1) and 4.2(2) herein.

4.3 The Interest Commencement Date provided in this Article 4 refers to the date on which the proceeds of the first advance have been deposited into the loan disbursement account designated in Article 6 (the “**Loan Disbursement Account**”).

For the first advance of the Loan, the Base Rate refers to the lending interest rate quoted by the People’s Bank of China (the “**PBOC**”) on the Interest Commencement Date for loans with the same tenor and within the same category. If the lending interest rate on other advances of the Loan is adjusted in accordance with Article 4.1 (3), the Base Rate refers to the lending interest rate quoted by the PBOC on the interest rate adjustment date for loans with the same tenor and within the same category. If the PBOC no longer publishes such lending interest rate, the Base Rate shall mean, unless agreed otherwise between the parties, the lending interest rate with the same tenor and within the same category generally accepted by the banking industry on the interest rate adjustment date or an interest rate commonly used for a loan with the same tenor and within the same category.

4.4 The interest on the Loan shall commence to accrue as of the date when such Loan proceeds have been deposited into the Loan Disbursement Account designated by Party A. Interest on the Loan shall be computed daily with the daily interest rate equal to 1/360 of the annual interest rate. If Party A can not pay interest on the interest settlement date as provided herein, the interest shall be compounded as of the date immediately following the applicable interest settlement date.

4.5 Interest Settlement

- (1) For a loan subject to a fixed interest rate, the interest accrued thereon shall be calculated in accordance with the agreed fixed interest rate. For a loan subject to a floating interest rate, the interest accrued thereon shall be calculated in accordance with the interest rate determined for each interest rate floating period. If the interest rate has been adjusted more

than once during a single interest settlement period, the interest during each interest rate floating period shall be calculated first and the total interest accrued during such interest settlement period shall be the aggregate amount of all the interest accrued during each interest rate floating period within such interest settlement period.

- (2) The interest accrued on the Loan hereunder shall be settled in accordance with (i) of the following:
 - (i) on a monthly basis and the interest settlement date shall be the 20th day of each month;
 - (ii) on a quarterly basis and the interest settlement date shall be the 20th day of the last month of the relevant quarter;
 - (iii) other method: _____

5. ADVANCE AND DRAWDOWN

5.1 Conditions Precedent to Advance

Unless Party B waives all or part of the following conditions, Party B shall be obligated to advance any amount of the Loan only if all the following conditions continuously remain satisfied:

- (1) Party A has completed all the approval, registration, delivery, insurance and other statutory procedures in relation to the Loan hereunder;
- (2) the security has become and remains effective, if a security is established for the Contract;
- (3) Party A has opened the bank accounts for drawdown and debt service purposes as Party B requests;
- (4) Party A has not triggered any event of default hereunder;
- (5) no event has occurred that may adversely impact Party B’s rights as a creditor;
- (6) the advance to be made by Party B is not prohibited or restricted by any laws, regulations, rules or competent authorities; and

- (7) the financial indicators of Party A shall, at all time, continue to meet the requirements specified in Schedule 2 Terms relating to Mandatory Financial Indicators;
- (8) Party A has submitted such materials as required in this Contract before any loan drawdown;
- (9) the materials submitted by Party A are legal, authenticated, complete, accurate, valid and be in accordance with other requirements of Party B;
- (10) Other conditions

5.2 Drawdown Schedule

“Drawdown” referred to in this Contract shall mean disbursements by Party B of the funds to the Loan Disbursement Account in accordance with Party A’s Application and this Contract.

The drawdown schedule hereunder shall be item [see Schedule A] of the following:

- (1) The drawdown schedule shall be as follows:

Drawdown Date (mm/dd/yyyy)	Amount
(i)	
(ii)	
(iii)	
(iv)	
(v)	
(vi)	

- (2) The drawdown schedule shall be as follows:

(i) from [	(mm/dd/yyyy)	]	to [	(mm/dd/yyyy)	],	Amount	;
(ii) from [	(mm/dd/yyyy)	]	to [	(mm/dd/yyyy)	],	Amount	;
(iii) from [	(mm/dd/yyyy)	]	to [	(mm/dd/yyyy)	],	Amount	;
(iv) from [	(mm/dd/yyyy)	]	to [	(mm/dd/yyyy)	],	Amount	;
(v) from [	(mm/dd/yyyy)	]	to [	(mm/dd/yyyy)	],	Amount	;
(vi) from [	(mm/dd/yyyy)	]	to [	(mm/dd/yyyy)	],	Amount	;

- (3) from time to time, as required by Party A .

- (4)

5.3 Party A shall draw the Loan in accordance with the drawdown schedule under Article 5.2. Without Party B’s written consent, Party A shall not accelerate, postpone or cancel any drawdown of the Loan.

5.4 If Party A draws the Loan in installments, the expiration date of the Term shall be determined in accordance with Article 3 hereunder.

5.5 Materials required to be submitted by Party A

In respect of materials required to be submitted by Party A, the Parties agree that Item A applies [choose A or B]:

A.

Situation NO. 1

Where the situation described in Item (1) [choose (1) or (2)] arises:

- (1) the amount of any particular drawdown is more than RMB TEN million and the amount of any scheduled payment out of such drawdown is more than RMB TEN million;
- (2)

Party A shall submit to Party B the following materials no later than ONE working days before the date of such drawdown:

- (1) the LDC signed by Party A and payment/settlement certificate(s) signed by Party A;
- (2) materials related to the underlying transactions (including without limitation goods/services/monetary contracts and/or invoices and other documents in writing or electronic form that are capable of evidencing the particular purposes of the loan drawdown);

And other materials required by Party B (including without limitation business license, letter of authorization, articles of association, resolutions of Shareholders' meeting /Board of directors of Party A's counterparty).

Situation NO. 2

If Party B determines, after reviewing the aforementioned materials, that Party may initiate the payment in accordance with Article 5.7 of this Contract, or a situation other than Situation NO. 1 arises, Party A shall submit to Party B the

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following materials no later than ONE working days before the date of such drawdown:

- (1) The drawdown schedule corresponding to the proposed loan drawdown(The drawdown schedule being in the form of Schedule 3);
- (2) LDC signed by Party A;

And other materials required by Party B (including without limitation business license, letter of authorization, articles of association, resolutions of Shareholders' meeting/Board of directors of Party A 's counterparty).

B.

Party A shall submit to Party B the following materials no later than ONE working days before the date of such drawdown regardless of the amount of any particular drawdown:

- (1) the LDC signed by Party A and payment/settlement certificate (s) signed by Party A;
- (2) materials related to the underlying transactions (including without limitation goods/services/monetary contracts and/or invoices and other documents in writing or electronic form that are capable of evidencing the particular purposes of the loan drawdown);

And other materials required by Party B(including without limitation business license, letter of authorization, articles of association, resolutions of Shareholders' meeting/Board of directors of Party A 's counterparty).

5.6 Entrusted Payment through Party B

- (1) Situations where Entrusted Payment applies to Party B

If the situation described in (i) arises, , Entrusted Payment shall apply, i.e. Party A hereby irrevocably entrusts Party B to pay the amount of the drawdown to Party A's counterparty. Party A shall not pay such amount directly to such counterparty or any other third party.

- (i) the amount of any particular drawdown is more than RMB TEN million and the amount of any scheduled payment out of such drawdown is more than RMB TEN million, and Party B determines, after reviewing the materials submitted by Party A, that recipient of the payment is specific and identifiable;

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- (ii) Entrusted Payment applies regardless of the amount of any particular drawdown;

- (iii)

- (2) In the case of entrusted payment, Party B deposits the amount of the loan drawdown in the Loan Disbursement Account and pays such amount through Loan Disbursement Account to the account designated by Party A's counterparty. Party A shall not dispose of the loan drawdown in any way (including without limitation account transfer or withdrawal of cash).
- (3) Party B will make prima facie examination of the documents submitted by Party A regarding payment amount, time of payment, recipient of payment, means of payment, and related accounts Party B will pay the drawdown amount to Party A's counterparty if Party B determines at its discretion that it is satisfied with the abovementioned prima facie examination. The obligations of Party B relating to entrusted payment shall be extinguished once the drawdown amount is paid into the account of Party A's counterparty (the information of such account shall be provided by Party A). Party A shall check and verify the status of payment within one working day after the date of payment and shall notify Party B in case of failure of payment. Party A shall guarantee that there is consistence between documents/information regarding recipient of payment, utilization of the loan and materials related to underlying documents.
- (4) There is no warranty or representation by Party B in respect of the truthfulness or legality or compliance with regulations of the underlying transactions although Party B has made the above-mentioned prima facie examination of the payment documents. Nor shall Party B be implicated in any dispute between Party A and Party A's counterparty or any third party. Nor shall Party B be liable for any obligations or liabilities of Party A. Party A shall compensate Party B for any and all losses incurred by Party B resulting from Party B's activities relating to Entrusted Payment.
- (5) Where there is a failure or delay in payment of the drawdown amount to the account of Party A's counterparty and such failure or delay is caused by incompleteness, untruthfulness or inaccuracy of the documents submitted by Party A, or by violation of permitted utilization of loan or by information discrepancy or by other reasons but not by Party B's fault, the following applies:
 - (i) Party A shall be liable for all the consequences including without limitation all losses caused by the above mentioned failure or delay. Party B shall not be liable in any way and shall be compensated by Party A for any losses resulting therefrom;
 - (ii) Party A shall not dispose of any of such drawdown amount in anyway (including without limitation account transfer or withdrawal of cash);
 - (iii) Party A shall resubmit materials, make corrections and/or perform other activities as instructed by Party B within ONE working days;

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Party B may accelerate the maturity of such loan drawdown if Party A is in breach of any of the above provisions.

- (6) Party A shall be liable for any and all risks, liabilities and losses caused by any failure or error or delay in payment which does not result from Party B's fault. Party B shall not be liable in any way and shall be compensated by Party A for any losses resulting therefrom.

5.7 Payment on Party A's own initiative

Where situation other than that described in Article 5.6 (1) arises, Party A may initiate the payment at its own discretion. i.e. Party B may deposit the drawdown amount to the Loan Disbursement Account as instructed by Party A's application for loan drawdown, Party A may then pay such amount directly to the recipient. Party A shall guarantee the conformity between the recipient, utilization of loan and the underlying transaction documents.

- 5.8 The obligations of Party B to advance loans shall be extinguished once the loan amount is deposited into the Loan Disbursement Account regardless of entrusted payment or not. Party A shall ensure the Loan Disbursement Account remain in normal status (including without limitation not subject to freezing by competent authorities). Party A shall bear all risks, liabilities and losses including without limitation freezing and mandatory transfer by competent authorities. Party A shall compensate Party B for any losses resulting therefrom.

5.9 Change of means of payment

Party B is entitled to change the means of payment if any of the following circumstances arises, including without limitation re-determining the situations where Entrusted Payment applies, (e.g. changing the threshold amount for Entrusted Payment) and changing the means of payment in respect of any particular drawdown:

- (1) Any event of default by Party A arises;
- (2) There arises any event that may adversely impact Party B's rights as a creditor;
- (3) Other circumstances where Party B deems necessary to change the means of payment.

Where Party B changes the means of payment, Party A shall resubmit the materials or perform other activities as required by this Contract and Party B.

6. USE AND SUPERVISION OF ACCOUNTS

6.1 Loan Disbursement Account

The Loan Disbursement Account herein shall be determined in accordance with (2):

- (1) within working days from the date of coming into effect of

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this Contract and before the date of first drawdown, Party A shall open an account within Party B for the sole purpose of the disbursement and payment of all loan amount under this Contract.

- (2) other account opened by Party A within Party B (Account Number: _____).

6.2 Account to collect sale proceeds

- (1) within ONE working days from the date of coming into effect of this Contract, Party A shall open an account within Party B for the purpose of collecting sale proceeds or designate an existing account within Party B as such (Account Number: _____).
- (2) Party A shall, on a monthly basis (choose "monthly" or "quarterly"), submit a report to Party B on the incoming and outgoing amounts of such account. Party A shall submit such report for the immediately preceding month or quarter (as the case may be) within the first FIVE working days of each month or quarter.
- (3) Party B is entitled to manage the incoming and outgoing amounts of such account. In particular, such account shall be in compliance with (vi) (one or more of the following requirements may be selected):
- (i) average balances of such account:

 - (ii) time for incoming payment being deposited into such account:

 - (iii) percentage of the overall sale proceeds of Party A that are to be deposited into such account:

 - (iv) amount limit for any particular outgoing payment of such account:

 - (v) amount limit for daily outgoing payment (s) of such account:

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- (vi) restrictions on internet-banking functions of such account:

- (vii) no outgoing payment shall be made without Party B's prior consent;
- (viii) Such account shall be used only for the purposes of collecting sale proceeds and repaying the loan, and not for any other purpose;
- (ix)

- (x) other requirements by Party B;
- (xi) A separate Account Management Agreement signed by both Parties shall be complied with.

7. REPAYMENT

7.1 General Principles for Repayment

Party A shall repay the Loan in accordance with the following principles: Party B has the right to apply Party A's repayment first towards payment of any expense which shall be borne by Party A as provided hereunder but has been advanced by Party B and the expenses incurred by Party B for realizing its creditor's rights. Party B shall apply the balance of such repayment in the order of interest first and then principal adhering to the principle that the interest shall be fully repaid concurrently with the repayment in full of all the principal amounts.

For any advance of which the principal has become due but unpaid for more than ninety days, or any advance on which the interest has become due but unpaid for more than ninety days, or any advance otherwise provided by the laws, regulations or rules, Party B may first apply Party A's repayment towards those payments of expenses set out in the first paragraph of this article. Then Party B may apply the balance of such repayment towards payment in the order of principal first and then interest.

7.2 Payment of Interest

Party A shall pay due interest to Party B on the interest settlement date. The first interest payment date shall be the first interest settlement date after the release of an advance. All the interest and principal amounts outstanding shall be paid in full on the last repayment date.

7.3 Schedule for Repayment of the Principal

The repayment schedule hereunder shall be determined in accordance with item [see Schedule A] below:

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(1) The repayment schedule shall be as follows:

	Repayment Date(mm/dd/yyyy)	Amount
(i)		
(ii)		
(iii)		
(iv)		
(v)		
(vi)		

(2)

7.4 Repayment Method

Party A shall deposit sufficient amount into the Account to collect sale processor other account at Party B before the repayment date provided hereunder and transfer such amount to repay the Loan (Party B may also debit such amount from such account to repay the Loan), or transfer such amount from another bank account of Party A to repay the Loan.

7.5 Prepayment

Party A may prepay the principals in full or in part upon approval by Party B of a written application submitted to Party B THIRTY working days in advance.

The interest accrued on the principals to be prepaid shall be calculated on the basis of the actual number of days lapsed and the Loan Rate provided herein.

If Party B approves the prepayment by Party A, Party B shall have the right to charge Party A the compensation fee in an amount to be determined in accordance with the (1) of the following methods:

(1) compensation fee = amount of the principal prepaid \times number of months remaining until the scheduled repayment date(the “**Remaining Period**”) \times 1%; provided, however, that the part of the Remaining Period that falls short of a month shall be calculated as a full month; or

(2)

If Party A is required to repay the Loan in installments and prepays part of the principal, the prepaid amount shall be applied in the reverse order of the repayment schedule. After any partial prepayment, the outstanding Loan shall still be subject to the Loan Rate provided herein.

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8. PARTY A’S RIGHTS AND OBLIGATIONS

8.1 Party A’s Rights

Party A has the rights to:

- (1) request Party B to release each advance of the Loan as provided hereunder;
- (2) utilize the Loan for the purposes provided for hereunder;
- (3) apply to Party B for extension of the Term hereunder provided that it has satisfied all the conditions as Party B requests;
- (4) require Party B to keep confidential the relevant financial information and manufacturing and operating trade secrets furnished by Party A except provided otherwise by law, regulations and rules, or required otherwise by the competent authorities, or agreed otherwise between the both parties hereto;
- (5) reject Party B or its employees asking for bribe; it shall have the right to lodge complaint with the competent authority about such misconduct and any other act of Party B that may violate the laws and regulations relating to the lending interest rate and service charges.

8.2 Party A’s Obligations

- (1) Party A shall draw the Loan and repay the principal and interest in full as provided herein, and bear the expenses and fees as provided herein;
- (2) Party A shall provide its financial, accounting as well as manufacturing and operating information and other materials as the Party B may request, and among other things, on or before the TWENTY working day of the first month of each quarter, Party A shall provide to Party B with the balance sheet and the profit and loss statement (or the income and expenditure statement, if Party A is a public institution) up to the end of the preceding quarter, and shall provide the cash flow statement at the end of each year in a timely fashion. Party A shall be responsible for the legality, truthfulness, accuracy, completeness and validity of the information it provides, and shall not provide false information or conceal material facts with respect to its financial and operation status;
- (3) In case of any change in Party A's name, legal representative (or principal officer), registered address, business scope, registered capital, articles of association or any other registration with local industrial and commercial authority, or there arises any circumstances that may adversely affect Party A's capability to repay the indebtedness or may endanger Party B's rights as a creditor, Party A shall notify Party B in writing of the same with relevant documents together with such notification evidencing the changes within 3 working days thereafter;
- (4) Party A shall utilize the Loan in accordance with the purposes as provided herein, and shall not misappropriate the Loan or utilize the Loan to carry out any transactions in violation of the laws and regulations, nor for investments in fixed assets, or equity or other areas, nor for production or operations prohibited by the state, nor for repaying the indebtedness incurred as a result of Party A's investments

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in fixed assets or equity etc.; Party A shall cooperate with Party B in its inspection of Party A's manufacturing, operating and financial activities and utilization of the Loan herein, and shall be subject to the requirements of Party B relating to loan management; Party A shall not try to evade its repayment obligations owing to Party B by means of withdrawing capital it has injected, transferring assets or entering into related-party transactions. Further, Party A shall not attempt to obtain loans or credit facilities from Party B by using dummy contracts with its related parties or by pledging such rights as notes receivable or accounts receivable without actual underlying transactions or by applying to Party B for discounting the same; Party A shall be in compliance with the provisions relating to means of payment and shall not evade Entrusted Payment by way of dividing a larger-amount payment into payments in smaller amounts;

- (5) Party A shall comply with the regulations relating to environmental protection, if the Loan hereunder shall be utilized for manufacturing or project construction;
- (6) Without Party B's consent, Party A shall not mortgage or pledge any assets acquired by utilizing the Loan hereunder for the benefit of a third party before full repayment of the principals and interest accrued thereon;
- (7) If Party A qualifies as a group customer, it shall promptly report to Party B any related-party transactions involving more than 10% of Party A's net assets, including (i) the relationship among all the parties to such transaction; (ii) the transaction and its nature; (iii) the transaction amount or the relevant ratio; and (iv) pricing policy (also applicable to the transactions with no price or merely nominal price);
- (8) Party A shall not carry out merger, split-up, transfer of shares, outward investment, substantial increase of debt financing or other activities of importance without Party B's prior written consent. For the avoidance of doubt, such consent shall not impair Party B's rights to take remedial measures if Party B determines at a later time that such activities of Party A may endanger Party B's rights as a creditor;
- (9) In the case of payment at Party A's own initiative, Party A shall submit reports to Party B on the use and payment of loan amounts on a monthly basis. Party A shall submit such report for the immediately preceding month within the first TEN working days of each month, together with a list of actual uses of loan amounts, until the date of repayment of all the loan. Such report shall be in the form attached in Schedule 4.

9. PARTY B'S RIGHTS AND OBLIGATIONS

- 9.1 Party B is entitled to request Party A to repay the principal, interest accrued thereon and expenses when due, to manage and control the payment of loan amounts, to monitor on a real-time basis overall cash flows of Party A and to accelerate the maturity of the loan considering the status of collection of sale proceeds of Party A. Party B may exercise any other rights hereunder and demand Party A to perform any other obligations hereunder.
- 9.2 Party B is entitled to engage in Party A's large-amount financing (The total amount of such financing shall be more than RMB SEVENTY-FOUR MILLION or Foreign Exchange equivalent) , sale of assets, merger, split-up,

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stock-company restructuring, bankruptcy, liquidation and other activities for the purpose of protecting Party B's rights. The way(s) of engagement shall be (1) (multiple choices are allowed)

- (1) Party A shall seek Party B's prior written consent before carrying out any of the above activities;
- (2) Party B is entitled to arrange for Party A's large-amount financings;
- (3) the sale price and buyer of the assets shall be in compliance with the following:
- (4)

(5) other ways Party B deems fit.

- 9.3 Party B shall advance the Loan as provided herein unless the delay or failure in advancing the Loan is caused by any reason attributable to Party A or any other reason that can not be attributed to Party B.
- 9.4 Party B shall keep confidential the relevant financial documents and manufacturing and operating trade secrets furnished by Party A except otherwise provided by the laws, regulations and rules, or required by the competent authorities, or agreed between the parties hereto.
- 9.5 Party B shall not bribe Party A or its employees, nor request any bribe or accept any bribe offered by Party A.
- 9.6 Party B shall not engage in any activity which is dishonest or will be detrimental to Party A's lawful interests.

10. DEFAULT AND REMEDY

10.1 Events of Default by Party B and Liabilities

- (1) If Party B does not advance the Loan as provided herein without justifiable reason, Party A may request Party B to advance the Loan in accordance with the Contract.
- (2) If Party B charges any interest or fee which is prohibited by the laws or regulations, Party A may request Party B to refund the interest or fee charged.

10.2 Events of Default by Party A

The events of default by Party A shall include:

- (1) Party A breaches any statutory obligation or any contractual obligation hereunder; and

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- (2) Party A has repudiated its obligations hereunder expressly or by its conduct.

10.3 Events that may Adversely Impact Creditor's Rights

- (1) the occurrence of any of the following events upon Party A which Party B believes may adversely impact its creditor's rights:

contracting, trustee (receiver) being appointed, lease, shareholding restructuring, decrease of its registered capital, investment, joint operation, mergers and acquisitions, acquisition and restructuring, division, joint venture, shares transfer, substantial increase of debt financing, applying for (or subject to an application for) temporary cessation of operation or dissolution, revocation, applying for (or subject to an application for) bankruptcy, change of controlling shareholders/actual controllers, transfer of material assets, suspension of production or operation, significant penalty imposed by regulatory authorities, cancellation of registration, revocation of business license, involvement in material legal proceedings, severe deterioration in operation and financial condition, deterioration of credit standing, legal representative/principal officer being unable to perform their duties;

- (2) the occurrence of any of the following events which Party B believes may adversely impact its creditor's rights:

Party A fails to repay any other due debts, including such debts owed to any other branch or organization of China Construction Bank or to any other third party; Party A transfers assets at a low price or for free; Party A relieves or waives any debt of a third party; Party A fails to exercise its creditor's rights or any other rights; or Party A provides security for a third party; financial indicators of Party A fail to meet, on a continuous basis, the requirements specified in Schedule2; there are unusual fluctuations in any of Party A's accounts (including without limitation account to collect sale proceeds and other account subject to Party B's supervision); there are grave cross-defaults by Party A; profit-making capability of Party A's core business is undesirable; there is irregularity in the use of loan;

- (3) Party A's shareholder manipulates the independence status of Party A as a legal person or the limited liability status of the shareholder in order to evade debts, and Party B believes this manipulation may adversely impact its creditor's rights;

- (4) any of the conditions precedent to advance the Loan has not been satisfied continuously;

- (5) the occurrence of any of the following events upon the guarantor which Party B believes may adversely impact its creditor's rights:

(i) the guarantor breaches any provision of the guarantee contract, or any of the representations and warranties it has made proves to be false, wrong or incomplete;

(ii) contracting, trustee (receiver) being appointed, lease, shareholding restructuring, decrease of its registered capital, investment, joint operation, mergers and acquisitions, acquisition and restructuring, division, joint venture, shares transfer, substantial increase of debt

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financing, applying for (or subject to an application for) temporary cessation of operation or dissolution, revocation, applying for (or subject to an application for) bankruptcy, change of controlling shareholders/actual controllers, transfer of material assets, transfer of assets at a low price or for free, relieving or waiving any debt of a third party; failure to exercise its creditor's rights or any other rights, suspension of production or operation, significant penalty imposed by regulatory authorities, cancellation of registration, revocation of business license, involvement in

material legal proceedings, severe deterioration in operation and financial condition, deterioration of credit standing, legal representative/principal officer's inability to perform their duties, which may adversely impact its capability as a guarantor;

- (iii) other events in which the guarantor has lost or may lose its capability as guarantor.
- (6) the occurrence of any of the following events on the mortgage or pledge which Party B believes may adversely impact its creditor's rights:
 - (i) the mortgaged or pledged property is damaged, destroyed or its value is reduced as a result of a third-party's action, expropriation, confiscation, eminent domain or redevelopment and relocation by the government, market change, or any other reason;
 - (ii) the mortgaged or pledged property has been seized, impounded, frozen, mandatorily debited, put on lien, sold by auction, subject to administration order by a government authority, or a dispute over the ownership of the mortgaged or pledged property occurs;
 - (iii) the mortgagor or pledgor breaches any provision of the mortgage/pledge contract, or any of the representations and warranties it has made proves to be false, wrong or incomplete;
 - (iv) other events that may adversely impact Party B's ability to realize its mortgage or pledge.
- (7) the security is not effected, becomes ineffective, invalid, or is rescinded or terminated, or the security provider defaults or repudiates its obligations expressly or by conduct, or the security provider has lost its capability to perform its obligations as a security provider in whole or in part, or the value of the collateral is reduced, which Party B believes may adversely impact its creditor's rights; or
- (8) other events which Party B believes may adversely impact its creditor's rights.

10.4 Party B's Remedy

Upon occurrence of any event under Article 10.2 or 10.3, Party B may exercise one or more of the following rights:

- (1) to stop advancing the Loan;

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- (2) to request for more conditions precedent for loan advance and payment;
 - (3) to change the means of payment of loan in accordance with this Contract;
 - (4) to declare the Loan immediately due and payable, and request Party A to repay immediately all the due and undue principal, interest and fees;
 - (5) if Party A fails to make any drawdown in accordance with the Contract, Party B may hold Party A liable to pay a penalty equal to 0 % of the Loan proceeds not drawn and may reject Party A's request for drawing such Loan;
 - (6) if Party A utilizes any part of the Loan for any purpose other than as provided herein, interest on the misappropriated amount shall be calculated and compounded for the period from the date of the misappropriation to the date when all the principal and interest have been fully paid in accordance with the relevant default interest rate and the interest settlement method as provided herein;
 - (7) if any principal is overdue, the interest on such principal and on any overdue interest (including whole or part of the principal and interest which have been accelerated), shall be calculated and compounded for the period from the first date such principal becomes overdue to the date when all the principal and interest have been fully paid, in accordance with the relevant default interest rate and the interest settlement method as provided herein;

"Overdue" herein means that Party A fails to repay the Loan on the repayment date or, in case of repayment in installments, fails to repay the relevant installments in accordance with the repayment schedule as provided herein.

Before any principal is overdue, the overdue interest shall be compounded in accordance with the interest rate and the interest settlement method as provided herein;

- (8) other remedies, including but not limited to:
 - (i) to debit Party A's accounts at China Construction Bank in RMB or other currencies with corresponding amount without prior notice to Party A;
 - (ii) to exercise its rights under the security interest;
 - (iii) to request Party A to provide new security satisfactory to Party B for all the debts of Party A hereunder;
 - (iv) to decline Party A's request to dispose of its deposits of corresponding amount, within any account opened with any branch of China Construction Bank (including without limitation the account to collect sale proceeds);
 - (v) to terminate the Contract.

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11.1 Cost Allocation

- (1) all costs and expenses incurred as a result of Party A's breach of any provision in this Contract, including without limitation court fees, arbitration fees, property preservation fees, travel expenses, enforcement expenses, valuation/appraisal fees, auction fees, notary fees, service fees, public announcement costs, legal fees, shall be borne by Party A.
- (2) in respect of other fees the parties agree as follows:

11.2 Use of Party A's Information

Party A agrees that Party B is entitled to inquire about Party A's creditworthiness with the Credit Database or relevant authorities established or approved by the People's Bank of China and the Credit Reference Agency, and that Party B is entitled to provide Party A's information to such Credit Database. Party A further agrees that Party B may reasonably use and disclose Party A's information for business purpose.

11.3 Collection by Public Announcement

In the event that Party A fails to repay on time any principal or interest or breaches any other contractual obligations hereunder, Party B is entitled to report to relevant authorities and demand repayments by means of public announcement via press.

11.4 Party B's Record as Evidence

Unless there is reliable and definitive evidence to the contrary, Party B's internal records of principal, interest, expenses and repayment, receipts, vouchers made or retained by Party B during the course of drawdown, repayment and interest payment, and records and vouchers relating to the collections by Party B shall constitute valid evidence of the creditor-debtor relationship between the two parties. Party A shall not raise any objection merely because the above records, receipts, vouchers are made or retained by Party B.

11.5 No Waivers

Party B's rights hereunder shall not prejudice or exclude any other rights Party B is entitled to under applicable laws, regulations and other contracts. No forbearance, extension of time limit, preferential treatment or delay in exercising any right hereunder shall be deemed to constitute a waiver of rights and interests hereunder or permit or recognition of any breach of the Contract. Nor shall it restrict, prevent or interfere with the continuous exercise of such right at a later time or any other right, nor shall the foregoing cause Party B to be liable in any way to the Borrower.

- 11.6 If Party A owes Party B any other due and payable debts in addition to the debts hereunder, Party B may debit any of Party A's account at China Construction Bank in RMB or other currencies and may choose to repay any of the due and payable debts in the order it deems appropriate. Party A agrees not to raise any objection with respect thereto.

- 11.7 In the event of any change to the address or other contact information, Party A shall promptly notify Party B of such change in writing. Party A shall be liable for any loss caused by its failure of giving prompt notice of such change.

11.8 Direct Debit Right

Party B is entitled to debit, without prior notice to Party A, any account of Party A at China Construction Bank in RMB or other currencies to pay all amounts payable under the Contract. Party A shall assist Party B to complete any procedures for foreign exchange settlement or sale, and Party A shall bear the risk of exchange rate fluctuation.

11.9 Dispute Resolution

Any dispute arising from the performance of the Contract may be settled by consultation. If the dispute cannot be resolved through consultation, such dispute shall be submitted to (1) [please select from below]:

- (1) the People's court within the jurisdiction where Party B is located.
- (2) [name of the arbitration committee] for arbitration at [place of arbitration] in accordance with the then prevailing arbitration rules. The arbitration award shall be final and binding on both Party A and Party B.

The undisputed provisions shall remain enforceable during the process of litigation or arbitration.

11.10 Effectiveness of the Contract

The Contract shall become effective upon:

- (1) execution by the legal representative/(principal officer) or authorized representative of Party A and being affixed with the company chop of Party A; and
- (2) execution by the principal officer or authorized representative of Party B and being affixed with the company chop of Party B. All Schedules of this Contract shall constitute integral parts of this Contract and shall be equally binding.

- 11.11 The Contract shall be executed in _____ counterparts.

11.12 Other Provisions:

12. REPRESENTATIONS

- 12.1 Party A clearly understands the business scope and authorization limit of Party B.
- 12.2 Party A has read the Contract. Party B, at Party A's request, has explained the terms of the Contract, and Party A fully understands their meanings and corresponding legal consequences.
- 12.3 The execution and performance of the Contract by Party A is in compliance with laws, administrative regulations, rules and Party A's articles of association (or its other internal constitutional documents) and has been approved by its internal competent organization and/or the competent governmental authorities.
- 12.4 Party A carries out production and operation in compliance with laws and regulations.
- 12.5 Party A has the capability to keep its business going and has the legitimate sources to repay the loan.
- 12.6 Party A warrants that the loan amount requested under this Contract is no more than necessary to meet the real needs of Party A for the purposes specified herein.
- 12.7 Both Party A and its controlling shareholder have good financial standing and have no record of gross misconducts.
- 12.8 Party A agrees that Party B has the right to instruct other branches of China Construction Bank to advance loan under this Contract and to exercise or perform the rights and obligations hereunder.
- 12.9 Party A represents that, at the time of execution of this Contract, there exists no action or event that violates any applicable laws, regulations or rules in relation to environmental protection, energy saving and emission/pollution reduction (the "Environmental Laws"). Party A further warrants that it shall strictly comply with such Environmental Law after the execution of this Contract. If any of the above representations or warranties is untrue, or Party A defaults on any of the above undertakings, or there is any potential risk of energy dissipation or pollution by Party A, Party B is entitled to stop advancing loans, to declare an acceleration of the principal and interest not yet due hereunder, or adopt other remedial measures provided hereunder or permitted by laws.

Party A (Company Chop)

By the legal representative (principal officer) or authorized representative:

Signature: _____

Date:

Party B (Company Chop)

By the principal officer or authorized representative:

Signature: _____

Date:

Schedule 1**Loan Information****1. Specific purposes of the loan:**

This Loan is used for company's daily operation expense, including material purchase payment and employee's salary.

Party A shall not change the purpose of the loan without Party B's written consent.

2. Sources of funds for loan repayment :

Company's proceeds of sales.

Party A guarantees the truthfulness and legality of such sources of funds and the steadiness and adequacy of cash flows of such sources.

3. Miscellaneous

Schedule 2

Mandatory Financial Indicators

The Financial indicators of Party A shall on a continuous basis meet the following requirements:

Maximum Monthly Capital/Debt	65%
Minimum Current Ratio:	100%
Minimum liquidity Ratio:	60%
Maximum contingency liability/Capital	30%
Maximum accumulated long term investment/Capital	30%

Party B has the right to change unilaterally such requirements as to mandatory indicators provided that FIVE working-day advanced notice is issued to Party A.

Schedule 3

Schedule for Loan Drawdown

Contract Number
Date of Drawdown

No.	Proposed Purpose	Proposed Payment Amount	Proposed Recipient (if any)	Notes
1				
2				
...				
...				
Total		RMB (CAPITALIZE WORDS)		

Name of the Borrower (company seal):

Schedule 4

Consolidated report on payment at Party A's initiative

Contract Number
Date of Delivery

NO.	Actual purpose of the Loan	Recipient	Amount	Evidencing Materials	Whether or not in compliance with the purpose specified in this Contract
1					
2					
.....					
total			RMB (CAPITALIZE WORDS)		

Name of the Borrower_ (company seal):

Internal review

Relationship Manager (signature):

Officer in charge of reviewing loan advances and payments (signature):

Schedule A to Form of RMB Working Capital Loan Agreement

Loan Commencement Date	Loan Expiration Date	Loan Amount	Loan Rate	Drawdown Schedule	Schedule for Repayment
September 4, 2012	September 5, 2013	2,000,000 RMB	A fixed interest rate equal to 115% of the Base Rate (as defined in the Loan Agreement)	Option 3: From time to time, as required by Global Technology Inc.	Option 1 : On September 3, 2013 in the amount of 2,000,000 RMB
December 5, 2012	December 4, 2013	5,000,000 RMB	A fixed interest rate equal to 110% of the Base Rate	Option 1: On December 5, 2012 for 5,000,000 RMB	Option 1: On December 4, 2013 in the amount of 5,000,000 RMB
December 18, 2012	December 17, 2013	5,000,000 RMB	A fixed interest rate equal to 110% of the Base Rate	Option 1: On December 18, 2012 for 5,000,000 RMB	Option 1: On December 17, 2013 in the amo5,000,000 RMB
January 10, 2013	January 9, 2014	9,000,000 RMB	A fixed interest rate equal to 110% of the Base Rate	Option 1: On January 10, 2013 for 9,000,000 RMB	Option 1: On January 9, 2014 in the amount of 9,000,000 RMB
January 22, 2013	January 21, 2014	10,000,000 RMB	A fixed interest rate equal to 110% of the Base Rate	Option 1: On January 22, 2013 for TEN MILLION RMB	Option 1: On January 21, 2014 in the amount of 10,000,000 RMB
February 19, 2013	February 28, 2014	10,000,000 RMB	A fixed interest rate equal to 110% of the Base Rate (as defined in the Loan Agreement)	Option 1: On February 13, 2013 for TEN MILLION RMB	Option 1: On February 18, 2014 in the amount of 10,000,000 RMB
March 7, 2013	March 6, 2014	9,000,000 RMB	A fixed interest rate equal to 108% of the Base Rate	Option 1: On March 7, 2013 for 9,000,000 RMB	Option 1: On March 6, 2014 in the amount of 9,000,000 RMB
April 2, 2013	April 1, 2014	4,000,000 RMB	A fixed interest rate equal to 108% of the Base Rate	Option 1: On April 2, 2013 for 9,000,000 RMB	Option 1: On April 1, 2014 in the amount of 4,000,000 RMB
April 19, 2013	April 18, 2014	4,000,000 RMB	A fixed interest rate equal to 108% of the Base Rate	Option 1: On April 19, 2013 for 4,000,000 RMB	Option 1: On April 18, 2014 in the amount of 4,000,000 RMB

**AMENDED AND RESTATED EMPLOYMENT AGREEMENT REGARDING
CHANGE OF CONTROL OR SEPARATION OF SERVICE**

This amended and restated employment agreement (“Agreement”) is made and entered into effective as of April 16, 2013 (“Effective Date”), by and between Applied Optoelectronics, Inc. (“AOI” or the “Company”), whose address is 13111 Jess Pirtle Boulevard, Sugar Land, Texas 77478, and Chih-Hsiang (Thompson) Lin (“Executive”), whose address is 1906 Lake Front Drive, Missouri City, TX 77459. This Agreement supersedes and replaces in its entirety that certain Employment Agreement effective as of January 28, 2007 by and between the Company and Executive. This Agreement may sometimes refer to AOI and Executive singularly as a “Party” or collectively as the “Parties.”

1. Confirmation of Employment At-Will

Executive’s employment with AOI has been, is, and shall continue to be on an at-will basis. This means that either Executive or AOI may terminate Executive’s employment with the Company at any time and for any reason or no reason at all, except that if (i) a Change of Control of the Company shall have occurred and Executive’s employment by the Company is thereafter terminated (whether by Executive with Good Reason or the Company without Cause as provided in Paragraph 3), or (ii) Executive’s employment is terminated in certain other circumstances delineated in this Agreement, then Executive shall be entitled to receive certain benefits as provided in this Agreement.

2. Change of Control

A. “Change of Control” shall be deemed to have occurred on the date that one or more of the following occurs:

(i) Individuals who, on the date hereof, constitute the entire Board of Directors of the Company (“Incumbent Directors”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least a majority of the then Incumbent Directors shall be considered as though such individual was an Incumbent Director, but excluding, for this purpose any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest, as such terms are used in Rule 14a-11 under the Securities Exchange Act of 1934, as amended (“Exchange Act”) or other actual or threatened solicitation of proxies or consents by or on behalf of any Person (as defined below) other than the Board; or

(ii) (a) The consummation of any merger, consolidation or recapitalization of the Company (or, if the capital stock of the Company is affected, any subsidiary of the Company), or any sale, lease, or other transfer (in one transaction or a series of transactions contemplated or arranged by any party as a single plan) of all or substantially all of the assets of the Company (each of the foregoing being an “Acquisition Transaction”) where (1) the shareholders of

the Company immediately prior to such Acquisition Transaction would not immediately after such Acquisition Transaction beneficially own, directly or indirectly, shares or other ownership interests representing in the aggregate fifty-one percent (51%) or more of (a) the then outstanding common stock or other equity interests of the corporation or other entity surviving or resulting from such merger, consolidation or recapitalization or acquiring such assets of the Company, as the case may be (the “Surviving Entity”) (or of its ultimate parent corporation or other entity, if any), and (b) the Combined Voting Power of the then outstanding Voting Securities of the Surviving Entity (or of its ultimate parent corporation or other entity, if any) or (2) the Incumbent Directors at the time of the initial approval of such Acquisition Transaction would not immediately after such Acquisition Transaction constitute a majority of the Board of Directors, or similar managing group, of the Surviving Entity (or of its ultimate parent corporation or other entity, if any), or (b) the filing of any plan for the liquidation or dissolution of the Company.

B. For purposes of the definition of “Change of Control”:

(i) “Affiliate” shall mean, as to a specified Person, another Person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the specified Person, within the meaning of such terms as used in Rule 405 under the Securities Act of 1933, as amended (“Securities Act”), or any successor rule.

(ii) “Combined Voting Power” shall mean the aggregate votes entitled to be cast generally in the election of the Board of Directors, or similar managing group, of a corporation or other entity by holders of then outstanding Voting Securities of such corporation or other entity.

(iii) “Person” shall mean any individual, entity (including, without limitation, any corporation, partnership, trust, joint venture, association or governmental body) or group (as defined in Sections 14(d)(3) or 15(d)(2) of the Exchange Act and the rules and regulations thereunder); provided, however, that Person shall not include the Company, any of its subsidiaries, any employee benefit plan of the Company or any of its majority-owned subsidiaries or any entity organized, appointed or established by the Company or such subsidiaries for or pursuant to the terms of any such plan.

(iv) “Voting Securities” shall mean all securities of a corporation or other entity having the right under ordinary circumstances to vote in an election of the Board of Directors, or similar managing group, of such corporation or other entity.

3. Termination Following a Change of Control

A. If a Change of Control of the Company shall have occurred, any subsequent termination of Executive’s employment (i) by Executive upon an Event of Termination for Good

Reason (hereafter defined) or (ii) by the Company upon an Event of Termination for Cause (hereafter defined), shall be communicated by written notice to the other party. If the notice is from the Company and states that Executive's employment by the Company is terminated by the Company as a result of the occurrence of an Event of Termination for Cause, the notice shall specifically describe the action or inaction of Executive that the Company believes constitutes an Event of Termination for Cause. If the notice is from Executive and states that Executive's employment by the Company is terminated by Executive as a result of the occurrence of an Event of Termination for Good Reason, the notice shall specifically describe the action or inaction of the Company that Executive believes constitutes an Event of Termination for Good Reason.

B. An "Event of Termination for Cause" shall have occurred: (i) if Executive should be convicted of or pleads *nolo contendere* to any felony offense or to a crime that the Board determines, in its sole discretion, is a crime of moral turpitude (whether or not a felony); (ii) if Executive should commit willful misconduct (that is, done in bad faith or without reasonable belief that such action is in the best interest of the Company) or violate any law in connection with the performance of any of Executive's duties, including, without limitation, (a) misappropriation of funds or property of the Company or any of its affiliates or customers, (b) securing or attempting to secure personally any profit in connection with any transaction entered into on behalf of the Company or any of its affiliates, or (c) making any material misrepresentation to the Board, the Company, or any of the Company's affiliates; (iii) if Executive materially violates or fails to comply with any written Company policy; (iv) if Executive materially breaches any term of this Agreement; or (v) the willful and continued failure or neglect of Executive to substantially perform his/her duties with the Company (other than any such failure resulting from incapacity due to physical or mental illness). The Board shall not have Cause to terminate Executive's employment under Paragraph 3.B. (iii), (iv), or (v) of this Agreement unless and until the Board provides written notice to Executive identifying Executive's alleged violation of policy, breach of this Agreement, or failure to perform (or neglect of) any duty and Executive fails to cure such violation of policy, breach of this Agreement or failure to perform (or neglect of) any duty within 60 days.

C. An "Event of Termination for Good Reason" shall have occurred in the event of any of the following:

(i) Executive's assignment to any duties or the significant reduction of Executive's duties or a significant change of Executive's title, any of which is inconsistent with his or her position or title with the Company and responsibilities in effect immediately prior to such assignment, except in each case in connection with a promotion. For purposes of clarification, if Executive is not the President and CEO of the successor entity or its ultimate parent, if any, then Executive will have suffered a significant reduction of his/her duties which qualifies as an Event of Termination for Good Reason pursuant to this paragraph;

(ii) reduction by the Company in Executive's base compensation as in effect immediately prior to such reduction, provided that an Event of Termination for Good Reason shall not be deemed to have occurred where Executive's base compensation is reduced as part of an overall cost reduction program that affects

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all senior executives of the Company and does not disproportionately affect Executive;

(iii) any purported termination of Executive by the Company (other than a voluntary resignation initiated by Executive, except for a voluntary termination initiated by Executive for the reasons described in this paragraph) which is not effected for disability or for Cause;

(iv) the failure of any successor entity to the Company to expressly assume in writing the terms of this agreement; and

(v) any material breach by the Company of any material provision of this agreement which has not been cured within 30 days of written notice to the Company by Executive of such breach.

4. Severance Benefits

A. If a Change of Control occurs and, within one year thereafter, Executive's employment by the Company is terminated by Executive following an Event of Termination for Good Reason or by the Company otherwise than as a result of an Event of Termination for Cause, Executive will be entitled to receive benefits ("Change of Control Severance Benefits") consisting of: (a) a lump sum payment equal to one year of Executive's base salary as in effect immediately prior to the Change of Control (minus lawful withholdings); (b) a lump sum payment equal to the dollar amount of Executive's full target bonus percentage as in effect immediately prior to the Change of Control (minus lawful withholdings); (c) a lump sum payment of \$10,000 (minus lawful withholdings) that Executive may use for benefit continuation under COBRA or for any other purpose; and (d) accelerated vesting of Executive's stock options under any stock option agreement(s) between Executive and AOI, meaning that all outstanding but unvested stock options shall be accelerated and fully vested, and all vested options shall be exercisable until the later of (i) the 15th day of the third month following the date at which the stock options would otherwise have expired in accordance with their original terms, (ii) December 31 of the calendar year in which the stock options would otherwise have expired in accordance with their original terms and (iii) such longer period (not to exceed twelve months following the Separation from Service (as defined in paragraph 4.0 below) as may be provided by the Treasury Department in the final regulations addressing Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"); provided, however, that the foregoing shall not be construed to cause an incentive stock option to fail to meet the statutory requirements of Section 422 of the Code.

B. If at any time prior to a Change of Control Executive's employment is terminated by the Company for any reason other than an Event of Termination for Cause or if Executive resigns because of an Event of Termination for Good Reason, Executive shall be entitled to receive payment equal to (i) a lump sum payment equal to one year of Executive's base salary as in effect immediately prior to such termination (minus lawful withholdings); (ii) a lump sum payment equal to the dollar amount of Executive's full target bonus percentage as in effect immediately prior to such termination (minus lawful withholdings); (iii) a lump sum payment of

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\$15,000 (minus lawful withholdings) that Executive may use for benefit continuation under COBRA or for any other purpose ("Separation Benefits").

C. In the event Executive receives any payments or distributions, whether payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, that constitute "parachute payments" within the meaning of Section 280G of the Code ("Parachute Payments") and would be subject to the excise tax imposed by Section 4999 of the Code, Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Executive of all taxes, including the excise tax imposed by Section 4999 of the code (the "Excise Tax"), any interest or penalties (other than interest and penalties imposed by reason of Executive's failure to timely file a tax return or pay taxes shown due on Executive's tax return) imposed with respect to such taxes, and including any Excise Tax imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax

imposed upon the Parachute Payments. An initial determination as to whether a Gross-Up Payment is required pursuant to this Agreement and the amount of such Gross-Up Payment shall be made by the Company. The Company shall provide its determination (the "Determination"), together with detailed supporting calculations and documentation, to Executive at such time as requested by Executive (provided Executive reasonably believes that any of the Parachute Payments may be subject to the Excise Tax). If requested by Executive, the Company shall furnish Executive, at the Company's expense, with an opinion that is reasonably acceptable to Executive, such opinion being from the Company's accounting firm or legal counsel, that there is a reasonable basis for the Determination. Any Gross-Up Payment determined pursuant to this Section 4 shall be paid by the Company to Executive within fifteen (15) days of receipt of the Determination

D. If payable under paragraph 4.A, the Change of Control Severance Benefits shall be paid on the later of the 60 day after the effective date of Executive's "separation from service" (within the meaning of Section 409A and the regulations issued thereunder) ("Separation from Service"), or six months and one day after Executive's Separation from Service if Executive is a "specified employee" (as that term is defined under Section 409A of the Code and the regulations issued thereunder) ("Specified Employee") at the time Executive becomes entitled to Change of Control Severance Benefits under this Paragraph. If payable under paragraph 4.B, the Separation Benefits shall be paid periodically in installments over the twelve months following Executive's Separation from Service, in accordance with the Company's regular payroll practices, provided that no payment shall be made prior to the 60th day after the effective date of Executive's Separation from Service or six months and one day after Executive's Separation from Service if Executive is a Specified Employee at the time Executive becomes entitled to the Separation Benefits under this Paragraph. Notwithstanding the foregoing, no Change of Control Severance Benefits or Separation Benefits shall be due under this Agreement unless (a) prior to the 60th day after the effective date of Executive's separation from service, Executive has signed a release agreement ("Release Agreement") that the Company will provide in which Executive releases any possible claims against the Company and all of its parents, divisions, subsidiaries, affiliates, and related companies, and their present and former agents, employees, officers, directors, attorneys, stockholders, plan fiduciaries, successors, and assigns; and (b) prior to the 60th day after the effective date of Executive's separation from service, the seven day revocation period in the Release Agreement has expired without Executive's revocation. In the case of Separation Benefits, the Release Agreement shall also include a reasonable agreement to cooperate for a

period of six months following the employment termination date and a mutual non-disparagement clause.

5. Confidential Information and Trade Secrets

A. AOI is engaged in the highly competitive business of the design, development, manufacture and sale of advanced optical components, including modules and circuitry, systems and processes ("Company's Business"). In this business, Company generates a significant amount of Confidential Information and Trade Secrets, certain of which it hereby agrees to share with Executive, and which Executive will have access to and knowledge of through or as a result of Executive's employment with the Company. As used in this Agreement, "Confidential Information and Trade Secrets" includes any information, data or compilation of information or data developed, acquired or generated by Company, or its employees (including information and materials conceived, originating, discovered, or developed in whole or in part by Executive at the request of or for the benefit of Company or while employed by Company), which is not generally known to persons who are not employees of Company, and which Company generally does not share other than with its employees, or with its customers and suppliers on an individual transactional basis. "Confidential Information and Trade Secrets" may be written, verbal or recorded by electronic, magnetic or other methods, whether or not expressly identified as "Confidential" by Company.

B. "Confidential Information and Trade Secrets" includes, but is not limited to, the following information and materials:

- (i) Financial information of any kind pertaining to Company, including, without limitation, information about the profit margins, profitability, pricing, income and expenses of Company or any of its products or lines of business;
- (ii) All information about and all communications received from, sent to or exchanged between Company and any person or entity which has purchased, licensed, exchanged or otherwise entered into a transaction with Company, or to which Company has made a proposal with respect to the purchase, sale, license, exchange or other transaction involving any component, products or services which form any part of Company's Business (such person or entity being hereinafter referred to as customer or customers);
- (iii) Any and all information and records relating to Company's contracts or transactions with, or charges, prices or sales to, its customers, including invoices, proposals, confirmations, bills of lading, statements, accounting records, bids, payment records or any other information or documents regarding amounts charged to or paid by customers, for any software, products or services which form any part of Company's Business;
- (iv) All information regarding Company's scientific, technical or technological information, designs, processes, procedures, formulas, equipment or systems, including without limitation, any components, modules, circuits,

software, programs, codes, algorithms, calculations, drawings, plans, or specifications related to the development, design, construction, fabrication, manufacture, operation or furnishing of any software, products, services, or equipment which constitute any part of the Company's Business, including Company Products. As used in this Agreement, "Company Products" shall mean any and all computer software, optical component, module, circuitry, equipment, products, services, together with any updates, substitutions, enhancements or modifications thereof, and any user manuals, programming manuals and other documentation of any kind.

C. Executive acknowledges that all notes, data, forms, reference and training materials, leads, memoranda, computer programs, computer print-outs, disks and the information contained in any computer, and any other records which contain, reflect or describe any Confidential Information and Trade Secrets, belong exclusively to Company. Upon the termination of Executive's employment with the Company, Executive shall promptly return such materials and all copies thereof in Executive's possession to Company, regardless of whether such termination is the result of an Event of Termination for Good Reason or an Event of Termination for Cause (the "Termination Date").

D. During Executive's employment with Company and thereafter, Executive will not copy, publish, convey, transfer, disclose nor use, directly or indirectly, for Executive's own benefit or for the benefit of any other person or entity (except Company) any Confidential Information and Trade Secrets; provided, that any copying or other prohibited use of Confidential Information and Trade Secrets shall not include copying or otherwise using Confidential Information and Trade Secrets in connection with communications with current or potential customers or vendors that Executive reasonably expects to have a direct benefit to the

Company. Executive will abide by all rules, guidelines, policies and procedures relating to Confidential Information and Trade Secrets implemented and/or amended from time to time by Company.

E. Executive acknowledges that any actual or threatened breach of the covenants contained herein will cause Company irreparable harm and that money damages would not provide an adequate remedy to Company for any such breach. For these reasons, and because of the unique nature of the Confidential Information and Trade Secrets and the necessity to preserve such Confidential Information and Trade Secrets in order to protect Company's property rights in the event of a breach or threatened breach of any of the provisions herein, Company, in addition to any other remedies available to it at law or in equity, shall be entitled to immediate injunctive relief against Executive to enforce the provisions of this Agreement and shall be entitled to recover from Executive its reasonable attorneys' fees and other expenses incurred in connection with such proceedings.

6. *Covenant Not to Compete*

A. Throughout Executive's employment with the Company, Company agrees to give Executive access to certain of its Confidential Information and Trade Secrets concerning Company's Business and its employees, customers and customer representatives, suppliers and supplier representatives, and Company's transactional histories as well as information about the

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logistics, details and expenses of Company in connection with any goods, products or services which form any part of Company's Business. Company agrees to provide this information to Executive in order to allow Executive to perform Executive's duties under this Agreement, and to develop relationships with customers, customer representatives, suppliers and supplier representatives of the Company.

B. Company agrees to provide, and to continue to provide, Executive with both specialized knowledge and education in Company's Business, in order to allow Executive to perform Executive's duties in an efficient, proper and effective manner. Such knowledge and education may consist of verbal instructions and information, the furnishing of written materials, consultation and counseling, sales, staff and employee meetings, training sessions and seminars, in addition to formal or informal information and orientation methodologies and procedures. Executive will have access to certain of Company's transactional histories, and the details of prior purchases, sales, trades or exchanges, in order that Executive can learn Company's Business and/or improve Executive's skills, experience and knowledge.

C. In consideration of Company's employment of Executive as a highly valued employee, the Company's agreement to provide Executive with access to certain Confidential Information and Trade Secrets, and the Company's agreement to provide specialized knowledge and education, Executive agrees to refrain from competing with Company or otherwise engaging in Restricted Activities, as defined below, during the Restricted Period.

D. Executive agrees that during the term of his employment with Company and for a period of one (1) year after Executive's employment with the Company terminates (the "Restricted Period"), regardless of whether the termination occurs with or without cause and regardless of who terminates this Agreement, Executive will not directly or indirectly, as an employee, officer, director, shareholder, proprietor, agent, partner, recruiter, consultant, independent contractor or in any other individual or representative capacity engage in any of the Restricted Activities.

E. "Restricted Activities" means and includes the following:

(i) Conducting, engaging or participating, directly or indirectly, as the chief executive officer or division head, agent, independent contractor, consultant, partner, shareholder, investor, lender, underwriter, supplier, customer or in any other similar capacity, in any business that competes with any part of the Company's Business;

(ii) Recruiting, hiring, and/or attempting to recruit or hire, directly or by assisting others, any other employee, temporary or permanent, contract, part time or full time of the Company. For purposes of this covenant "any other employee" shall refer to employees, consultants or others who are under contract to provide services to the Company and who are still actively employed by, or doing business with, the Company at the time of the attempted recruiting or hiring, or were so employed or doing business at any time within six (6) months prior to the time of such attempted recruiting or hiring; and

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(iii) Using, disclosing, publishing, copying, distributing or communicating any Confidential Information and Trade Secrets to, or for the use or benefit of Executive or any other person or entity other than Company.

F. "Restricted Area" shall mean and include each of the following:

(i) Fort Bend County, Texas and Harris County, Texas;

(ii) Within a twenty-five (25) mile radius of the location of any office, facility or other business location of any customer, customer representative, supplier or supplier representative; and

(iii) Within a sixty (60) miles radius of any office, facility or other business location of Company.

G. Executive acknowledges that this Agreement prohibits the performance of Restricted Activities from outside the Restricted Area into the Restricted Area.

H. The Company and Executive acknowledge that the provisions contained in this Article 6 shall not prevent Executive or Executive's Affiliates from owning solely as an investment, directly or indirectly, securities of any publicly traded corporation engaged in the Company's Business if Executive and Executive's Affiliates do not, directly or indirectly, beneficially own in the aggregate more than 5% of all classes of outstanding equity securities of such entity.

I. Executive and the Company agree that this Covenant Not to Compete is ancillary to the Company's agreement to employ Executive as described by this Agreement, this Agreement's provisions regarding severance benefits, and this Agreement's provisions regarding non-disclosure of confidential information and trade secrets.

J. Executive and the Company agree that the limitations as to time and scope of activity to be restrained are reasonable and do not impose a greater restraint on Executive than is necessary to protect the property rights and other business interests of Company.

K. If Executive fails to comply with, or breaches, or threatens to breach, any of the provisions herein, Company in addition to any other remedies available to it at law or in equity, shall be entitled to immediate injunctive relief to enforce the provisions of this Section 6 and shall be entitled to recover from Executive reasonable attorneys' fees and other expenses incurred by Company in connection with such proceedings.

7. General Provisions

A. This Agreement may not be assigned by Executive. This Agreement may be assigned in whole or in part by the Company to a successor in interest. Executive expressly agrees to honor and accept such assignment or other transfer and, on the consummation thereof, to attorn to the Company's assignee and to perform Executive's duties and obligations under this Agreement for the benefit of the Company's assignee as if the Company's assignee were the

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Company. Executive further agrees that, on the consummation of such assignment or other transfer, all references in this Agreement to the Company shall become and shall be deemed to be references to the Company's assignee and the Company shall be relieved of all obligations under this Agreement.

B. This Agreement shall be governed by, construed, and enforced in accordance with the internal, local laws, of the State of Texas (without regard to conflicts of law rules) and the obligations of the Company and Executive shall be performable in the State of Texas. The Parties agree that proper jurisdiction and venue for any dispute arising under this Agreement are in state or federal court in Harris County, Texas.

C. This Agreement contains the entire agreement between the Parties regarding any benefit Executive may receive from any type of change of control or separation benefits (as defined in this Agreement or otherwise) at AOI and supersedes and replaces all prior communications and agreements (oral or written) between Executive and the Company regarding any benefit Executive may receive from any type of change of control or separation benefits (as defined in this Agreement or otherwise) at AOI. This Agreement does not extinguish any previous written stock option agreements between Executive and the Company; however, it modifies any previous written stock option agreements as provided in Paragraph 4 of this Agreement. Except as provided in this paragraph C, this Agreement does not extinguish any other agreements between Executive and the Company. Except as expressly provided in this Agreement, no variation, modification, or change of this Agreement shall be binding upon either Party hereto unless set forth in a document duly executed by both Parties.

D. This Agreement is intended to express the Parties' mutual intent, and irrespective of the Party preparing this document, no rule of construction shall be applied against such Party, as both Parties have actively participated in the preparation and negotiation of this Agreement.

E. No Party's waiver of the other Party's breach of any condition or provision of this Agreement shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. Failure on either Party's part to complain of any act or failure to act of the other Party or to declare the other Party in default, irrespective of how long such failure or default continues, shall not constitute a waiver by such Party of such Party's rights under this Agreement.

F. If any provision of this Agreement or the application thereof to any person or circumstance shall be invalid or unenforceable to any extent, the remainder of this Agreement and the application of such provision to other persons or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by law.

G. This Agreement shall inure to the benefit of and be binding on the undersigned Parties and their respective permitted successors and permitted assigns. Whenever, in this Agreement, a reference to any Party is made, such reference shall be deemed to include a reference to such Party's permitted successors and permitted assigns; however, neither this Paragraph 7.G. nor any other portion of this Agreement shall be interpreted to constitute a consent to any assignment or other transfer of this Agreement or any part hereof other than pursuant to and in accordance with this Agreement's other provisions.

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H. The prevailing Party in any dispute between the Parties to this Agreement, arising out of the interpretation, application, or enforcement of any provision of this Agreement, shall be entitled to recover all of its reasonable attorneys' fees and costs, whether suit be filed or not, including, without limitation, costs and attorneys' fees related to or arising out of any arbitration, administrative proceedings, trial, or appellate proceedings, or petition for review before any other court or administrative body.

I. Notwithstanding any other provision of this Agreement to the contrary, Executive and the Company shall in good faith amend this Agreement to the limited extent necessary to comply with the requirements under Section 409A of the Code, and any regulations or other guidance issued thereunder, in order to ensure that any amounts paid or payable hereunder are not subject to the additional 20% income tax thereunder while maintaining to the maximum extent practicable the original intent of this Agreement.

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EXECUTED, in multiple counterparts, each of which shall have the force and effect of an original, on the Effective Date.

APPLIED OPTOELECTRONICS, INC.

EXECUTIVE
CHIH-HSIANG (THOMPSON) LIN

By: /s/ William H. Yeh
Printed
Name: William H. Yeh
Title: Director

/s/ Chih-Hsiang (Thompson) Lin
signature

Date: April 16, 2013

Date: April 16, 2013

By: /s/ Chih-Hsiang (Thompson) Lin

Printed

Name: Chih-Hsiang (Thompson) Lin

Title: President and CEO

Date: April 16, 2013

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (this “**Agreement**”) is dated as of April 16, 2013 by and between Applied Optoelectronics, Inc., a Delaware corporation (the “**Company**”), and James L. Dunn, Jr., an individual currently residing at Houston, Texas 77024 (the “**Executive**”).

WHEREAS, the Company desires to employ the Executive on the terms and conditions and for the consideration hereinafter set forth and the Executive is willing to serve as an employee of the Company on such terms and conditions and for such consideration.

NOW THEREFORE, for and in consideration of the mutual promises, covenants and obligations contained herein, the Company and the Executive hereby agree as follows:

1. **Employment and Duties.**

(a) **General.** The Executive shall serve as Senior Vice President and Chief Financial Officer of the Company, reporting to the Company’s CEO. The Executive shall have such duties and responsibilities, commensurate with the Executive’s position, as may be reasonably assigned to the Executive from time to time by the Company’s CEO. The Executive’s principal place of employment shall be in the Houston, Texas area.

(b) **Exclusive Services.** For so long as the Executive is employed by the Company, the Executive shall devote his full attention to his duties hereunder, shall faithfully serve the Company, shall in all respects conform to and comply with the lawful and good faith directions and instructions given to him by the CEO and shall use his best efforts to promote and serve the interests of the Company. Further, the Executive shall not, directly or indirectly, render services to any other person or organization without the consent of the Company or otherwise engage in activities that would interfere significantly with his faithful performance of his duties hereunder. Notwithstanding the foregoing, the Executive may (i) serve on corporate, civic, children sports organization or charitable boards or engage in charitable activities without remuneration therefor and (ii) manage personal investments, provided that such activity does not contravene the first sentence of this Section 1(b) or any other provision of this Agreement.

2. **Term of Employment.** The Executive’s employment under this Agreement shall commence as of April 16, 2013 (the “**Effective Date**”) and shall terminate on the earlier of (i) the fifth-year anniversary of the Effective Date and (ii) the termination of the Executive’s employment under this Agreement. The period from the Effective Date until the termination of the Executive’s employment under this Agreement is referred to as the “**Term**”.

3. **Compensation and Other Benefits.** Subject to the provisions of this Agreement, the Company shall pay and provide the following compensation and other benefits to the Executive during the Term as compensation for services rendered hereunder:

(a) **Base Salary.** The Company shall pay to the Executive an annual salary (the “**Base Salary**”) at the rate of \$200,000, payable in substantially equal installments at such intervals as may be determined by the Company in accordance with the Company’s then current ordinary payroll practices as established from time to time. The Base Salary shall be reviewed in

good faith by the Compensation Committee of the Company’s Board of Directors (the “**Board**”), based upon the Executive’s performance, not less often than annually.

(b) **Bonus.** For each fiscal year during the Term, the Executive shall be eligible to receive an incentive bonus equal to the milestone bonus set by the Company or Compensation Committee for such year if the applicable performance goals are satisfied. Such bonus, if any, shall be paid to the Executive no later than March 15th of the calendar year following the calendar year in which the bonus is earned.

(c) **Employee Benefits.** The Executive shall be entitled to participate in all employee benefit arrangements that the Company may offer to its executives of a like status from time to time, and as may be amended from time to time.

(d) **Expenses.** The Company shall reimburse the Executive for reasonable travel and other business-related expenses incurred by the Executive in the fulfillment of his duties hereunder upon presentation of written documentation thereof, in accordance with the applicable expense reimbursement policies and procedures of the Company as in effect from time to time.

(e) **Indemnification.** To the fullest extent permitted by the indemnification provisions of the Articles of Incorporation and/or Bylaws of the Company in effect from time to time and the indemnification provisions of the corporation statute of the jurisdiction of the Company’s incorporation in effect from time to time (collectively the “**Indemnification Provisions**”), and in each case subject to the conditions thereof, the Company shall (i) indemnify the Executive, as a director and officer of the Company or a trustee or fiduciary of an employee benefit plan of the Company against all liabilities and reasonable expenses that the Executive may incur in any threatened, pending, or completed action, suit or proceeding, whether civil, criminal or administrative, or investigative and whether formal or informal, because the Executive is or was a director or officer of the Company or a trustee or fiduciary of such employee benefit plan, and against which the Executive may be indemnified by the Company, and (ii) pay for or reimburse the reasonable expenses incurred by the Executive in the defense of any proceeding to which the Executive is a party because the Executive is or was a director or officer of the Company or a trustee or fiduciary of such employee benefit plan.

4. **Termination of Employment.**

(a) **Termination of Employment Prior to a Change of Control.** Except as provided in Section 4(b), if prior to a Change of Control the Executive’s employment is terminated by the Company (for any reason) or the Executive resigns his or her employment with the Company (for any reason), then the Executive shall only be entitled to payment of unpaid Base Salary through and including the date of termination or resignation. The Executive shall have no further right to receive any other compensation or benefits after such termination or resignation of employment, except for the continuation of health benefits as provided under applicable law. For purposes of this Agreement the term “**Change of Control**” shall be deemed to have occurred on the date that one or more of the following occurs: (i) Individuals who, on the date hereof, constitute the entire Board of the Company (“**Incumbent Directors**”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual

becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the then Incumbent Directors shall be considered as though such individual was an Incumbent Director, but excluding, for this purpose any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest, as such terms are used in Rule 14a-11 under the Securities Exchange Act of 1934, as amended ("**Exchange Act**") or other actual or threatened solicitation of proxies or consents by or on behalf of any Person (as defined below) other than the Board; or (ii) (a) the consummation of any merger, consolidation or recapitalization of the Company (or, if the capital stock of the Company is affected, any subsidiary of the Company), or any sale, lease, or other transfer (in one transaction or a series of transactions contemplated or arranged by any party as a single plan) of all or substantially all of the assets of the Company (each of the foregoing being an "**Acquisition Transaction**") where: (A) the stockholders of the Company immediately prior to such Acquisition Transaction would not immediately after such Acquisition Transaction beneficially own, directly or indirectly, shares or other ownership interests representing in the aggregate fifty-one percent (51%) or more of (1) the then outstanding common stock or other equity interests of the corporation or other entity surviving or resulting from such merger, consolidation or recapitalization or acquiring such assets of the Company, as the case may be (the "**Surviving Entity**") (or of its ultimate parent corporation or other entity, if any), and (2) the Combined Voting Power of the then outstanding Voting Securities of the Surviving Entity (or of its ultimate parent corporation or other entity, if any) or (B) the Incumbent Directors at the time of the initial approval of such Acquisition Transaction would not immediately after such Acquisition Transaction constitute a majority of the Board, or similar managing group, of the Surviving Entity (or of its ultimate parent corporation or other entity, if any), or (b) the filing of any plan for the liquidation or dissolution of the Company. For purposes of this Section 4(a) and this Agreement, the following terms shall have the following meanings: (i) the term "**Affiliate**" shall mean, as to a specified Person, another Person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the specified Person, within the meaning of such terms as used in Rule 405 under the Securities Act of 1933, as amended ("**Securities Act**"), or any successor rule; (ii) the term "**Combined Voting Power**" shall mean the aggregate votes entitled to be cast generally in the election of the Board, or similar managing group, of a corporation or other entity by holders of then outstanding Voting Securities of such corporation or other entity; (iii) the term "**Person**" shall mean any individual, entity (including, without limitation, any corporation, partnership, trust, joint venture, association or governmental body) or group (as defined in Sections 14(d)(3) or 15(d)(2) of the Exchange Act and the rules and regulations thereunder); provided, however, that Person shall not include the Company, any of its subsidiaries, any employee benefit plan of the Company or any of its majority-owned subsidiaries or any entity organized, appointed or established by the Company or such subsidiaries for or pursuant to the terms of any such plan; and (iv) the term "**Voting Securities**" shall mean all securities of a corporation or other entity having the right under ordinary circumstances to vote in an election of the Board, or similar managing group, of such corporation or other entity.

(b) **Termination of Employment after a Change of Control.** Subject to satisfaction of Section 4(d), if, within six (6) months immediately preceding a Change of Control or within twelve (12) months immediately following a Change of Control, the Executive's employment is terminated by the Company for any reason other than Cause or is terminated by

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the Executive for Good Reason, then the Executive shall be entitled to receive the following benefits (collectively, the "**Severance Benefits**"): (i) a payment equal to one times (1x) the then current annual Base Salary; (ii) a payment equal to the dollar amount of the Executive's full target bonus percentage as in effect for the twelve (12) month period immediately prior to such termination (for this purpose any performance targets shall be deemed immediately and fully satisfied); and (iii) \$15,000 for the purpose of the Executive to fund health coverage continuation benefits. Severance Benefits shall be paid to the Executive no later than the thirtieth (30th) day immediately following the Executive's "separation from service" (as defined under Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**")), provided the Executive first executes a release of any and all claims against the Company (set forth in Section 4(d), below) and the revocation period specified therein has expired without the Executive revoking such release. Notwithstanding the foregoing and for avoidance of doubt, if (i) the Executive's employment is terminated for Cause within six (6) months immediately preceding a Change of Control or within twelve (12) months immediately following a Change of Control, or (ii) the Executive's employment is terminated by the Company for Cause or by the Executive for any reason after the expiration of twelve (12) months from a Change of Control; then the Executive shall be entitled to only any unpaid then current annual Base Salary through and including the date of termination as set forth in Section 4(a) of this Agreement and the Executive shall not be entitled to or receive any Severance Benefits.

For purposes of this Agreement, the term "**Cause**" shall mean to include: (i) the Executive's conviction of or plea of *nolo contendere* to any felony offense or to a crime that the Board determines, in its sole discretion, is a crime of moral turpitude (whether or not a felony); (ii) the Executive commits willful misconduct (that is, done in bad faith or without reasonable belief that such action is in the best interest of the Company) or violates any law in connection with the performance of any of his or her duties, including, without limitation, (A) misappropriation of funds or property of the Company or any of its affiliates or customers, (B) securing or attempting to secure personally any profit in connection with any transaction entered into on behalf of the Company or any of its affiliates, or (C) making any material misrepresentation to the Board, the Company, or any of the Company's affiliates; (iii) the Executive materially violates or fails to comply with any written Company policy; (iv) the Executive materially breaches any term of this Agreement; or (v) the willful and continued failure or neglect of the Executive to substantially perform his or her duties with the Company (other than any such failure resulting from incapacity due to physical or mental illness). The Board shall not have Cause to terminate the Executive's employment under this Section 4 unless and until the Board provides written notice to the Executive that identifies the Executive's alleged violation of policy, breach of this Agreement, or failure to perform (or neglect of) any duty and the Executive fails to cure such violation of policy, breach of this Agreement or failure to perform (or neglect of) any duty within 60 days therefrom.

For purposes of this Agreement, the term "**Good Reason**" shall mean to include: (i) the Executive being assigned any duties or the significant reduction of the Executive's duties or a significant change of the Executive's title, any of which is inconsistent with his or her position or title with the Company and responsibilities in effect immediately prior to such assignment, except in each case in connection with a promotion; (ii) a reduction by the Company in the Executive's Base Salary as in effect immediately prior to such reduction, provided that Good Reason shall not be deemed to exist where the Executive's Base Salary is reduced as part of an

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overall cost reduction program that affects all senior executives of the Company and does not disproportionately affect the Executive; (iii) the failure of any successor entity to the Company to expressly assume in writing the terms of this Agreement; and (iv) any material breach by the Company of any material provision of this agreement which has not been cured within 30 days of the Executive providing the Company with written notice of such breach.

(c) **Board Resignation.** Upon termination of the Executive's employment for any reason, the Executive shall be deemed to have resigned from any Board position (and any committees thereof) and from any and all positions with the Company's affiliates, effective as of the date of such termination.

(d) **Waiver and Release.** Notwithstanding any other provisions of this Agreement to the contrary, unless expressly waived in writing by the Board in its sole discretion, the Company shall not make or provide any Severance Benefits under this Section 4 (other than accrued Base Salary as of the

termination date) unless the Executive timely executes and delivers to the Company a general release (which shall be provided by the Company not later than five (5) days from the date on which the Executive's employment is terminated and be substantially in the form attached hereto as **Exhibit A**), whereby the Executive (or his estate or legally appointed personal representative) releases the Company (and affiliates of the Company and other designated persons) from all employment based or related claims of the Executive and all obligations of the Company to the Executive other than with respect to (x) the Company's obligations to make and provide the Severance Benefits and (y) any vested benefits to which the Executive is entitled under the terms of any Company benefit or equity plan, and the Executive does not revoke such release within any applicable revocation period following the Executive's delivery of the executed release to the Company. If the requirements of this Section 4(d) are not satisfied by the Executive (or his estate or legally appointed personal representative), then no Severance Benefits (other than accrued salary as of the termination date) shall be due to the Executive (or his estate) pursuant to this Agreement.

(e) **Notice of Termination.** Any termination of employment by the Company or the Executive shall be communicated by a written "**Notice of Termination**" to the other party hereto given in accordance with Section 8(l) of this Agreement. In the event of a termination by the Company for Cause, the Notice of Termination shall (i) indicate the specific termination provision in this Agreement relied upon, (ii) set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated and (iii) specify the date of termination. The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Cause shall not waive any right of the Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

5. **Section 280G Payments.** Notwithstanding anything in this Agreement to the contrary, if the Executive is a "disqualified individual" (as defined in Section 280G(c) of the Code), and the payments and benefits provided for in this Agreement, together with any other payments and benefits which the Executive has the right to receive from the Company or any other person, would constitute a "parachute payment" (as defined in Section 280G(b)(2) of the Code), then the payments and benefits provided for in this Agreement shall be either (a) reduced

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(but not below zero) so that the present value of such total amounts and benefits received by the Executive from the Company and/or such person(s) will be \$1.00 less than three (3) times the Executive's "base amount" (as defined in Section 280G(b)(3) of the Code) and so that no portion of such amounts and benefits received by the Executive shall be subject to the excise tax imposed by Section 4999 of the Code or (b) paid in full, whichever produces the better "net after-tax position" to the Executive (taking into account any applicable excise tax under Section 4999 of the Code and any other applicable taxes). The reduction of payments and benefits hereunder, if applicable, shall be made by reducing, first, payments or benefits to be paid in cash hereunder in the order in which such payment or benefit would be paid or provided (beginning with such payment or benefit that would be made last in time and continuing, to the extent necessary, through to such payment or benefit that would be made first in time) and, then, reducing any benefit to be provided in-kind hereunder in a similar order. The determination as to whether any such reduction in the amount of the payments and benefits provided hereunder is necessary shall be made by the Company in good faith. If a reduced payment or benefit is made or provided and through error or otherwise that payment or benefit, when aggregated with other payments and benefits from the Company (or its affiliates) used in determining if a "parachute payment" exists, exceeds \$1.00 less than three (3) times the Executive's base amount, then the Executive shall immediately repay such excess to the Company upon notification that an overpayment has been made. Nothing in this paragraph shall require the Company to be responsible for, or have any liability or obligation with respect to, the Executive's excise tax liabilities under Section 4999 of the Code.

6. **Section 409A of the Code.** This Agreement is intended to either avoid the application of, or comply with, Section 409A of the Code. To that end this Agreement shall at all times be interpreted in a manner that is consistent with Section 409A. Notwithstanding any other provision in this Agreement to the contrary, the Company shall have the right, in its sole discretion, to adopt such amendments to this Agreement or take such other actions (including amendments and actions with retroactive effect) as it determines is necessary or appropriate for this Agreement to comply with Section 409A. Further:

(a) Any reimbursement of any costs and expenses by the Company to the Executive under this Agreement shall be made by the Company in no event later than the close of the Executive's taxable year following the taxable year in which the cost or expense is incurred by the Executive. The expenses incurred by the Executive in any calendar year that are eligible for reimbursement under this Agreement shall not affect the expenses incurred by the Executive in any other calendar year that are eligible for reimbursement hereunder and the Executive's right to receive any reimbursement hereunder shall not be subject to liquidation or exchange for any other benefit.

(b) Each payment that the Executive may receive under this Agreement shall be treated as a "separate payment" for purposes of Section 409A of the Code.

7. **Agreement Ancillary to Other Agreements.** This Agreement is ancillary to and part of the Inventions, Confidentiality, Non-Competition and Non-Solicitation Agreement, attached hereto as **Exhibit B**, between the Company and the Executive and furthers the Company's agreements to: (i) disclose, and to continue to disclose its Confidential Information and Trade Secrets to the Executive; (ii) provide initial and continued training, education and

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development to the Executive; (iii) provide the Executive with Confidential Information and Trade Secrets about, and the opportunity to develop relationships with, the Company's employees, Customers and Suppliers, and employees and agents of its Customers and Suppliers. A default under or breach of the Inventions, Confidentiality, Non-Competition and Non-Solicitation Agreement shall constitute a material breach of this Agreement.

8. **Miscellaneous.**

(a) **Defense of Claims.** The Executive agrees that, during the Term, and for a period of twelve (12) months after termination of the Executive's employment, upon request from the Company, the Executive will cooperate with the Company in the defense of any claims or actions that may be made by or against the Company that affect the Executive's prior areas of responsibility, except if the Executive's reasonable interests are adverse to the Company in such claim or action. The Company agrees to promptly reimburse the Executive for all of the Executive's reasonable legal fees, travel and other direct expenses incurred, or to be reasonably incurred, to comply with the Executive's obligations under this Section 8(a).

(b) **Non-disparagement.** The Parties agree that at no time during the Executive's employment by the Company or thereafter shall either Party make, or cause or assist any other person to make, any statement or other communication to any third party which impugns or attacks, or is otherwise critical of, the reputation, business or character of the other Party, or their affiliates or any of its respective directors, officers or employees.

(c) **Source of Payments.** All payments provided under this Agreement, other than payments made pursuant to a plan or agreement which provides otherwise, shall be paid in cash from the general funds of the Company, and no special or separate fund shall be established, and no other segregation of assets shall be made, to assure payment. The Executive shall have no right, title or interest whatsoever in or to any investments which the Company may make to aid the Company in meeting its obligations hereunder. To the extent that any person acquires a right to receive payments from the Company hereunder, such right shall be no greater than the right of an unsecured creditor of the Company.

(d) **Arbitration.** Any dispute or controversy arising under or in connection with this Agreement or otherwise in connection with the Executive's employment by the Company that cannot be mutually resolved by the parties to this Agreement and their respective advisors and representatives shall be settled exclusively by arbitration in Harris County, Houston, Texas in accordance with the rules of the American Arbitration Association before one arbitrator of exemplary qualifications and stature, who shall be selected jointly by an individual to be designated by the Company and an individual to be selected by the Executive, or if such two individuals cannot agree on the selection of the arbitrator, who shall be selected by the American Arbitration Association.

(e) **Amendment, Waiver.** This Agreement may not be modified, amended or waived in any manner, except by an instrument in writing signed by both parties hereto. The waiver by either party of compliance with any provision of this Agreement by the other party shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by such party of a provision of this Agreement.

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(f) **Entire Agreement.** This Agreement contains the entire agreement and understanding of the parties hereto with respect to the matters covered herein and supersedes all prior or contemporaneous negotiations, commitments, agreements and writings with respect to the subject matter hereof, all such other negotiations, commitments, agreements and writings shall have no further force or effect, and the parties to any such other negotiation, commitment, agreement or writing shall have no further rights or obligations thereunder.

(g) **Governing Law/Venue.** This Agreement shall be governed by and construed in accordance with the laws of the State of Texas, without regard to conflict of laws principles thereof. Each party to this Agreement hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts in Houston, Texas, for the purposes of any proceeding arising out of or based upon this Agreement.

(h) **No Waiver.** The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver of such party's rights or deprive such party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

(i) **Severability.** In the event that any one or more of the provisions of this Agreement shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions of this Agreement shall not be affected thereby.

(j) **No Assignment.** Neither this Agreement nor any of the Executive's rights and duties hereunder, shall be assignable or delegable by the Executive. Any purported assignment or delegation by the Executive in violation of the foregoing shall be null and void ab initio and of no force and effect. This Agreement may be assigned by the Company to a person or entity which is an affiliate or a successor in interest to substantially all of the business operations of the Company. Upon such assignment, the rights and obligations of the Company hereunder shall become the rights and obligations of such affiliate or successor person or entity.

(k) **Successors; Binding Agreement.** This Agreement shall inure to the benefit of and be binding upon personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

(l) **Notices.** For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered by hand or overnight courier or three (3) days after it has been mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth below in this Agreement, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

If to the Company: 13115 Jess Pirtle Blvd.
Sugar Land, Texas 77478

If to Executive:

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(m) **Prior Employment.** The Company has employed the Executive for the Executive's general skills, management abilities and experience in the Company's business or related industries. The Executive acknowledges that he has been specifically instructed not to bring, disclose or use in any fashion any confidential information, trade secrets, proprietary information, data or technology, nor any confidential pricing information, belonging to any prior employer. In no event is the Executive authorized to use or disclose any such information to the Company or any of its employees.

(n) **Executive's Representations.** The Executive hereby represents to the Company that (i) all confidential information, trade secrets or proprietary information, data or technology, belonging to any prior employer, including those that might have been contained on the Executive's personal computer, cell phone or other electronic communications or storage device have been returned and/or deleted in accordance with any policy of or agreement with the Executive's prior employer and (ii) the execution and delivery of this Agreement by the Executive and the Company and the performance by the Executive of his duties hereunder shall not constitute a breach of, or otherwise contravene, the terms of any employment agreement or other agreement or policy to which the Executive is a party or otherwise bound.

(o) **Withholding of Taxes.** The Company may withhold from any amounts or benefits payable under this Agreement all taxes it may be required to withhold pursuant to any applicable law or regulation.

(p) **Counterparts.** This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

(q) **Survival.** This Agreement shall terminate upon the termination of employment of the Executive; however, the following Section 4 (Termination of Employment) and the corresponding **Exhibit A** (Waiver and Release), Section 7 (Agreement Ancillary to Other Agreements) and the

corresponding **Exhibit B** (Inventions, Confidentiality, Non-Competition and Non-Solicitation Agreement) shall survive the termination of the Executive's employment and/or the expiration or termination of this Agreement, regardless of the reasons for such expiration or termination.

(r) **Clawback of Incentive Compensation.** Any incentive compensation payable to the Executive under this Agreement or any other agreement shall be subject to any policy, whether in existence as of the Effective Date of this Agreement or later adopted, established by the Company that provides for the clawback or recovery of amounts due to restatement of the Company's financial records or due to fraud or other malfeasance in connection with the eligibility for or calculation of any amounts, that were paid to the Executive under circumstances requiring clawback or recovery as set forth in such policy. The Company shall not apply such policy retroactively to the Executive except to the extent it deems warranted, in good faith, due to the Executive's own fraud or malfeasance. The Company will make any determinations for clawback or recover in its sole discretion and in accordance with such policy

and any applicable law or regulations; provided that such policy is generally applicable to other executive officers.

[SIGNATURES ON NEXT PAGE]

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement effective as of the Effective Date.

EXECUTIVE:

APPLIED OPTOELECTRONICS, INC.:

/s/ James L. Dunn, Jr.

By: /s/ Chih-Hsiang (Thompson) Lin

Print Name: James L. Dunn, Jr.

Its: President and CEO

Date: April 16, 2013

Date: April 16, 2013

EXHIBIT A

WAIVER AND RELEASE

Pursuant to the terms of the Employment Agreement (the "Agreement") dated as of [], by and between Applied Optoelectronics, Inc., a Delaware corporation, and myself, and in exchange for the salary continuation and benefits payable under the Agreement (the "Severance Benefits"), I hereby waive all claims against and release (i) Applied Optoelectronics, Inc., its officers, employees, agents, insurers, predecessors, successors and assigns (collectively referred to as the "Company"), (ii) all of the affiliates of the Company and their directors, officers, employees, agents, insurers, predecessors, successors and assigns, and (iii) the Company and its affiliates' employee benefit plans and the fiduciaries and agents of said plans (collectively referred to as the "Benefit Plans") from any and all claims, demands, actions, liabilities and damages arising out of or relating in any way to my employment with or separation from employment with the Company and its affiliates other than amounts due pursuant to the Agreement and the rights and benefits I am entitled to under the Benefit Plans. (the Company, its affiliates and the Benefit Plans are sometimes hereinafter collectively referred to as the "Released Parties".)

I understand that signing this Waiver and Release is an important legal act. I acknowledge that I have been advised in writing to consult an attorney before signing this Waiver and Release. I understand that, in order to be eligible for the Severance Benefits, I must sign (and return to the Company) this Waiver and Release before I will receive the Severance Benefits. I acknowledge that I have been given at least [] days to consider whether to accept the Severance Benefits and whether to execute this Waiver and Release.

In exchange for the payment to me of the Severance Benefits, (1) I agree not to sue the Released Parties in any local, state and/or federal court regarding or relating in any way to my employment with or separation from employment with the Company and its affiliates, and (2) I knowingly and voluntarily waive all claims and release the Released Parties from any and all claims, demands, actions, liabilities, and damages, whether known or unknown, arising out of or relating in any way to my employment with or separation from employment with the Company and its affiliates, except to the extent that my rights are vested under the terms of the Agreement or any employee benefit plans sponsored by the Company and its affiliates and except with respect to such rights or claims as may arise after the date this Waiver and Release is executed. This Waiver and Release includes, but is not limited to, claims and causes of action under: Title VII of the Civil Rights Act of 1964, as amended; the Age Discrimination in Employment Act of 1967, as amended, including the Older Workers Benefit Protection Act of 1990; the Civil Rights Act of 1866, as amended; the Civil Rights Act of 1991; the Americans with Disabilities Act of 1990; the Workers Adjustment and Retraining Notification Act of 1988; the Pregnancy Discrimination Act of 1978; the Employee Retirement Income Security Act of 1974, as amended; the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended; the Family and Medical Leave Act of 1993; the Fair Labor Standards Act; the Occupational Safety and Health Act; the Texas Labor Code et. seq.; claims in connection with workers' compensation, retaliation or "whistle blower" statutes; and/or contract, tort, defamation, slander, wrongful termination or any other state or federal regulatory, statutory or common law. Further, I expressly represent that no promise or agreement which is not expressed in this Waiver and

Release has been made to me in executing this Waiver and Release, and that I am relying on my own judgment in executing this Waiver and Release, and that I am not relying on any statement or representation of the Company or its affiliates or any of their agents. I agree that this Waiver and Release is valid, fair, adequate and reasonable, is with my full knowledge and consent, was not procured through fraud, duress or mistake and has not had the effect of misleading, misinforming or failing to inform me.

Notwithstanding the foregoing and anything in this Waiver and Release to the contrary, I do not release and expressly retain (a) all rights to payment or providing for post-employment benefits, under the Agreement or employee benefit plans, (b) all rights to indemnity, contribution, and a defense, and directors and officers and other liability coverage that I may have under any statute, Company policy or by this or any other agreement; and (c) the right to any, unpaid reasonable business expenses and any accrued benefits payable under any Company welfare plan or tax-qualified plan.

I acknowledge that payment of the Severance Benefits is not an admission by any one or more of the Released Parties that they engaged in any wrongful or unlawful act or that they violated any federal or state law or regulation. I acknowledge that neither the Company nor its affiliates have promised me continued employment or represented to me that I will be rehired in the future. I acknowledge that my employer and I contemplate an unequivocal, complete and final dissolution of my employment relationship. I acknowledge that this Waiver and Release does not create any right on my part to be rehired by the Company or its affiliates, and I hereby waive any right to future employment by the Company or its affiliates.

I understand that for a period of 7 calendar days following the date that I sign this Waiver and Release, I may revoke my acceptance of this Waiver and Release, provided that my written statement of revocation is received on or before that seventh day by [Name and/or Title], [address], facsimile number: [], in which case the Waiver and Release will not become effective. If I timely revoke my acceptance of this Waiver and Release, the Company shall have no obligation under this Waiver and Release nor the Agreement to provide the Severance Benefits to me. I understand that failure to revoke my acceptance of the offer within 7 calendar days from the date I sign this Waiver and Release will result in this Waiver and Release being permanent and irrevocable.

Should any of the provisions set forth in this Waiver and Release be determined to be invalid by a court, agency or other tribunal of competent jurisdiction, it is agreed that such determination shall not affect the enforceability of other provisions of this Waiver and Release. I acknowledge that this Waiver and Release sets forth the entire understanding and agreement between me and the Company and its affiliates concerning the subject matter of this Waiver and Release and supersedes any prior or contemporaneous oral and/or written agreements or representations, if any, between me and the Company or its affiliates.

I acknowledge that I have read this Waiver and Release, have had an opportunity to ask questions and have it explained to me and that I understand that this Waiver and Release will have the effect of knowingly and voluntarily waiving any action I might pursue, including breach of contract, personal injury, retaliation, discrimination on the basis of race, age, sex, national origin, or disability and any other claims arising prior to the date of this Waiver and Release. By

execution of this document, I do not waive or release or otherwise relinquish any legal rights I may have which are attributable to or arise out of acts, omissions, or events of the Company or its affiliates which occur after the date of the execution of this Waiver and Release.

EXECUTIVE:

APPLIED OPTOELECTRONICS, INC.:

By: _____

Date: _____

Its: _____

Date: _____

EXHIBIT B

INVENTIONS, CONFIDENTIALITY,
NON-COMPETITION AND NON-SOLICITATION AGREEMENT

As a condition of employment with Applied Optoelectronics, Inc., a Delaware corporation, its subsidiaries, affiliates, successors, or assigns (together, the "Company"), Employee's receipt of compensation now and hereafter paid to Employee by the Company, and in exchange for the Company's agreement to provide Employee with access to the Company's Confidential Information and Trade Secrets (as defined below), Employee and the Company enter into this Inventions, Confidentiality, Non-Competition and Non-Solicitation Agreement (the "Agreement"), effective as of the date signed by Employee below.

1. **Confidential Information and Trade Secrets of Company.** During the term of employment, the Company will provide Employee with access to and the opportunity to become familiar with its confidential information and various trade secrets, including but not limited to any information, data or compilation of information or data developed, acquired or generated by Company, or its employees (including information and materials conceived, originating, discovered, or developed in whole or in part by Executive at the request of or for the benefit of Company or while employed by Company), which is not generally known to persons who are not employees of Company, and which Company generally does not share other than with its employees, or with its customers and suppliers on an individual transactional basis. Confidential Information and Trade Secrets (defined below) may be written, verbal or recorded by electronic, magnetic or other methods, whether or not expressly identified as "Confidential" by Company.

(a) "Confidential Information and Trade Secrets" includes, but is not limited to, the following information and materials:

- (i) Financial information of any kind pertaining to Company, including, without limitation, information about the profit margins, profitability, pricing, income and expenses of Company or any of its products or lines of business;
- (ii) All information about and all communications received from, sent to or exchanged between Company and any person or entity which has purchased, licensed, exchanged or otherwise entered into a transaction with Company, or to which Company has made a proposal with respect to the purchase, sale, license, exchange or other transaction involving any component, products or services which form any part of Company's Business (defined below) (such person or entity being hereinafter referred to as customer or customers);
- (iii) Any and all information and records relating to Company's contracts or transactions with, or charges, prices or sales to, its customers, including invoices, proposals, confirmations, bills of ladings, statements, accounting records, bids, payment records or any other information or documents regarding amounts charged to or paid by customers, for any software, products or services which form any part of Company's Business;

(iv) All information regarding Company's scientific, technical or technological information, designs, processes, procedures, formulas, equipment or systems,

including without limitation, any components, modules, circuits, software, programs, codes, algorithms, calculations, drawings, plans, or specifications related to the development, design, construction, fabrication, manufacture, operation or furnishing of any software, products, services, or equipment which constitute any part of the Company's Business, including Company Products. As used in this Agreement, "**Company Products**" shall mean any and all computer software, optical component, module, circuitry, equipment, products, services, together with any updates, substitutions, enhancements or modifications thereof, and any user manuals, programming manuals and other documentation of any kind.

(b) "**Company Business**" shall mean the developing and manufacturing of advanced optical devices, including laser diodes, photodiodes, related modules and circuitry, and equipment for applications in fiber-to-the-home, cable television, point to point communications, and wireless.

(c) Executive acknowledges that all notes, data, forms, reference and training materials, leads, memoranda, computer programs, computer print-outs, disks and the information contained in any computer, and any other records which contain, reflect or describe any Confidential Information and Trade Secrets, belong exclusively to Company. Upon the termination of Executive's employment with the Company, Executive shall promptly return such materials and all copies thereof in Executive's possession to Company, regardless of whether such termination is the result of termination for Good Reason or for Cause.

(d) During Executive's employment with Company and thereafter, Executive will not copy, publish, convey, transfer, disclose nor use, directly or indirectly, for Executive's own benefit or for the benefit of any other person or entity (except Company) any Confidential Information and Trade Secrets; provided, that any copying or other prohibited use of Confidential Information and Trade Secrets shall not include copying or otherwise using Confidential Information and Trade Secrets in connection with communications with current or potential customers or vendors that the Executive reasonably expects to have a direct benefit to the Company. Executive will abide by all rules, guidelines, policies and procedures relating to Confidential Information and Trade Secrets implemented and/or amended from time to time by Company.

(e) Executive acknowledges that any actual or threatened breach of the covenants contained herein will cause Company irreparable harm and that money damages would not provide an adequate remedy to Company for any such breach. For these reasons, and because of the unique nature of the Confidential Information and Trade Secrets and the necessity to preserve such Confidential Information and Trade Secrets in order to protect Company's property rights in the event of a breach or threatened breach of any of the provisions herein, Company, in addition to any other remedies available to it at law or in equity, shall be entitled to immediate injunctive relief against Executive to enforce the provisions of this Agreement and shall be entitled to recover from Executive its reasonable attorneys' fees and other expenses incurred in connection with such proceedings.

2. **Employee Confidentiality Obligations.** Employee agrees to keep all such information confidential and not to disclose any such Confidential Information and Trade Secrets, directly or indirectly, to any third party without the prior express written consent of the

Company. Employee also agrees not to use such Confidential Information and Trade Secrets in any way, either during the term of this Agreement or at any time thereafter, except as required in the course of employment with the Company. All such Confidential Information and Trade Secrets, including but not limited to files, records, customer lists, manuals, documents, drawings, specifications, personal notes, personal property, and similar items related to the business of the Company, whether or not prepared by Employee, shall remain the exclusive property of the Company.

3. **Return of Documents, Equipment, Etc.** Immediately upon the termination of this Agreement or whenever requested by the Company, Employee shall immediately deliver to Human Resources all property of the Company in Employee's possession or under Employee's control, including but not limited to all items listed above and all other records, files, lists, supplies, and personal property of the Company.

4. **Confidential Data of Customers of the Company.** In the course of performing duties under this Agreement, Employee will have access to and be handling substantial information concerning customers and clients of the Company. All information is considered confidential by the Company and shall not be disclosed, directly or indirectly, to any person or entity prior to termination of this Agreement or thereafter without the prior written consent of the Company.

5. **Inventions, Patents, and Copyright Works.** Employee recognizes, acknowledges, and agrees that the Company is the owner of certain inventions (whether patentable or not), discoveries, improvements, designs, ideas (whether or not shown or described in writing or reduced to practice) scientific and technical information, data and know-how of any nature including, and in addition to, any Confidential Information and Trade Secrets, and certain trademarks, tradenames, domain names, and copyrightable works including, but limited to, literary works (including all written material), books, brochures, catalogs, manuals, training materials, directories, compilations of information, compilations of inspection or testing procedures, computer programs, software (object and source code), protocols, system architectures, advertisements, artistic and graphic works (including designs, graphs, drawings, blueprints, and other works), recordings, models, photographs, slides, motion pictures, audio-visual works, and the like, regardless of the form or manner in which documented or recorded (collectively, "**Intellectual Property**"). Further, Employee agrees as follows:

(a) **Keep Records.** Employee agrees to keep and maintain adequate and current written records of all Intellectual Property made by Employee (solely or jointly with others) during the term of employment with the Company. The records will be in the form of notes, sketches, drawings and any other format that may be specified by the Company. The records will be available to and remain the sole property of the Company at all times.

(b) **Notification of Company.** Employee agrees to promptly disclose to the Company all Intellectual Property and other proprietary information which Employee may author, create, make, conceive, or develop, either solely or jointly with others, whether inside or outside normal working hours or on or off Company premises, during the term of employment with the Company.

(c) **Transfer of Rights.** Employee agrees that all Intellectual Property that Employee develops (in whole or in part, either alone or jointly with others) shall be the sole property of the Company and its assigns, and the Company and its assigns shall be the sole owner of all patents, copyrights, mask-work rights, and registrations and other rights in connection therewith. Employee acknowledges that all original works of authorship that are made by Employee (solely or jointly with others) within the scope of and during the period of employment with the Company shall be considered "works made for hire" under applicable copyright law, to the extent possible. Employee agrees to and does hereby assign, grant, and convey to the Company, its successors and assigns, Employee's entire right, title, and interest in and to all Intellectual Property and other proprietary rights and information which Employee may author, create,

make, receive, or develop, either solely or jointly with others, whether inside or outside normal working hours or on or off Company premises, during the term of employment with the Company. To perfect the Company's ownership of such Intellectual Property, Employee hereby assigns to the Company any rights that Employee may have or acquire in such Intellectual Property, including the right to modify such Intellectual Property, and otherwise waives and/or releases all rights of restraint and moral rights in the Intellectual Property.

(d) Assistance in Preparation of Applications. As to all such Intellectual Property, Employee further agrees to assist the Company in every proper way (but at the Company's expense) to obtain and from time to time enforce patents, copyrights, trade secrets, or other intellectual property or proprietary rights, mask-work rights or other rights in such Intellectual Property in any and all countries, and Employee will execute all documents for use in applying for and obtaining such rights and enforcing them as the Company may desire, together with any assignments of them to the Company or persons designated by the Company. If the Company is unable for any reason whatsoever to secure Employee's signature to any lawful and necessary document required to apply for or execute any application with respect to such Intellectual Property (including renewals, extensions, continuations, divisions or continuations in whole or in part thereof), Employee hereby irrevocably designates and appoints the Company and its duly authorized officers and agents, as Employee's agents and attorneys-in-fact to act for and in Employee's behalf and to execute and file any such application and to do all other lawfully permitted acts to further the prosecution and issuance of patents, copyrights, trade secrets or other intellectual property or proprietary rights, mask work rights or other rights thereon, with the same legal force and effect as if executed by Employee.

6. Non-Competition and Non-Solicitation of Customers and Clients. Employee hereby acknowledges and recognizes that, throughout Executive's employment with the Company, Company agrees to give Executive access to certain of its Confidential Information and Trade Secrets (defined above) concerning Company's Business and its employees, customers and customer representatives, suppliers and supplier representatives, and Company's transactional histories as well as information about the logistics, details and expenses of Company in connection with any goods, products or services which form any part of Company's Business. Company agrees to provide this information to Executive in order to allow Executive to perform Executive's duties under this Agreement, and to develop relationships with customers, customer representatives, suppliers and supplier representatives of the Company.

(a) Company agrees to provide, and to continue to provide, Executive with both specialized knowledge and education in Company's Business, in order to allow Executive to

perform Executive's duties in an efficient, proper and effective manner. Such knowledge and education may consist of verbal instructions and information, the furnishing of written materials, consultation and counseling, sales, staff and employee meetings, training sessions and seminars, in addition to formal or informal information and orientation methodologies and procedures. Executive will have access to certain of Company's transactional histories, and the details of prior purchases, sales, trades or exchanges, in order that Executive can learn Company's Business and/or improve Executive's skills, experience and knowledge.

(b) In consideration of Company's employment of Executive as a highly valued employee, the Company's agreement to provide Executive with access to certain Confidential Information and Trade Secrets, and the Company's agreement to provide specialized knowledge and education, Executive agrees to refrain from competing with Company or otherwise engaging in Restricted Activities, as defined below, during the Restricted Period.

(c) Executive agrees that during the term of his employment with Company and for a period of one (1) year after the Executive's employment with the Company terminates (the "**Restricted Period**"), regardless of whether the termination occurs with or without cause and regardless of who terminates this Agreement, Executive will not directly or indirectly, as an employee, officer, director, shareholder, proprietor, agent, partner, recruiter, consultant, independent contractor or in any other individual or representative capacity engage in any of the Restricted Activities within the Restricted Area.

(d) "**Restricted Activities**" means and includes the following:

(i) Conducting, engaging or participating, directly or indirectly, as the chief executive officer or division head, agent, independent contractor, consultant, partner, shareholder, investor, lender, underwriter, supplier, customer or in any other similar capacity, in any business that competes with any part of the Company's Business;

(ii) Recruiting, hiring, and/or attempting to recruit or hire, directly or by assisting others, any other employee, temporary or permanent, contract, part time or full time of the Company. For purposes of this covenant "any other employee" shall refer to employees, consultants or others who are under contract to provide services to the Company and who are still actively employed by, or doing business with, the Company at the time of the attempted recruiting or hiring, or were so employed or doing business at any time within six (6) months prior to the time of such attempted recruiting or hiring; and

(iii) Using, disclosing, publishing, copying, distributing or communicating any Confidential Information and Trade Secrets to, or for the use or benefit of Executive or any other person or entity other than Company.

(e) "**Restricted Area**" shall mean and include each of the following:

(i) The state of Texas;

(ii) Within a one-hundred (100) mile radius of the location of any office, facility or other business location of any customer, customer representative, supplier or supplier representative; and

(iii) Within a one-hundred (100) miles radius of any office, facility or other business location of Company.

(f) The Company and Executive acknowledge that the provisions contained in this Section 6 shall not prevent Executive or Executive's Affiliates from owning solely as an investment, directly or indirectly, securities of any publicly traded corporation engaged in the Company's Business if Executive and Executive's Affiliates do not, directly or indirectly, beneficially own in the aggregate more than 5% of all classes of outstanding equity securities of such entity.

(g) Executive and the Company agree that the limitations as to time and scope of activity to be restrained are reasonable and do not impose a greater restraint on Executive than is necessary to protect the property rights and other business interests of Company.

(h) If Executive fails to comply with, or breaches, or threatens to breach, any of the provisions herein, Company in addition to any other remedies available to it at law or in equity, shall be entitled to immediate injunctive relief to enforce the provisions of this Section 6 and shall be entitled to recover from Executive reasonable attorneys' fees and other expenses incurred by Company in connection with such proceedings.

7. **Non-Solicitation of Employees.** For a period of one (1) year after Employee's termination of employment, whether by termination of this Agreement or otherwise, and without regard to the reason for such termination of employment, Employee promises and agrees not to solicit any other employee of the Company for any purpose which would directly or indirectly interfere or conflict with the other employee's employment by the Company.

8. **Extraordinary Remedies and Attorneys' Fees.** The Company and Employee agree that any breach by Employee of any of the provisions or covenants contained in the Agreement would cause irreparable harm and damage to the Company, in an amount that would be difficult to quantify, measure, or ascertain. Therefore, in the event of a breach of this Agreement by Employee, the Company shall be entitled to relief through restraining order, injunction, and all other available remedies, including claims for monetary damages incurred because of such breach. These remedies may be pursued concurrently and in any order, and the pursuit of any of these remedies shall not be deemed to limit the other remedies available to the Company in law or in equity. If any action at law or in equity, including an action for declaratory or injunctive relief, is brought to enforce or interpret the provisions of this Agreement, the prevailing party shall be entitled to recover costs of court and reasonable attorneys' fees from the other party or parties to such action, which fees may be set by the court in the trial of such action or may be enforced in a separate action brought for that purpose, and which fees shall be in addition to any other relief that may be awarded.

9. **Survival of Provisions and Covenants.** Each and every provision or covenant contained in this contract shall survive the termination of this Agreement as expressly provided herein, and shall constitute an independent agreement between Employee and the Company. Further, the existence of any claim by Employee against the Company shall not constitute a defense to the enforcement of its rights by the Company.

10. **Severability.** It is the intent and agreement of the parties to this Agreement that, in case any one or more of the provisions of this Agreement shall, for any reason, be held to be invalid, illegal or unenforceable, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein except that this shall not prohibit any modification allowed or agreed upon pursuant to the terms of this Agreement or any right of reformation.

11. **Assignment.** This Agreement is binding upon and shall inure to the benefit of the parties hereto, together with their respective executors, administrators, successors, personal representatives, heirs, and assigns. Notwithstanding the foregoing, the rights, duties and benefits to Employee hereunder are personal to Employee, and no such right or benefit may be assigned by it. The Company shall have the right to assign or transfer this Agreement to its successors or assigns. The terms "successors" and "assigns" shall include any person, corporation, partnership or other entity that buys all or substantially all of Company's assets or all of its stock, or with which Company merges or consolidates. Any purported assignment of this Agreement, other than as provided above, shall be void.

12. **Previously Received Information.** Employee hereby represents to the Company that Employee is under no obligation or agreement that would prevent Employee from becoming an employee of the Company or carrying out the duties of Employee's proposed position of employment with the Company.

13. **Governing Law and Venue.** This Agreement shall be governed by, and construed in accordance with, the procedural and substantive laws of the State of Texas. The Company and Employee irrevocably and unconditionally consent to submit to the exclusive jurisdiction of the state or federal courts located in Harris County, Texas as the sole venue and location for any actions, suits, or proceedings arising out of or relating to any aspect of this Agreement and all issues arising out of or relating to the employment relationship between the Company and Employee.

14. **Employee Acknowledgement.** Employee recognizes and acknowledges that Employee has freely entered into this Agreement for the full consideration expressed herein, the sufficiency and receipt of which Employee hereby acknowledges, and that Employee has had the opportunity to consult with counsel of Employee's choice with full knowledge and careful consideration of the consequences and meaning of execution of this Agreement.

15. **Entire Agreement.** Upon Employee's acceptance, this letter will contain the entire agreement and understanding between Employee and the Company with respect to the matters addressed herein and shall supersede any prior or contemporaneous agreements, understandings, communications, offers, representations, warranties, or commitments by or on behalf of the Company and its affiliates (oral or written). The terms of Employee's employment may in the future be amended, but only in writing signed by both Employee and a duly authorized officer of the Company.

[SIGNATURES ON NEXT PAGE]

AGREED AND ACCEPTED:

APPLIED OPTOELECTRONICS, INC.

By: _____

Its: _____

Date: _____

AGREED AND ACCEPTED:

"EMPLOYEE"

Signature

Print Name

Date: _____

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (this “**Agreement**”) is dated as of April 16, 2013, by and between Applied Optoelectronics, Inc., a Delaware corporation (the “**Company**”), and Hung-Lun (Fred) Chang, an individual currently residing at Sugar Land, TX 77479 (the “**Executive**”).

WHEREAS, the Company desires to employ the Executive on the terms and conditions and for the consideration hereinafter set forth and the Executive is willing to serve as an employee of the Company on such terms and conditions and for such consideration.

NOW THEREFORE, for and in consideration of the mutual promises, covenants and obligations contained herein, the Company and the Executive hereby agree as follows:

1. **Employment and Duties.**

(a) **General.** The Executive shall serve as Senior Vice President of Optical Component Business Unit of the Company, reporting to the Company’s CEO. The Executive shall have such duties and responsibilities, commensurate with the Executive’s position, as may be reasonably assigned to the Executive from time to time by the Company. The Executive’s principal place of employment shall be in the Houston, Texas area.

(b) **Exclusive Services.** For so long as the Executive is employed by the Company, the Executive shall devote his full attention to his duties hereunder, shall faithfully serve the Company, shall in all respects conform to and comply with the lawful and good faith directions and instructions given to him by the Company and shall use his best efforts to promote and serve the interests of the Company. Further, the Executive shall not, directly or indirectly, render services to any other person or organization without the consent of the Company or otherwise engage in activities that would interfere significantly with his faithful performance of his duties hereunder. Notwithstanding the foregoing, the Executive may (i) serve on corporate, civic, children sports organization or charitable boards or engage in charitable activities without remuneration therefor and (ii) manage personal investments, provided that such activity does not contravene the first sentence of this Section 1(b) or any other provision of this Agreement.

2. **Term of Employment.** The Executive’s employment under this Agreement shall commence as of April 16, 2013 (the “**Effective Date**”) and shall terminate on the earlier of (i) the fifth-year anniversary of the Effective Date and (ii) the termination of the Executive’s employment under this Agreement. The period from the Effective Date until the termination of the Executive’s employment under this Agreement is referred to as the “**Term**”.

3. **Compensation and Other Benefits.** Subject to the provisions of this Agreement, the Company shall pay and provide the following compensation and other benefits to the Executive during the Term as compensation for services rendered hereunder:

(a) **Base Salary.** The Company shall pay to the Executive an annual salary (the “**Base Salary**”) at the rate of \$189,000, payable in substantially equal installments at such intervals as may be determined by the Company in accordance with the Company’s then current

ordinary payroll practices as established from time to time. The Base Salary shall be reviewed in good faith by the Compensation Committee of the Company’s Board of Directors (the “**Board**”), based upon the Executive’s performance, not less often than annually.

(b) **Bonus.** For each fiscal year during the Term, the Executive shall be eligible to receive an incentive bonus equal to the milestone bonus set by the Company or Compensation Committee for such year if the applicable performance goals are satisfied. Such bonus, if any, shall be paid to the Executive no later than March 15th of the calendar year following the calendar year in which the bonus is earned.

(c) **Employee Benefits.** The Executive shall be entitled to participate in all employee benefit arrangements that the Company may offer to its executives of a like status from time to time, and as may be amended from time to time.

(d) **Expenses.** The Company shall reimburse the Executive for reasonable travel and other business-related expenses incurred by the Executive in the fulfillment of his duties hereunder upon presentation of written documentation thereof, in accordance with the applicable expense reimbursement policies and procedures of the Company as in effect from time to time.

(e) **Indemnification.** To the fullest extent permitted by the indemnification provisions of the Articles of Incorporation and/or Bylaws of the Company in effect from time to time and the indemnification provisions of the corporation statute of the jurisdiction of the Company’s incorporation in effect from time to time (collectively the “**Indemnification Provisions**”), and in each case subject to the conditions thereof, the Company shall (i) indemnify the Executive, as a director and officer of the Company or a trustee or fiduciary of an employee benefit plan of the Company against all liabilities and reasonable expenses that the Executive may incur in any threatened, pending, or completed action, suit or proceeding, whether civil, criminal or administrative, or investigative and whether formal or informal, because the Executive is or was a director or officer of the Company or a trustee or fiduciary of such employee benefit plan, and against which the Executive may be indemnified by the Company, and (ii) pay for or reimburse the reasonable expenses incurred by the Executive in the defense of any proceeding to which the Executive is a party because the Executive is or was a director or officer of the Company or a trustee or fiduciary of such employee benefit plan.

4. **Termination of Employment.**

(a) **Termination of Employment Prior to a Change of Control.** Except as provided in Section 4(b), if prior to a Change of Control the Executive’s employment is terminated by the Company (for any reason) or the Executive resigns his or her employment with the Company (for any reason), then the Executive shall only be entitled to payment of unpaid Base Salary through and including the date of termination or resignation. The Executive shall have no further right to receive any other compensation or benefits after such termination or resignation of employment, except for the continuation of health benefits as provided under applicable law. For purposes of this Agreement the term “**Change of Control**” shall be deemed to have occurred on the date that one or more of the following occurs: (i) Individuals who, on the date hereof, constitute the entire Board of the Company (“**Incumbent Directors**”) cease for any

reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the then Incumbent Directors shall be considered as though such individual was an Incumbent Director, but excluding, for this purpose any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest, as such terms are used in Rule 14a-11 under the Securities Exchange Act of 1934, as amended ("**Exchange Act**") or other actual or threatened solicitation of proxies or consents by or on behalf of any Person (as defined below) other than the Board; or (ii) (a) the consummation of any merger, consolidation or recapitalization of the Company (or, if the capital stock of the Company is affected, any subsidiary of the Company), or any sale, lease, or other transfer (in one transaction or a series of transactions contemplated or arranged by any party as a single plan) of all or substantially all of the assets of the Company (each of the foregoing being an "**Acquisition Transaction**") where: (A) the stockholders of the Company immediately prior to such Acquisition Transaction would not immediately after such Acquisition Transaction beneficially own, directly or indirectly, shares or other ownership interests representing in the aggregate fifty-one percent (51%) or more of (1) the then outstanding common stock or other equity interests of the corporation or other entity surviving or resulting from such merger, consolidation or recapitalization or acquiring such assets of the Company, as the case may be (the "**Surviving Entity**") (or of its ultimate parent corporation or other entity, if any), and (2) the Combined Voting Power of the then outstanding Voting Securities of the Surviving Entity (or of its ultimate parent corporation or other entity, if any) or (B) the Incumbent Directors at the time of the initial approval of such Acquisition Transaction would not immediately after such Acquisition Transaction constitute a majority of the Board, or similar managing group, of the Surviving Entity (or of its ultimate parent corporation or other entity, if any), or (b) the filing of any plan for the liquidation or dissolution of the Company. For purposes of this Section 4(a) and this Agreement, the following terms shall have the following meanings: (i) the term "**Affiliate**" shall mean, as to a specified Person, another Person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the specified Person, within the meaning of such terms as used in Rule 405 under the Securities Act of 1933, as amended ("**Securities Act**"), or any successor rule; (ii) the term "**Combined Voting Power**" shall mean the aggregate votes entitled to be cast generally in the election of the Board, or similar managing group, of a corporation or other entity by holders of then outstanding Voting Securities of such corporation or other entity; (iii) the term "**Person**" shall mean any individual, entity (including, without limitation, any corporation, partnership, trust, joint venture, association or governmental body) or group (as defined in Sections 14(d)(3) or 15(d)(2) of the Exchange Act and the rules and regulations thereunder); provided, however, that Person shall not include the Company, any of its subsidiaries, any employee benefit plan of the Company or any of its majority-owned subsidiaries or any entity organized, appointed or established by the Company or such subsidiaries for or pursuant to the terms of any such plan; and (iv) the term "**Voting Securities**" shall mean all securities of a corporation or other entity having the right under ordinary circumstances to vote in an election of the Board, or similar managing group, of such corporation or other entity.

(b) **Termination of Employment after a Change of Control.** Subject to satisfaction of Section 4(d), if, within six (6) months immediately preceding a Change of Control or within twelve (12) months immediately following a Change of Control, the Executive's

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employment is terminated by the Company for any reason other than Cause or is terminated by the Executive for Good Reason, then the Executive shall be entitled to receive the following benefits (collectively, the "**Severance Benefits**"): (i) a payment equal to one times (1x) the then current annual Base Salary; (ii) a payment equal to the dollar amount of the Executive's full target bonus percentage as in effect for the twelve (12) month period immediately prior to such termination (for this purpose any performance targets shall be deemed immediately and fully satisfied); and (iii) \$15,000 for the purpose of the Executive to fund health coverage continuation benefits. Severance Benefits shall be paid to the Executive no later than the thirtieth (30th) day immediately following the Executive's "separation from service" (as defined under Section 409A of the Internal Revenue Code of 1986, as amended (the "**Code**")), provided the Executive first executes a release of any and all claims against the Company (set forth in Section 4(d), below) and the revocation period specified therein has expired without the Executive revoking such release. Notwithstanding the foregoing and for avoidance of doubt, if (i) the Executive's employment is terminated for Cause within six (6) months immediately preceding a Change of Control or within twelve (12) months immediately following a Change of Control, or (ii) the Executive's employment is terminated by the Company for Cause or by the Executive for any reason after the expiration of twelve (12) months from a Change of Control; then the Executive shall be entitled to only any unpaid then current annual Base Salary through and including the date of termination as set forth in Section 4(a) of this Agreement and the Executive shall not be entitled to or receive any Severance Benefits.

For purposes of this Agreement, the term "**Cause**" shall mean to include: (i) the Executive's conviction of or plea of *nolo contendere* to any felony offense or to a crime that the Board determines, in its sole discretion, is a crime of moral turpitude (whether or not a felony); (ii) the Executive commits willful misconduct (that is, done in bad faith or without reasonable belief that such action is in the best interest of the Company) or violates any law in connection with the performance of any of his or her duties, including, without limitation, (A) misappropriation of funds or property of the Company or any of its affiliates or customers, (B) securing or attempting to secure personally any profit in connection with any transaction entered into on behalf of the Company or any of its affiliates, or (C) making any material misrepresentation to the Board, the Company, or any of the Company's affiliates; (iii) the Executive materially violates or fails to comply with any written Company policy; (iv) the Executive materially breaches any term of this Agreement; or (v) the willful and continued failure or neglect of the Executive to substantially perform his or her duties with the Company (other than any such failure resulting from incapacity due to physical or mental illness). The Board shall not have Cause to terminate the Executive's employment under this Section 4 unless and until the Board provides written notice to the Executive that identifies the Executive's alleged violation of policy, breach of this Agreement, or failure to perform (or neglect of) any duty and the Executive fails to cure such violation of policy, breach of this Agreement or failure to perform (or neglect of) any duty within 60 days therefrom.

For purposes of this Agreement, the term "**Good Reason**" shall mean to include: (i) the Executive being assigned any duties or the significant reduction of the Executive's duties or a significant change of the Executive's title, any of which is inconsistent with his or her position or title with the Company and responsibilities in effect immediately prior to such assignment, except in each case in connection with a promotion; (ii) a reduction by the Company in the Executive's Base Salary as in effect immediately prior to such reduction, provided that Good

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Reason shall not be deemed to exist where the Executive's Base Salary is reduced as part of an overall cost reduction program that affects all senior executives of the Company and does not disproportionately affect the Executive; (iii) the failure of any successor entity to the Company to expressly assume in writing the terms of this Agreement; and (iv) any material breach by the Company of any material provision of this agreement which has not been cured within 30 days of the Executive providing the Company with written notice of such breach.

(c) **Board Resignation.** Upon termination of the Executive's employment for any reason, the Executive shall be deemed to have resigned from any Board position (and any committees thereof) and from any and all positions with the Company's affiliates, effective as of the date of such termination.

(d) **Waiver and Release.** Notwithstanding any other provisions of this Agreement to the contrary, unless expressly waived in writing by the Board in its sole discretion, the Company shall not make or provide any Severance Benefits under this Section 4 (other than accrued Base Salary as of the termination date) unless the Executive timely executes and delivers to the Company a general release (which shall be provided by the Company not later than

five (5) days from the date on which the Executive's employment is terminated and be substantially in the form attached hereto as **Exhibit A**), whereby the Executive (or his estate or legally appointed personal representative) releases the Company (and affiliates of the Company and other designated persons) from all employment based or related claims of the Executive and all obligations of the Company to the Executive other than with respect to (x) the Company's obligations to make and provide the Severance Benefits and (y) any vested benefits to which the Executive is entitled under the terms of any Company benefit or equity plan, and the Executive does not revoke such release within any applicable revocation period following the Executive's delivery of the executed release to the Company. If the requirements of this Section 4(d) are not satisfied by the Executive (or his estate or legally appointed personal representative), then no Severance Benefits (other than accrued salary as of the termination date) shall be due to the Executive (or his estate) pursuant to this Agreement.

(e) **Notice of Termination.** Any termination of employment by the Company or the Executive shall be communicated by a written "**Notice of Termination**" to the other party hereto given in accordance with Section 8(l) of this Agreement. In the event of a termination by the Company for Cause, the Notice of Termination shall (i) indicate the specific termination provision in this Agreement relied upon, (ii) set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated and (iii) specify the date of termination. The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Cause shall not waive any right of the Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

5. **Section 280G Payments.** Notwithstanding anything in this Agreement to the contrary, if the Executive is a "disqualified individual" (as defined in Section 280G(c) of the Code), and the payments and benefits provided for in this Agreement, together with any other payments and benefits which the Executive has the right to receive from the Company or any other person, would constitute a "parachute payment" (as defined in Section 280G(b)(2) of the

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Code), then the payments and benefits provided for in this Agreement shall be either (a) reduced (but not below zero) so that the present value of such total amounts and benefits received by the Executive from the Company and/or such person(s) will be \$1.00 less than three (3) times the Executive's "base amount" (as defined in Section 280G(b)(3) of the Code) and so that no portion of such amounts and benefits received by the Executive shall be subject to the excise tax imposed by Section 4999 of the Code or (b) paid in full, whichever produces the better "net after-tax position" to the Executive (taking into account any applicable excise tax under Section 4999 of the Code and any other applicable taxes). The reduction of payments and benefits hereunder, if applicable, shall be made by reducing, first, payments or benefits to be paid in cash hereunder in the order in which such payment or benefit would be paid or provided (beginning with such payment or benefit that would be made last in time and continuing, to the extent necessary, through to such payment or benefit that would be made first in time) and, then, reducing any benefit to be provided in-kind hereunder in a similar order. The determination as to whether any such reduction in the amount of the payments and benefits provided hereunder is necessary shall be made by the Company in good faith. If a reduced payment or benefit is made or provided and through error or otherwise that payment or benefit, when aggregated with other payments and benefits from the Company (or its affiliates) used in determining if a "parachute payment" exists, exceeds \$1.00 less than three (3) times the Executive's base amount, then the Executive shall immediately repay such excess to the Company upon notification that an overpayment has been made. Nothing in this paragraph shall require the Company to be responsible for, or have any liability or obligation with respect to, the Executive's excise tax liabilities under Section 4999 of the Code.

6. **Section 409A of the Code.** This Agreement is intended to either avoid the application of, or comply with, Section 409A of the Code. To that end this Agreement shall at all times be interpreted in a manner that is consistent with Section 409A. Notwithstanding any other provision in this Agreement to the contrary, the Company shall have the right, in its sole discretion, to adopt such amendments to this Agreement or take such other actions (including amendments and actions with retroactive effect) as it determines is necessary or appropriate for this Agreement to comply with Section 409A. Further:

(a) Any reimbursement of any costs and expenses by the Company to the Executive under this Agreement shall be made by the Company in no event later than the close of the Executive's taxable year following the taxable year in which the cost or expense is incurred by the Executive. The expenses incurred by the Executive in any calendar year that are eligible for reimbursement under this Agreement shall not affect the expenses incurred by the Executive in any other calendar year that are eligible for reimbursement hereunder and the Executive's right to receive any reimbursement hereunder shall not be subject to liquidation or exchange for any other benefit.

(b) Each payment that the Executive may receive under this Agreement shall be treated as a "separate payment" for purposes of Section 409A of the Code.

7. **Agreement Ancillary to Other Agreements.** This Agreement is ancillary to and part of the Inventions, Confidentiality, Non-Competition and Non-Solicitation Agreement, attached hereto as **Exhibit B**, between the Company and the Executive and furthers the Company's agreements to: (i) disclose, and to continue to disclose its Confidential Information

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and Trade Secrets to the Executive; (ii) provide initial and continued training, education and development to the Executive; (iii) provide the Executive with Confidential Information and Trade Secrets about, and the opportunity to develop relationships with, the Company's employees, Customers and Suppliers, and employees and agents of its Customers and Suppliers. A default under or breach of the Inventions, Confidentiality, Non-Competition and Non-Solicitation Agreement shall constitute a material breach of this Agreement.

8. **Miscellaneous.**

(a) **Defense of Claims.** The Executive agrees that, during the Term, and for a period of twelve (12) months after termination of the Executive's employment, upon request from the Company, the Executive will cooperate with the Company in the defense of any claims or actions that may be made by or against the Company that affect the Executive's prior areas of responsibility, except if the Executive's reasonable interests are adverse to the Company in such claim or action. The Company agrees to promptly reimburse the Executive for all of the Executive's reasonable legal fees, travel and other direct expenses incurred, or to be reasonably incurred, to comply with the Executive's obligations under this Section 8(a).

(b) **Non-disparagement.** The Parties agree that at no time during the Executive's employment by the Company or thereafter shall either Party make, or cause or assist any other person to make, any statement or other communication to any third party which impugns or attacks, or is otherwise critical of, the reputation, business or character of the other Party, or their affiliates or any of its respective directors, officers or employees.

(c) Source of Payments. All payments provided under this Agreement, other than payments made pursuant to a plan or agreement which provides otherwise, shall be paid in cash from the general funds of the Company, and no special or separate fund shall be established, and no other segregation of assets shall be made, to assure payment. The Executive shall have no right, title or interest whatsoever in or to any investments which the Company may make to aid the Company in meeting its obligations hereunder. To the extent that any person acquires a right to receive payments from the Company hereunder, such right shall be no greater than the right of an unsecured creditor of the Company.

(d) Arbitration. Any dispute or controversy arising under or in connection with this Agreement or otherwise in connection with the Executive's employment by the Company that cannot be mutually resolved by the parties to this Agreement and their respective advisors and representatives shall be settled exclusively by arbitration in Harris County, Houston, Texas in accordance with the rules of the American Arbitration Association before one arbitrator of exemplary qualifications and stature, who shall be selected jointly by an individual by the Company and an individual to be selected by the Executive, or if such two individuals cannot agree on the selection of the arbitrator, who shall be selected by the American Arbitration Association.

(e) Amendment, Waiver. This Agreement may not be modified, amended or waived in any manner, except by an instrument in writing signed by both parties hereto. The waiver by either party of compliance with any provision of this Agreement by the other party

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shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by such party of a provision of this Agreement.

(f) Entire Agreement. This Agreement contains the entire agreement and understanding of the parties hereto with respect to the matters covered herein and supersedes all prior or contemporaneous negotiations, commitments, agreements and writings with respect to the subject matter hereof, all such other negotiations, commitments, agreements and writings shall have no further force or effect, and the parties to any such other negotiation, commitment, agreement or writing shall have no further rights or obligations thereunder.

(g) Governing Law/Venue. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas, without regard to conflict of laws principles thereof. Each party to this Agreement hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts in Houston, Texas, for the purposes of any proceeding arising out of or based upon this Agreement.

(h) No Waiver. The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver of such party's rights or deprive such party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

(i) Severability. In the event that any one or more of the provisions of this Agreement shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions of this Agreement shall not be affected thereby.

(j) No Assignment. Neither this Agreement nor any of the Executive's rights and duties hereunder, shall be assignable or delegable by the Executive. Any purported assignment or delegation by the Executive in violation of the foregoing shall be null and void ab initio and of no force and effect. This Agreement may be assigned by the Company to a person or entity which is an affiliate or a successor in interest to substantially all of the business operations of the Company. Upon such assignment, the rights and obligations of the Company hereunder shall become the rights and obligations of such affiliate or successor person or entity.

(k) Successors; Binding Agreement. This Agreement shall inure to the benefit of and be binding upon personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

(l) Notices. For the purpose of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered by hand or overnight courier or three (3) days after it has been mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth below in this Agreement, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

If to the Company:

13115 Jess Pirtle Blvd.
Sugar Land, Texas 77478

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If to Executive:

(m) Prior Employment. The Company has employed the Executive for the Executive's general skills, management abilities and experience in the Company's business or related industries. The Executive acknowledges that he has been specifically instructed not to bring, disclose or use in any fashion any confidential information, trade secrets, proprietary information, data or technology, nor any confidential pricing information, belonging to any prior employer. In no event is the Executive authorized to use or disclose any such information to the Company or any of its employees.

(n) Executive's Representations. The Executive hereby represents to the Company that (i) all confidential information, trade secrets or proprietary information, data or technology, belonging to any prior employer, including those that might have been contained on the Executive's personal computer, cell phone or other electronic communications or storage device have been returned and/or deleted in accordance with any policy of or agreement with the Executive's prior employer and (ii) the execution and delivery of this Agreement by the Executive and the Company and the performance by the Executive of his duties hereunder shall not constitute a breach of, or otherwise contravene, the terms of any employment agreement or other agreement or policy to which the Executive is a party or otherwise bound.

(o) Withholding of Taxes. The Company may withhold from any amounts or benefits payable under this Agreement all taxes it may be required to withhold pursuant to any applicable law or regulation.

(p) Counterparts. This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

(q) Survival. This Agreement shall terminate upon the termination of employment of the Executive; however, the following Section 4 (Termination of Employment) and the corresponding Exhibit A (Waiver and Release), Section 7 (Agreement Ancillary to Other Agreements) and the corresponding Exhibit B (Inventions, Confidentiality, Non-Competition and Non-Solicitation Agreement) shall survive the termination of the Executive's employment and/or the expiration or termination of this Agreement, regardless of the reasons for such expiration or termination.

(r) Clawback of Incentive Compensation. Any incentive compensation payable to the Executive under this Agreement or any other agreement shall be subject to any policy, whether in existence as of the Effective Date of this Agreement or later adopted, established by the Company that provides for the clawback or recovery of amounts due to restatement of the Company's financial records or due to fraud or other malfeasance in connection with the eligibility for or calculation of any amounts, that were paid to the Executive under circumstances requiring clawback or recovery as set forth in such policy. The Company shall not apply such policy retroactively to the Executive except to the extent it deems warranted, in good faith, due to the Executive's own fraud or malfeasance. The Company will make any determinations for clawback or recover in its sole discretion and in accordance with such policy

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and any applicable law or regulations; provided that such policy is generally applicable to other executive officers.

[SIGNATURES ON NEXT PAGE]

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IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement effective as of the Effective Date.

EXECUTIVE:

APPLIED OPTOELECTRONICS, INC.:

/s/ Hung-Lun (Fred) Chang

By: /s/ Chih-Hsiang (Thompson) Lin

Print Name: Hung-Lun (Fred) Chang

Its: President and CEO

Date: April 16, 2013

Date: April 16, 2013

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EXHIBIT A

WAIVER AND RELEASE

Pursuant to the terms of the Employment Agreement (the "**Agreement**") dated as of [], by and between Applied Optoelectronics, Inc., a Delaware corporation, and myself, and in exchange for the salary continuation and benefits payable under the Agreement (the "**Severance Benefits**"), I hereby waive all claims against and release (i) Applied Optoelectronics, Inc., its officers, employees, agents, insurers, predecessors, successors and assigns (collectively referred to as the "**Company**"), (ii) all of the affiliates of the Company and their directors, officers, employees, agents, insurers, predecessors, successors and assigns, and (iii) the Company and its affiliates' employee benefit plans and the fiduciaries and agents of said plans (collectively referred to as the "**Benefit Plans**") from any and all claims, demands, actions, liabilities and damages arising out of or relating in any way to my employment with or separation from employment with the Company and its affiliates other than amounts due pursuant to the Agreement and the rights and benefits I am entitled to under the Benefit Plans. (the Company, its affiliates and the Benefit Plans are sometimes hereinafter collectively referred to as the "**Released Parties**").

I understand that signing this Waiver and Release is an important legal act. I acknowledge that I have been advised in writing to consult an attorney before signing this Waiver and Release. I understand that, in order to be eligible for the Severance Benefits, I must sign (and return to the Company) this Waiver and Release before I will receive the Severance Benefits. I acknowledge that I have been given at least [] days to consider whether to accept the Severance Benefits and whether to execute this Waiver and Release.

In exchange for the payment to me of the Severance Benefits, (1) I agree not to sue the Released Parties in any local, state and/or federal court regarding or relating in any way to my employment with or separation from employment with the Company and its affiliates, and (2) I knowingly and voluntarily waive all claims and release the Released Parties from any and all claims, demands, actions, liabilities, and damages, whether known or unknown, arising out of or relating in any way to my employment with or separation from employment with the Company and its affiliates, except to the extent that my rights are vested under the terms of the Agreement or any employee benefit plans sponsored by the Company and its affiliates and except with respect to such rights or claims as may arise after the date this Waiver and Release is executed. This Waiver and Release includes, but is not limited to, claims and causes of action under: Title VII of the Civil Rights Act of 1964, as amended; the Age Discrimination in Employment Act of 1967, as amended, including the Older Workers Benefit Protection Act of 1990; the Civil Rights Act of 1866, as amended; the Civil Rights Act of 1991; the Americans with Disabilities Act of 1990; the Workers Adjustment and Retraining Notification Act of 1988; the Pregnancy Discrimination Act of 1978; the Employee Retirement Income Security Act of 1974, as amended; the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended; the Family and Medical Leave Act of 1993; the Fair Labor Standards Act; the Occupational Safety and Health Act; the Texas Labor Code et. seq.; claims in connection with workers' compensation, retaliation or "whistle blower" statutes; and/or contract, tort, defamation, slander, wrongful termination or any other state or federal regulatory, statutory or common law. Further, I expressly represent that no promise or agreement which is not expressed in this Waiver and

Release has been made to me in executing this Waiver and Release, and that I am relying on my own judgment in executing this Waiver and Release, and that I am not relying on any statement or representation of the Company or its affiliates or any of their agents. I agree that this Waiver and Release is valid, fair, adequate and reasonable, is with my full knowledge and consent, was not procured through fraud, duress or mistake and has not had the effect of misleading, misinforming or failing to inform me.

Notwithstanding the foregoing and anything in this Waiver and Release to the contrary, I do not release and expressly retain (a) all rights to payment or providing for post-employment benefits, under the Agreement or employee benefit plans, (b) all rights to indemnity, contribution, and a defense, and directors and officers and other liability coverage that I may have under any statute, Company policy or by this or any other agreement; and (c) the right to any, unpaid reasonable business expenses and any accrued benefits payable under any Company welfare plan or tax-qualified plan.

I acknowledge that payment of the Severance Benefits is not an admission by any one or more of the Released Parties that they engaged in any wrongful or unlawful act or that they violated any federal or state law or regulation. I acknowledge that neither the Company nor its affiliates have promised me continued employment or represented to me that I will be rehired in the future. I acknowledge that my employer and I contemplate an unequivocal, complete and final dissolution of my employment relationship. I acknowledge that this Waiver and Release does not create any right on my part to be rehired by the Company or its affiliates, and I hereby waive any right to future employment by the Company or its affiliates.

I understand that for a period of 7 calendar days following the date that I sign this Waiver and Release, I may revoke my acceptance of this Waiver and Release, provided that my written statement of revocation is received on or before that seventh day by [Name and/or Title], [address], facsimile number: [], in which case the Waiver and Release will not become effective. If I timely revoke my acceptance of this Waiver and Release, the Company shall have no obligation under this Waiver and Release nor the Agreement to provide the Severance Benefits to me. I understand that failure to revoke my acceptance of the offer within 7 calendar days from the date I sign this Waiver and Release will result in this Waiver and Release being permanent and irrevocable.

Should any of the provisions set forth in this Waiver and Release be determined to be invalid by a court, agency or other tribunal of competent jurisdiction, it is agreed that such determination shall not affect the enforceability of other provisions of this Waiver and Release. I acknowledge that this Waiver and Release sets forth the entire understanding and agreement between me and the Company and its affiliates concerning the subject matter of this Waiver and Release and supersedes any prior or contemporaneous oral and/or written agreements or representations, if any, between me and the Company or its affiliates.

I acknowledge that I have read this Waiver and Release, have had an opportunity to ask questions and have it explained to me and that I understand that this Waiver and Release will have the effect of knowingly and voluntarily waiving any action I might pursue, including breach of contract, personal injury, retaliation, discrimination on the basis of race, age, sex, national origin, or disability and any other claims arising prior to the date of this Waiver and Release. By

execution of this document, I do not waive or release or otherwise relinquish any legal rights I may have which are attributable to or arise out of acts, omissions, or events of the Company or its affiliates which occur after the date of the execution of this Waiver and Release.

EXECUTIVE:

APPLIED OPTOELECTRONICS, INC.:

_____ By: _____

_____ Its: _____

Date: _____ Date: _____

EXHIBIT B

INVENTIONS, CONFIDENTIALITY,
NON-COMPETITION AND NON-SOLICITATION AGREEMENT

As a condition of employment with Applied Optoelectronics, Inc., a Delaware corporation, its subsidiaries, affiliates, successors, or assigns (together, the “Company”), Employee’s receipt of compensation now and hereafter paid to Employee by the Company, and in exchange for the Company’s agreement to provide Employee with access to the Company’s Confidential Information and Trade Secrets (as defined below), Employee and the Company enter into this Inventions, Confidentiality, Non-Competition and Non-Solicitation Agreement (the “Agreement”), effective as of the date signed by Employee below.

1. **Confidential Information and Trade Secrets of Company.** During the term of employment, the Company will provide Employee with access to and the opportunity to become familiar with its confidential information and various trade secrets, including but not limited to any information, data or compilation of information or data developed, acquired or generated by Company, or its employees (including information and materials conceived, originating, discovered, or developed in whole or in part by Executive at the request of or for the benefit of Company or while employed by Company), which is not generally known to persons who are not employees of Company, and which Company generally does not share other than with its employees, or with its customers and suppliers on an individual transactional basis. Confidential Information and Trade Secrets (defined below) may be written, verbal or recorded by electronic, magnetic or other methods, whether or not expressly identified as “Confidential” by Company.

(a) **“Confidential Information and Trade Secrets”** includes, but is not limited to, the following information and materials:

(i) Financial information of any kind pertaining to Company, including, without limitation, information about the profit margins, profitability, pricing, income and expenses of Company or any of its products or lines of business;

(ii) All information about and all communications received from, sent to or exchanged between Company and any person or entity which has purchased, licensed, exchanged or otherwise entered into a transaction with Company, or to which Company has made a proposal with respect to the purchase, sale, license, exchange or other transaction involving any component, products or services which form any part of Company’s Business (defined below) (such person or entity being hereinafter referred to as customer or customers);

(iii) Any and all information and records relating to Company’s contracts or transactions with, or charges, prices or sales to, its customers, including invoices, proposals, confirmations, bills of lading, statements, accounting records, bids, payment records or any other information or documents regarding amounts charged to or paid by customers, for any software, products or services which form any part of Company’s Business;

(iv) All information regarding Company’s scientific, technical or technological information, designs, processes, procedures, formulas, equipment or systems,

including without limitation, any components, modules, circuits, software, programs, codes, algorithms, calculations, drawings, plans, or specifications related to the development, design, construction, fabrication, manufacture, operation or furnishing of any software, products, services, or equipment which constitute any part of the Company's Business, including Company Products. As used in this Agreement, "**Company Products**" shall mean any and all computer software, optical component, module, circuitry, equipment, products, services, together with any updates, substitutions, enhancements or modifications thereof, and any user manuals, programming manuals and other documentation of any kind.

(b) "**Company Business**" shall mean the developing and manufacturing of advanced optical devices, including laser diodes, photodiodes, related modules and circuitry, and equipment for applications in fiber-to-the-home, cable television, point to point communications, and wireless.

(c) Executive acknowledges that all notes, data, forms, reference and training materials, leads, memoranda, computer programs, computer print-outs, disks and the information contained in any computer, and any other records which contain, reflect or describe any Confidential Information and Trade Secrets, belong exclusively to Company. Upon the termination of Executive's employment with the Company, Executive shall promptly return such materials and all copies thereof in Executive's possession to Company, regardless of whether such termination is the result of termination for Good Reason or for Cause.

(d) During Executive's employment with Company and thereafter, Executive will not copy, publish, convey, transfer, disclose nor use, directly or indirectly, for Executive's own benefit or for the benefit of any other person or entity (except Company) any Confidential Information and Trade Secrets; provided, that any copying or other prohibited use of Confidential Information and Trade Secrets shall not include copying or otherwise using Confidential Information and Trade Secrets in connection with communications with current or potential customers or vendors that the Executive reasonably expects to have a direct benefit to the Company. Executive will abide by all rules, guidelines, policies and procedures relating to Confidential Information and Trade Secrets implemented and/or amended from time to time by Company.

(e) Executive acknowledges that any actual or threatened breach of the covenants contained herein will cause Company irreparable harm and that money damages would not provide an adequate remedy to Company for any such breach. For these reasons, and because of the unique nature of the Confidential Information and Trade Secrets and the necessity to preserve such Confidential Information and Trade Secrets in order to protect Company's property rights in the event of a breach or threatened breach of any of the provisions herein, Company, in addition to any other remedies available to it at law or in equity, shall be entitled to immediate injunctive relief against Executive to enforce the provisions of this Agreement and shall be entitled to recover from Executive its reasonable attorneys' fees and other expenses incurred in connection with such proceedings.

2. **Employee Confidentiality Obligations.** Employee agrees to keep all such information confidential and not to disclose any such Confidential Information and Trade Secrets, directly or indirectly, to any third party without the prior express written consent of the

Company. Employee also agrees not to use such Confidential Information and Trade Secrets in any way, either during the term of this Agreement or at any time thereafter, except as required in the course of employment with the Company. All such Confidential Information and Trade Secrets, including but not limited to files, records, customer lists, manuals, documents, drawings, specifications, personal notes, personal property, and similar items related to the business of the Company, whether or not prepared by Employee, shall remain the exclusive property of the Company.

3. **Return of Documents, Equipment, Etc.** Immediately upon the termination of this Agreement or whenever requested by the Company, Employee shall immediately deliver to Human Resources all property of the Company in Employee's possession or under Employee's control, including but not limited to all items listed above and all other records, files, lists, supplies, and personal property of the Company.

4. **Confidential Data of Customers of the Company.** In the course of performing duties under this Agreement, Employee will have access to and be handling substantial information concerning customers and clients of the Company. All information is considered confidential by the Company and shall not be disclosed, directly or indirectly, to any person or entity prior to termination of this Agreement or thereafter without the prior written consent of the Company.

5. **Inventions, Patents, and Copyright Works.** Employee recognizes, acknowledges, and agrees that the Company is the owner of certain inventions (whether patentable or not), discoveries, improvements, designs, ideas (whether or not shown or described in writing or reduced to practice) scientific and technical information, data and know-how of any nature including, and in addition to, any Confidential Information and Trade Secrets, and certain trademarks, tradenames, domain names, and copyrightable works including, but limited to, literary works (including all written material), books, brochures, catalogs, manuals, training materials, directories, compilations of information, compilations of inspection or testing procedures, computer programs, software (object and source code), protocols, system architectures, advertisements, artistic and graphic works (including designs, graphs, drawings, blueprints, and other works), recordings, models, photographs, slides, motion pictures, audio-visual works, and the like, regardless of the form or manner in which documented or recorded (collectively, "**Intellectual Property**"). Further, Employee agrees as follows:

(a) **Keep Records.** Employee agrees to keep and maintain adequate and current written records of all Intellectual Property made by Employee (solely or jointly with others) during the term of employment with the Company. The records will be in the form of notes, sketches, drawings and any other format that may be specified by the Company. The records will be available to and remain the sole property of the Company at all times.

(b) **Notification of Company.** Employee agrees to promptly disclose to the Company all Intellectual Property and other proprietary information which Employee may author, create, make, conceive, or develop, either solely or jointly with others, whether inside or outside normal working hours or on or off Company premises, during the term of employment with the Company.

(c) **Transfer of Rights.** Employee agrees that all Intellectual Property that Employee develops (in whole or in part, either alone or jointly with others) shall be the sole property of the Company and its assigns, and the Company and its assigns shall be the sole owner of all patents, copyrights, mask-work rights, and registrations and other rights in connection therewith. Employee acknowledges that all original works of authorship that are made by Employee (solely or jointly with others) within the scope of and during the period of employment with the Company shall be considered "works made for hire" under applicable copyright law, to the extent possible. Employee agrees to and does hereby assign, grant, and convey to the Company, its successors and assigns, Employee's entire right, title, and interest in and to all Intellectual Property and other proprietary rights and information which Employee may author, create, make, receive, or develop, either solely or jointly with others, whether inside or outside normal working hours or on or off Company premises, during the term of employment with the Company. To perfect the Company's ownership of such Intellectual Property, Employee hereby assigns to the Company any rights that

Employee may have or acquire in such Intellectual Property, including the right to modify such Intellectual Property, and otherwise waives and/or releases all rights of restraint and moral rights in the Intellectual Property.

(d) **Assistance in Preparation of Applications.** As to all such Intellectual Property, Employee further agrees to assist the Company in every proper way (but at the Company's expense) to obtain and from time to time enforce patents, copyrights, trade secrets, or other intellectual property or propriety rights, mask-work rights or other rights in such Intellectual Property in any and all countries, and Employee will execute all documents for use in applying for and obtaining such rights and enforcing them as the Company may desire, together with any assignments of them to the Company or persons designated by the Company. If the Company is unable for any reason whatsoever to secure Employee's signature to any lawful and necessary document required to apply for or execute any application with respect to such Intellectual Property (including renewals, extensions, continuations, divisions or continuations in whole or in part thereof), Employee hereby irrevocably designates and appoints the Company and its duly authorized officers and agents, as Employee's agents and attorneys-in-fact to act for and in Employee's behalf and to execute and file any such application and to do all other lawfully permitted acts to further the prosecution and issuance of patents, copyrights, trade secrets or other intellectual property or propriety rights, mask work rights or other rights thereon, with the same legal force and effect as if executed by Employee.

6. **Non-Competition and Non-Solicitation of Customers and Clients.** Employee hereby acknowledges and recognizes that, throughout Executive's employment with the Company, Company agrees to give Executive access to certain of its Confidential Information and Trade Secrets (defined above) concerning Company's Business and its employees, customers and customer representatives, suppliers and supplier representatives, and Company's transactional histories as well as information about the logistics, details and expenses of Company in connection with any goods, products or services which form any part of Company's Business. Company agrees to provide this information to Executive in order to allow Executive to perform Executive's duties under this Agreement, and to develop relationships with customers, customer representatives, suppliers and supplier representatives of the Company.

(a) Company agrees to provide, and to continue to provide, Executive with both specialized knowledge and education in Company's Business, in order to allow Executive to perform Executive's duties in an efficient, proper and effective manner. Such knowledge and education may consist of verbal instructions and information, the furnishing of written materials, consultation and counseling, sales, staff and employee meetings, training sessions and seminars, in addition to formal or informal information and orientation methodologies and procedures. Executive will have access to certain of Company's transactional histories, and the details of prior purchases, sales, trades or exchanges, in order that Executive can learn Company's Business and/or improve Executive's skills, experience and knowledge.

(b) In consideration of Company's employment of Executive as a highly valued employee, the Company's agreement to provide Executive with access to certain Confidential Information and Trade Secrets, and the Company's agreement to provide specialized knowledge and education, Executive agrees to refrain from competing with Company or otherwise engaging in Restricted Activities, as defined below, during the Restricted Period.

(c) Executive agrees that during the term of his employment with Company and for a period of one (1) year after the Executive's employment with the Company terminates (the "**Restricted Period**"), regardless of whether the termination occurs with or without cause and regardless of who terminates this Agreement, Executive will not directly or indirectly, as an employee, officer, director, shareholder, proprietor, agent, partner, recruiter, consultant, independent contractor or in any other individual or representative capacity engage in any of the Restricted Activities within the Restricted Area.

(d) "**Restricted Activities**" means and includes the following:

(i) Conducting, engaging or participating, directly or indirectly, as the chief executive officer or division head, agent, independent contractor, consultant, partner, shareholder, investor, lender, underwriter, supplier, customer or in any other similar capacity, in any business that competes with any part of the Company's Business;

(ii) Recruiting, hiring, and/or attempting to recruit or hire, directly or by assisting others, any other employee, temporary or permanent, contract, part time or full time of the Company. For purposes of this covenant "any other employee" shall refer to employees, consultants or others who are under contract to provide services to the Company and who are still actively employed by, or doing business with, the Company at the time of the attempted recruiting or hiring, or were so employed or doing business at any time within six (6) months prior to the time of such attempted recruiting or hiring; and

(iii) Using, disclosing, publishing, copying, distributing or communicating any Confidential Information and Trade Secrets to, or for the use or benefit of Executive or any other person or entity other than Company.

(e) "**Restricted Area**" shall mean and include each of the following:

(i) The state of Texas;

(ii) Within a one-hundred (100) mile radius of the location of any office, facility or other business location of any customer, customer representative, supplier or supplier representative; and

(iii) Within a one-hundred (100) miles radius of any office, facility or other business location of Company.

(f) The Company and Executive acknowledge that the provisions contained in this Section 6 shall not prevent Executive or Executive's Affiliates from owning solely as an investment, directly or indirectly, securities of any publicly traded corporation engaged in the Company's Business if Executive and Executive's Affiliates do not, directly or indirectly, beneficially own in the aggregate more than 5% of all classes of outstanding equity securities of such entity.

(g) Executive and the Company agree that the limitations as to time and scope of activity to be restrained are reasonable and do not impose a greater restraint on Executive than is necessary to protect the property rights and other business interests of Company.

(h) If Executive fails to comply with, or breaches, or threatens to breach, any of the provisions herein, Company in addition to any other remedies available to it at law or in equity, shall be entitled to immediate injunctive relief to enforce the provisions of this Section 6 and shall be entitled to recover from Executive reasonable attorneys' fees and other expenses incurred by Company in connection with such proceedings.

7. **Non-Solicitation of Employees.** For a period of one (1) year after Employee's termination of employment, whether by termination of this Agreement or otherwise, and without regard to the reason for such termination of employment, Employee promises and agrees not to solicit any other employee of the Company for any purpose which would directly or indirectly interfere or conflict with the other employee's employment by the Company.

8. **Extraordinary Remedies and Attorneys' Fees.** The Company and Employee agree that any breach by Employee of any of the provisions or covenants contained in the Agreement would cause irreparable harm and damage to the Company, in an amount that would be difficult to quantify, measure, or ascertain. Therefore, in the event of a breach of this Agreement by Employee, the Company shall be entitled to relief through restraining order, injunction, and all other available remedies, including claims for monetary damages incurred because of such breach. These remedies may be pursued concurrently and in any order, and the pursuit of any of these remedies shall not be deemed to limit the other remedies available to the Company in law or in equity. If any action at law or in equity, including an action for declaratory or injunctive relief, is brought to enforce or interpret the provisions of this Agreement, the prevailing party shall be entitled to recover costs of court and reasonable attorneys' fees from the other party or parties to such action, which fees may be set by the court in the trial of such action or may be enforced in a separate action brought for that purpose, and which fees shall be in addition to any other relief that may be awarded.

9. **Survival of Provisions and Covenants.** Each and every provision or covenant contained in this contract shall survive the termination of this Agreement as expressly provided

herein, and shall constitute an independent agreement between Employee and the Company. Further, the existence of any claim by Employee against the Company shall not constitute a defense to the enforcement of its rights by the Company.

10. **Severability.** It is the intent and agreement of the parties to this Agreement that, in case any one or more of the provisions of this Agreement shall, for any reason, be held to be invalid, illegal or unenforceable, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein except that this shall not prohibit any modification allowed or agreed upon pursuant to the terms of this Agreement or any right of reformation.

11. **Assignment.** This Agreement is binding upon and shall inure to the benefit of the parties hereto, together with their respective executors, administrators, successors, personal representatives, heirs, and assigns. Notwithstanding the foregoing, the rights, duties and benefits to Employee hereunder are personal to Employee, and no such right or benefit may be assigned by it. The Company shall have the right to assign or transfer this Agreement to its successors or assigns. The terms "successors" and "assigns" shall include any person, corporation, partnership or other entity that buys all or substantially all of Company's assets or all of its stock, or with which Company merges or consolidates. Any purported assignment of this Agreement, other than as provided above, shall be void.

12. **Previously Received Information.** Employee hereby represents to the Company that Employee is under no obligation or agreement that would prevent Employee from becoming an employee of the Company or carrying out the duties of Employee's proposed position of employment with the Company.

13. **Governing Law and Venue.** This Agreement shall be governed by, and construed in accordance with, the procedural and substantive laws of the State of Texas. The Company and Employee irrevocably and unconditionally consent to submit to the exclusive jurisdiction of the state or federal courts located in Harris County, Texas as the sole venue and location for any actions, suits, or proceedings arising out of or relating to any aspect of this Agreement and all issues arising out of or relating to the employment relationship between the Company and Employee.

14. **Employee Acknowledgement.** Employee recognizes and acknowledges that Employee has freely entered into this Agreement for the full consideration expressed herein, the sufficiency and receipt of which Employee hereby acknowledges, and that Employee has had the opportunity to consult with counsel of Employee's choice with full knowledge and careful consideration of the consequences and meaning of execution of this Agreement.

15. **Entire Agreement.** Upon Employee's acceptance, this letter will contain the entire agreement and understanding between Employee and the Company with respect to the matters addressed herein and shall supersede any prior or contemporaneous agreements, understandings, communications, offers, representations, warranties, or commitments by or on behalf of the Company and its affiliates (oral or written). The terms of Employee's employment

may in the future be amended, but only in writing signed by both Employee and a duly authorized officer of the Company.

[SIGNATURES ON NEXT PAGE]

AGREED AND ACCEPTED:

APPLIED OPTOELECTRONICS, INC.

By: _____

Its: _____

Date: _____

AGREED AND ACCEPTED:

"EMPLOYEE"

Signature

Print Name

Date: _____
