

## Non-GAAP Financial Measures

In addition to GAAP reporting, we provide non-GAAP gross margin, non-GAAP net income (loss), and non-GAAP earnings per share to eliminate the impact of items that we do not consider indicative of our overall operating performance. To arrive at our non-GAAP gross margin, we exclude stock-based compensation expense, non-recurring expenses, and expenses associated with discontinued products, if any, from our GAAP gross margin. To arrive at our non-GAAP net income (loss), we exclude all amortization of intangible assets, stock-based compensation expense, non-recurring expenses, and expenses associated with discontinued products, if any, from our GAAP net income (loss). Included in our non-recurring expenses in Q2 2018 are certain consulting fees, and employee severance expenses. Non-cash expenses associated with discontinued products in Q2 2018 include depreciation on certain equipment undergoing reconfiguration. Other expenses associated with discontinued products in Q2 2018 include inventory obsolescence charges associated with materials used in the manufacture of these discontinued products.

Our non-GAAP earnings per share is calculated by dividing our non-GAAP net income by the fully diluted share count. 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 and non-recurring expenses is appropriate because treatment of these items may vary for reasons unrelated to our overall operating performance;
- We believe that elimination of expenses associated with discontinued products, including depreciation and inventory obsolescence is appropriate because these expenses are not indicative of our ongoing operations;
- We believe that non-GAAP measures provide better comparability with our past financial performance, period-to-period results and with our peer companies, many of which also use similar non-GAAP financial measures; and
- We anticipate that investors and securities analysts will utilize non-GAAP measures to evaluate our overall operating performance.

A reconciliation of our GAAP net income (loss) and GAAP earnings per share for Q2 2018 to our non-GAAP net income (loss) and earnings per share is provided.

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

Applied Optoelectronics, Inc.  
Consolidated Balance Sheet  
(In thousands)  
Preliminary Unaudited

6/30/2014 9/30/2014 12/31/2014 3/31/2015 6/30/2015 9/30/2015 12/31/2015 3/31/2016 6/30/2016 9/30/2016 12/31/2016 3/31/2017 6/30/2017 9/30/2017 12/31/2017 3/31/2018 6/30/2018

**ASSETS**

**CURRENT ASSETS**

Cash and Cash Equivalents	34,079	37,034	32,175	9,909	28,412	37,592	28,074	45,528	42,289	55,907	50,224	59,672	74,825	70,930	82,936	82,251	76,190
Restricted Cash	932	787	509	1,048	2,495	3,491	4,719	5,006	4,932	4,285	1,732	861	1,054	1,072	1,012	1,048	1,753
Short term Investment	7,957	7,958	8,189	8,190	8,324	8,024	7,886	7,960	47	47	44	42	36	36	0	0	0
Total Cash, Cash Equivalents and Short Term Investments	42,968	45,779	40,873	19,147	39,231	49,107	40,679	58,494	47,268	60,239	52,000	60,575	75,921	72,038	83,984	83,299	77,943
Accounts Receivable, Net	24,968	24,181	31,589	29,962	32,907	41,069	38,775	34,868	41,536	44,242	49,766	66,759	73,759	73,029	59,850	53,655	48,668
Inventories	31,200	33,129	33,780	43,565	52,451	60,237	66,238	60,258	59,833	54,919	51,817	57,503	59,701	74,552	75,768	92,624	93,269
Notes Receivable	463	358	980	651	0	0	0	0	0	0	0	0	0	0	0	0	0
Prepaid Income Tax	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,394	1,326	638
Prepaid Expenses and Other Current Assets	6,515	7,489	6,017	7,814	8,031	9,781	8,236	6,859	5,074	4,761	3,969	9,385	9,131	10,448	8,701	10,921	10,070
<b>Total Current Assets</b>	<b>106,114</b>	<b>110,936</b>	<b>113,239</b>	<b>101,139</b>	<b>132,620</b>	<b>160,194</b>	<b>153,928</b>	<b>160,479</b>	<b>153,711</b>	<b>164,161</b>	<b>157,552</b>	<b>194,222</b>	<b>218,512</b>	<b>230,067</b>	<b>229,697</b>	<b>241,825</b>	<b>230,588</b>
Cash Restricted for Construction in Progress	0	0	0	8,993	5,089	953	0	0	0	847	8	0	0	0	0	0	0
Property, Plant And Equipment, Net	41,657	51,267	64,808	69,512	78,979	87,836	109,699	123,656	136,828	140,516	144,098	150,566	165,154	181,481	197,943	204,644	212,105
Land Use Rights, Net	934	931	930	920	919	877	854	852	825	814	778	777	786	797	804	6,448	6,096
Intangible Assets, Net	3,841	3,830	3,833	3,828	3,837	3,858	3,900	3,959	3,962	4,004	3,993	3,984	4,007	4,041	4,007	4,015	3,978
Deferred Income Tax Assets	0	0	0	0	0	0	0	0	0	11,856	11,421	12,049	10,026	15,167	12,801	13,935	13,151
Other Assets	978	1,190	860	1,823	1,303	3,231	5,094	6,915	6,040	4,593	4,468	6,028	8,501	7,151	7,732	4,750	6,286
<b>TOTAL ASSETS</b>	<b>153,524</b>	<b>168,154</b>	<b>183,670</b>	<b>186,215</b>	<b>222,747</b>	<b>256,949</b>	<b>273,475</b>	<b>295,861</b>	<b>301,366</b>	<b>326,791</b>	<b>322,318</b>	<b>367,626</b>	<b>406,986</b>	<b>438,704</b>	<b>452,984</b>	<b>475,617</b>	<b>472,204</b>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**CURRENT LIABILITIES**

Accounts Payable	22,631	22,616	30,984	25,301	29,755	31,518	28,668	25,113	33,130	32,413	36,375	48,252	53,321	50,993	43,624	46,223	51,429
Accrued Income Taxes	0	0	0	0	0	0	0	0	0	0	974	4,113	4,947	5,459	7,422	7,588	464
Accrued Expenses	5,606	4,960	6,755	6,318	7,348	9,941	11,506	9,308	13,762	11,316	14,452	10,535	13,850	16,801	19,103	13,358	16,651
Bank Acceptance Payable	2,377	2,115	1,271	1,445	2,660	3,109	2,998	2,411	2,435	3,231	307	0	0	0	0	0	0
Bank Loan-Short Term	8,808	8,734	8,205	17,333	27,686	17,561	27,316	33,902	21,525	17,346	0	0	0	0	0	0	0
Current Portion of Long Term Debt	754	658	1,386	1,388	3,304	3,232	3,592	7,070	7,303	7,746	7,865	4,690	4,552	3,638	559	2,690	3,161
Total Current Liabilities	40,176	39,083	48,601	51,785	70,753	65,361	74,080	77,804	78,155	72,052	59,973	67,590	76,670	76,891	70,708	69,859	71,705
Notes Payable and Long Term Debt	67	14,000	19,057	18,773	29,596	28,436	33,997	52,178	56,040	67,201	34,961	23,863	22,814	37,371	49,000	62,464	57,868
Other long term liabilities	1,500	1,250	1,000	750	500	250	0	0	0	0	0	0	0	0	0	0	0
<b>TOTAL LIABILITIES</b>	<b>41,743</b>	<b>54,333</b>	<b>68,658</b>	<b>71,308</b>	<b>100,849</b>	<b>94,047</b>	<b>108,077</b>	<b>129,982</b>	<b>134,195</b>	<b>139,253</b>	<b>94,934</b>	<b>91,453</b>	<b>99,484</b>	<b>114,262</b>	<b>119,708</b>	<b>132,323</b>	<b>129,573</b>

**STOCKHOLDERS' EQUITY**

Common Stock	15	15	15	15	15	17	17	17	17	17	18	19	19	19	19	20	20
Additional Paid-in Capital	190,861	191,439	192,112	192,705	193,488	232,799	233,336	234,229	235,338	236,646	265,264	288,606	290,067	285,600	285,376	286,938	288,686
Cumulative Translation Adjustment	2,224	2,109	1,925	1,902	2,021	1,012	292	1,210	790	2,113	(885)	3,572	4,369	6,400	9,743	16,078	5,633
Retained Earnings (Accumulated Deficit)	(81,319)	(79,742)	(79,040)	(79,715)	(73,626)	(70,926)	(68,247)	(69,577)	(68,974)	(51,238)	(37,013)	(16,024)	13,047	32,423	38,138	40,258	48,292
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>111,781</b>	<b>113,821</b>	<b>115,012</b>	<b>114,907</b>	<b>121,898</b>	<b>162,902</b>	<b>165,398</b>	<b>165,879</b>	<b>167,171</b>	<b>187,538</b>	<b>227,384</b>	<b>276,173</b>	<b>307,502</b>	<b>324,442</b>	<b>333,276</b>	<b>343,294</b>	<b>342,631</b>

**TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY**

<b>153,524</b>	<b>168,154</b>	<b>183,670</b>	<b>186,215</b>	<b>222,747</b>	<b>256,949</b>	<b>273,475</b>	<b>295,861</b>	<b>301,366</b>	<b>326,791</b>	<b>322,318</b>	<b>367,626</b>	<b>406,986</b>	<b>438,704</b>	<b>452,984</b>	<b>475,617</b>	<b>472,204</b>
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Applied Optoelectronics, Inc.  
Consolidated Statement of Operations  
(In thousands, except percentages and per share data)  
Preliminary Unaudited

	CY2014	1Q15	2Q15	3Q15	4Q15	CY2015	1Q16	2Q16	3Q16	4Q16	CY2016	1Q17	2Q17	3Q17	4Q17	CY2017	1Q18	2Q18	
Revenue																			
Datacenter	64,453	16,316	29,610	38,591	38,769	123,286	38,980	41,280	52,949	68,105	201,314	79,594	99,298	65,819	62,001	306,712	50,583	69,040	
CATV	47,389	12,014	16,428	14,233	11,000	53,675	7,731	9,521	12,891	13,424	43,567	13,094	14,404	18,932	14,326	60,756	10,568	14,184	
Telecom	3,856	1,707	2,082	3,078	2,784	9,652	3,078	3,563	3,441	2,856	12,938	3,171	3,077	3,474	3,177	12,899	3,586	4,157	
FTTH	13,591	122	1,287	962	87	2,458	421	436	476	234	1,567	98	125	182	85	490	111	166	
Other	1,160	75	225	221	312	833	212	454	380	281	1,327	267	467	472	266	1,472	391	275	
<b>Total Revenues</b>	<b>130,448</b>	<b>30,234</b>	<b>49,632</b>	<b>57,085</b>	<b>52,952</b>	<b>189,904</b>	<b>50,422</b>	<b>55,254</b>	<b>70,137</b>	<b>84,900</b>	<b>260,713</b>	<b>96,224</b>	<b>117,371</b>	<b>88,879</b>	<b>79,855</b>	<b>382,329</b>	<b>65,239</b>	<b>87,822</b>	
YOY Growth %	66.3%	21.6%	52.0%	56.2%	45.5%	45.6%	66.8%	11.3%	22.9%	60.3%	37.3%	90.8%	112.4%	26.7%	-5.9%	46.6%	-32.2%	-25.2%	
Cost of Goods Sold	86,203	20,183	32,901	39,032	37,334	129,450	36,169	37,952	46,976	52,662	173,759	54,752	64,089	49,507	47,701	216,049	39,403	53,959	
COGS % of Revenue	66.1%	66.8%	66.3%	68.4%	70.5%	68.2%	71.7%	68.7%	67.0%	62.0%	66.6%	56.9%	54.6%	55.7%	59.7%	56.5%	60.4%	61.4%	
<b>Gross Profit</b>	<b>44,245</b>	<b>10,051</b>	<b>16,731</b>	<b>18,053</b>	<b>15,618</b>	<b>60,454</b>	<b>14,253</b>	<b>17,302</b>	<b>23,161</b>	<b>32,238</b>	<b>86,954</b>	<b>41,472</b>	<b>53,282</b>	<b>39,372</b>	<b>32,154</b>	<b>166,280</b>	<b>25,836</b>	<b>33,863</b>	
Gross Margin	33.9%	33.2%	33.7%	31.6%	29.5%	31.8%	28.3%	31.3%	33.0%	38.0%	33.4%	43.1%	45.4%	44.3%	40.3%	43.5%	39.6%	38.6%	
Operating Expenses:																			
Research and Development	15,970	4,805	4,701	5,386	5,960	20,852	8,396	7,814	8,362	7,208	31,780	7,432	8,073	9,190	10,670	35,365	11,736	12,645	
R&D % of Revenue	12.2%	15.9%	9.5%	9.4%	11.3%	11.0%	16.7%	14.1%	11.9%	8.5%	12.2%	7.7%	6.9%	10.3%	13.4%	9.2%	18.0%	14.4%	
Sales and Marketing	6,043	1,559	1,607	1,582	1,633	6,381	1,680	1,610	1,594	1,743	6,627	1,903	2,158	2,551	2,090	8,702	2,474	2,377	
S&M % of Revenue	4.6%	5.2%	3.2%	2.8%	3.1%	3.4%	3.3%	2.9%	2.3%	2.1%	2.5%	2.0%	1.8%	2.9%	2.6%	2.3%	3.8%	2.7%	
General and Administrative	17,095	5,003	4,534	4,963	5,271	19,771	5,733	5,906	6,445	7,443	25,527	7,822	8,786	9,580	9,074	35,262	9,456	9,898	
G&A % of Revenue	13.1%	16.5%	9.1%	8.7%	10.0%	10.4%	11.4%	10.7%	9.2%	8.8%	9.8%	8.1%	7.5%	10.8%	11.4%	9.2%	14.5%	11.3%	
<b>Total Operating Expenses</b>	<b>39,108</b>	<b>11,367</b>	<b>10,842</b>	<b>11,931</b>	<b>12,864</b>	<b>47,004</b>	<b>15,809</b>	<b>15,330</b>	<b>16,401</b>	<b>16,394</b>	<b>63,934</b>	<b>17,157</b>	<b>19,017</b>	<b>21,321</b>	<b>21,834</b>	<b>79,329</b>	<b>23,666</b>	<b>24,920</b>	
Operating Expenses % of Revenue	30.0%	37.6%	21.8%	20.9%	24.3%	24.8%	31.4%	27.7%	23.4%	19.3%	24.5%	17.8%	16.2%	24.0%	27.3%	20.7%	36.3%	28.4%	
<b>Operating Income (Loss)</b>	<b>5,138</b>	<b>(1,316)</b>	<b>5,889</b>	<b>6,122</b>	<b>2,754</b>	<b>13,450</b>	<b>(1,556)</b>	<b>1,972</b>	<b>6,760</b>	<b>15,844</b>	<b>23,020</b>	<b>24,315</b>	<b>34,265</b>	<b>18,051</b>	<b>10,320</b>	<b>86,951</b>	<b>2,170</b>	<b>8,943</b>	
Operating Margin	3.9%	-4.4%	11.9%	10.7%	5.2%	7.1%	-3.1%	3.6%	9.6%	18.7%	8.8%	25.3%	29.2%	20.3%	12.9%	22.7%	3.3%	10.2%	
Other Income (Expense):																			
Interest Income	369	74	80	82	92	328	101	65	40	41	247	35	70	61	55	221	52	85	
Interest Expense	(326)	(125)	(300)	(351)	(242)	(1,018)	(401)	(450)	(462)	(404)	(1,717)	(299)	(245)	(248)	(66)	(858)	(71)	(279)	
Other Income (Expense)	302	330	(132)	20	39	257	2	(55)	135	(12)	70	(36)	192	87	(20)	223	13	292	
Foreign Exchange Gain (Loss)	(1,001)	362	687	(2,767)	(130)	(1,848)	332	(877)	(69)	(3)	(617)	(572)	(128)	(441)	(870)	(2,011)	(1,040)	1,289	
<b>Total Other Income (Expense):</b>	<b>(656)</b>	<b>641</b>	<b>335</b>	<b>(3,016)</b>	<b>(241)</b>	<b>(2,281)</b>	<b>34</b>	<b>(1,317)</b>	<b>(356)</b>	<b>(378)</b>	<b>(2,017)</b>	<b>(872)</b>	<b>(111)</b>	<b>(541)</b>	<b>(901)</b>	<b>(2,425)</b>	<b>(1,046)</b>	<b>1,387</b>	
Other Income % of Revenue	-0.5%	2.1%	0.7%	-5.3%	-0.5%	-1.2%	0.1%	-2.4%	-0.5%	-0.4%	-0.8%	-0.9%	-0.1%	-0.6%	-1.1%	-0.6%	-1.6%	1.6%	
<b>Net Income (Loss) before Income Taxes</b>	<b>4,482</b>	<b>(675)</b>	<b>6,224</b>	<b>3,106</b>	<b>2,513</b>	<b>11,169</b>	<b>(1,522)</b>	<b>655</b>	<b>6,404</b>	<b>15,466</b>	<b>21,003</b>	<b>23,443</b>	<b>34,154</b>	<b>17,510</b>	<b>9,419</b>	<b>84,526</b>	<b>1,124</b>	<b>10,330</b>	
Net Margin	3.4%	-2.2%	12.5%	5.4%	4.7%	5.9%	-3.0%	1.2%	9.1%	18.2%	8.1%	24.4%	29.1%	19.7%	11.8%	22.1%	1.7%	11.8%	
Income Tax Benefit (Expense)	(199)	0	(135)	(406)	166	(375)	192	(52)	11,332	(1,241)	10,231	(3,654)	(5,083)	1,865	(3,703)	(10,575)	996	(2,296)	
<b>Net Income (Loss)</b>	<b>4,283</b>	<b>(675)</b>	<b>6,089</b>	<b>2,700</b>	<b>2,679</b>	<b>10,794</b>	<b>(1,330)</b>	<b>603</b>	<b>17,736</b>	<b>14,225</b>	<b>31,234</b>	<b>19,789</b>	<b>29,071</b>	<b>19,375</b>	<b>5,716</b>	<b>73,951</b>	<b>2,120</b>	<b>8,034</b>	
Net Margin after Taxes	3.3%	-2.2%	12.3%	4.7%	5.1%	5.7%	-2.6%	1.1%	25.3%	16.8%	12.0%	20.6%	24.8%	21.8%	7.2%	19.3%	3.2%	9.1%	
Earnings per share (Basic)	\$ 0.30	\$ (0.05)	\$ 0.41	\$ 0.17	\$ 0.16	\$ 0.69	\$ (0.08)	\$ 0.04	\$ 1.03	\$ 0.81	\$ 1.82	\$ 1.06	\$ 1.52	\$ 1.00	\$ 0.29	\$ 3.87	\$ 0.11	\$ 0.41	
Earnings per share (Diluted)	\$ 0.28	\$ (0.05)	\$ 0.38	\$ 0.16	\$ 0.15	\$ 0.65	\$ (0.08)	\$ 0.03	\$ 0.97	\$ 0.77	\$ 1.76	\$ 1.00	\$ 1.43	\$ 0.95	\$ 0.28	\$ 3.67	\$ 0.11	\$ 0.40	
Shares used to compute GAAP basic earnings per share	14,307	14,844	14,936	15,869	16,833	15,627	16,930	17,091	17,151	17,631	17,202	18,598	19,081	19,294	19,406	19,097	19,492	19,590	
Shares used to compute GAAP diluted earnings per share	15,187	14,844	15,872	16,694	17,691	16,533	16,930	17,455	18,361	18,513	17,713	19,702	20,367	20,423	20,160	20,139	19,989	20,080	

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Consolidated Statement of Operations  
**NON GAAP**  
(In thousands, except percentages and per share data)  
Preliminary Unaudited

	CY2014	1Q15	2Q15	3Q15	4Q15	CY2015	1Q16	2Q16	3Q16	4Q16	CY2016	1Q17	2Q17	3Q17	4Q17	CY2017	1Q18	2Q18	
Revenue																			
Datacenter	64,453	16,316	29,610	38,591	38,769	123,286	38,980	41,280	52,949	68,105	201,314	79,594	99,298	65,819	62,001	306,712	50,583	69,040	
CATV	47,389	12,014	16,428	14,233	11,000	53,675	7,731	9,521	12,891	13,424	43,567	13,094	14,404	18,932	14,326	60,756	10,568	14,184	
Telecom	3,856	1,707	2,082	3,078	2,784	9,652	3,078	3,563	3,441	2,856	12,938	3,171	3,077	3,474	3,177	12,899	3,586	4,157	
FTTH	13,591	122	1,287	962	87	2,458	421	436	476	234	1,567	98	125	182	85	490	111	166	
Other	1,160	75	225	221	312	833	212	454	380	281	1,327	267	467	472	266	1,472	391	275	
<b>Total Revenues</b>	<b>130,448</b>	<b>30,234</b>	<b>49,632</b>	<b>57,085</b>	<b>52,952</b>	<b>189,904</b>	<b>50,422</b>	<b>55,254</b>	<b>70,137</b>	<b>84,900</b>	<b>260,713</b>	<b>96,224</b>	<b>117,371</b>	<b>88,879</b>	<b>79,855</b>	<b>382,329</b>	<b>65,239</b>	<b>87,822</b>	
YOY Growth %	66.3%	21.6%	52.0%	56.2%	45.5%	45.6%	66.8%	11.3%	22.9%	60.3%	37.3%	90.8%	112.4%	26.7%	-5.9%	46.6%	-32.2%	-25.2%	
<b>Cost of Goods Sold</b>	<b>85,317</b>	<b>20,167</b>	<b>32,882</b>	<b>38,970</b>	<b>37,316</b>	<b>129,335</b>	<b>36,132</b>	<b>37,902</b>	<b>46,924</b>	<b>52,611</b>	<b>173,569</b>	<b>54,674</b>	<b>63,955</b>	<b>49,382</b>	<b>47,118</b>	<b>215,129</b>	<b>39,148</b>	<b>52,316</b>	
COGS % of Revenue	65.4%	66.7%	66.3%	68.3%	70.5%	68.1%	71.7%	68.6%	66.9%	62.0%	66.6%	56.8%	54.5%	55.6%	59.0%	56.3%	60.0%	59.6%	
<b>Gross Profit</b>	<b>45,131</b>	<b>10,067</b>	<b>16,750</b>	<b>18,115</b>	<b>15,636</b>	<b>60,569</b>	<b>14,290</b>	<b>17,352</b>	<b>23,213</b>	<b>32,289</b>	<b>87,144</b>	<b>41,550</b>	<b>53,416</b>	<b>39,497</b>	<b>32,737</b>	<b>167,200</b>	<b>26,091</b>	<b>35,506</b>	
Gross Margin	34.6%	33.3%	33.7%	31.7%	29.5%	31.9%	28.3%	31.4%	33.1%	38.0%	33.4%	43.2%	45.5%	44.4%	41.0%	43.7%	40.0%	40.4%	
Operating Expenses:																			
Research and Development	15,855	4,751	4,644	5,331	5,895	20,621	8,278	7,660	8,197	7,054	31,189	7,167	7,632	8,790	9,630	33,219	10,409	10,922	
R&D % of Revenue	12.2%	15.7%	9.4%	9.3%	11.1%	10.9%	16.4%	13.9%	11.7%	8.3%	12.0%	7.4%	6.5%	9.9%	12.1%	8.7%	16.0%	12.4%	
Sales and Marketing	5,946	1,509	1,553	1,524	1,578	6,164	1,607	1,515	1,497	1,650	6,269	1,823	1,990	2,433	1,976	8,222	2,247	2,116	
S&M % of Revenue	4.6%	5.0%	3.1%	2.7%	3.0%	3.2%	3.2%	2.7%	2.1%	1.9%	2.4%	1.9%	1.7%	2.7%	2.5%	2.2%	3.4%	2.4%	
General and Administrative	13,419	4,126	3,974	4,335	4,515	16,950	4,870	4,703	5,464	6,568	21,605	6,520	6,859	7,641	7,342	28,362	7,458	7,732	
G&A % of Revenue	10.3%	13.6%	8.0%	7.6%	8.5%	8.9%	9.7%	8.5%	7.8%	7.7%	8.3%	6.8%	5.8%	8.6%	9.2%	7.4%	11.4%	8.8%	
<b>Total Operating Expenses</b>	<b>35,220</b>	<b>10,386</b>	<b>10,171</b>	<b>11,190</b>	<b>11,988</b>	<b>43,735</b>	<b>14,755</b>	<b>13,878</b>	<b>15,158</b>	<b>15,272</b>	<b>59,063</b>	<b>15,510</b>	<b>16,481</b>	<b>18,864</b>	<b>18,948</b>	<b>69,803</b>	<b>20,114</b>	<b>20,770</b>	
Operating Expenses % of Revenue	27.0%	34.4%	20.5%	19.6%	22.6%	23.0%	29.3%	25.1%	21.6%	18.0%	22.7%	16.1%	14.0%	21.2%	23.7%	18.3%	30.8%	23.7%	
<b>Operating Income (Loss)</b>	<b>9,912</b>	<b>(319)</b>	<b>6,579</b>	<b>6,925</b>	<b>3,648</b>	<b>16,834</b>	<b>(465)</b>	<b>3,474</b>	<b>8,055</b>	<b>17,017</b>	<b>28,081</b>	<b>26,040</b>	<b>36,935</b>	<b>20,633</b>	<b>13,789</b>	<b>97,397</b>	<b>5,977</b>	<b>14,736</b>	
Operating Margin	7.6%	-1.1%	13.3%	12.1%	6.9%	8.9%	-0.9%	6.3%	11%	20%	10.8%	27.1%	31.5%	23.2%	17.3%	25.5%	9.2%	16.8%	
Other Income (Expense):																			
Interest Income	369	74	80	82	92	328	101	65	40	41	247	35	70	61	55	221	52	85	
Interest Expense	(326)	(125)	(300)	(351)	(242)	(1,018)	(401)	(450)	(462)	(404)	(1,717)	(299)	(245)	(248)	(66)	(858)	(71)	(279)	
Other Income (Expense)	303	330	20	20	93	463	39	(15)	139	25	188	(36)	194	87	(20)	225	13	292	
Foreign Exchange Gain (Loss)	298	318	(160)	393	169	720	(115)	(193)	(292)	43	(557)	(324)	(229)	(381)	(129)	(1,063)	(1,243)	378	
<b>Total Other Income (Expense):</b>	<b>644</b>	<b>597</b>	<b>(360)</b>	<b>144</b>	<b>112</b>	<b>493</b>	<b>(376)</b>	<b>(593)</b>	<b>(575)</b>	<b>(295)</b>	<b>(1,839)</b>	<b>(624)</b>	<b>(210)</b>	<b>(481)</b>	<b>(160)</b>	<b>(1,475)</b>	<b>(1,249)</b>	<b>476</b>	
Other Income % of Revenue	0.5%	2.0%	-0.7%	0.3%	0.2%	0.3%	-0.7%	-1.1%	-0.8%	-0.3%	-0.7%	-0.6%	-0.2%	-0.5%	-0.2%	-0.4%	-1.9%	0.5%	
<b>Net Income (Loss) before Income Taxes</b>	<b>10,556</b>	<b>278</b>	<b>6,219</b>	<b>7,069</b>	<b>3,760</b>	<b>17,327</b>	<b>(841)</b>	<b>2,881</b>	<b>7,480</b>	<b>16,722</b>	<b>26,242</b>	<b>25,417</b>	<b>36,725</b>	<b>20,152</b>	<b>13,629</b>	<b>95,922</b>	<b>4,728</b>	<b>15,212</b>	
Net Margin	8.1%	0.9%	12.5%	12.4%	7.1%	9.1%	-1.7%	5.2%	10.7%	19.7%	10.1%	26.4%	31.3%	22.7%	17.1%	25.1%	7.2%	17.3%	
Income Tax Benefit (Expense)	(199)	0	(135)	(406)	166	(375)	192	(52)	(524)	(1,241)	(1,625)	(3,654)	(5,403)	1,865	4,313	(2,879)	882	(2,344)	
<b>Net Income (Loss)</b>	<b>10,357</b>	<b>278</b>	<b>6,084</b>	<b>6,663</b>	<b>3,926</b>	<b>16,952</b>	<b>(649)</b>	<b>2,829</b>	<b>6,956</b>	<b>15,481</b>	<b>24,617</b>	<b>21,763</b>	<b>31,322</b>	<b>22,017</b>	<b>17,942</b>	<b>93,043</b>	<b>5,610</b>	<b>12,868</b>	
Net Margin after Income Tax	7.9%	0.9%	12.3%	11.7%	7.4%	8.9%	-1.3%	5.1%	9.9%	18.2%	9.4%	22.6%	26.7%	24.8%	22.5%	24.3%	8.6%	14.7%	
Depreciation & Amortization	6,169	2,034	2,278	2,421	2,690	9,423	2,957	3,284	3,685	4,263	14,189	4,302	4,628	5,403	6,049	20,382	6,964	7,327	
<b>Adjusted EBITDA</b>	<b>16,326</b>	<b>2,264</b>	<b>8,615</b>	<b>9,655</b>	<b>6,494</b>	<b>27,028</b>	<b>2,306</b>	<b>6,438</b>	<b>11,471</b>	<b>21,231</b>	<b>41,446</b>	<b>29,864</b>	<b>41,408</b>	<b>25,619</b>	<b>19,564</b>	<b>116,454</b>	<b>11,584</b>	<b>22,608</b>	
EBITDA Margin	12.5%	7.5%	17.4%	16.9%	12.3%	14.2%	4.6%	11.7%	16.4%	25.0%	15.9%	31.0%	35.3%	28.8%	24.5%	30.5%	17.8%	25.7%	
Earnings per share (Basic)	\$ 0.72	\$ 0.02	\$ 0.41	\$ 0.42	\$ 0.23	\$ 1.08	\$ (0.04)	\$ 0.17	\$ 0.41	\$ 0.88	\$ 1.43	\$ 1.17	\$ 1.64	\$ 1.14	\$ 0.92	\$ 4.87	\$ 0.29	\$ 0.66	
Earnings per share (Diluted)	\$ 0.68	\$ 0.02	\$ 0.38	\$ 0.40	\$ 0.22	\$ 1.03	\$ (0.04)	\$ 0.16	\$ 0.38	\$ 0.84	\$ 1.39	\$ 1.10	\$ 1.54	\$ 1.08	\$ 0.89	\$ 4.62	\$ 0.28	\$ 0.64	
Shares used to compute Non-GAAP basic earnings per share	14,307	14,844	14,936	15,869	16,833	15,627	16,930	17,091	17,151	17,631	17,202	18,598	19,081	19,294	19,406	19,097	19,492	19,590	
Shares used to compute Non-GAAP diluted earnings per share	15,187	15,260	15,872	16,694	17,691	16,533	16,930	17,455	18,361	18,513	17,713	19,702	20,367	20,423	20,160	20,139	19,989	20,080	

Applied Optoelectronics, Inc.  
GAAP to Non-GAAP Reconciliation  
(In thousands)  
Preliminary Unaudited

	CY2014	1Q15	2Q15	3Q15	4Q15	CY2015	1Q16	2Q16	3Q16	4Q16	CY2016	1Q17	2Q17	3Q17	4Q17	CY2017	1Q18	2Q18
GAAP total gross profit	44,245	10,051	16,731	18,053	15,618	60,454	14,253	17,302	23,161	32,238	86,954	41,472	53,282	39,372	32,154	166,280	25,836	33,863
Share-based compensation expense	89	16	19	17	18	70	37	50	52	51	190	78	134	125	124	461	177	211
Non-recurring expense	797	-	-	45	-	45	-	-	-	-	-	-	-	-	-	-	-	7
Expenses associated with discontinued products	-	-	-	-	-	-	-	-	-	-	-	-	-	-	459	459	71	1,432
Non-GAAP income from gross profit	45,131	10,067	16,750	18,115	15,636	60,569	14,290	17,352	23,213	32,289	87,144	41,550	53,416	39,497	32,737	167,200	26,091	35,506
GAAP research and development expense	15,970	4,805	4,701	5,386	5,960	20,852	8,396	7,814	8,362	7,208	31,780	7,432	8,073	9,190	10,670	35,365	11,736	12,645
Share-based compensation expense	115	54	57	55	65	231	118	154	165	154	591	265	441	400	390	1,496	576	676
Non-recurring expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	43
Non-cash expenses associated with discontinued products	-	-	-	-	-	-	-	-	-	-	-	-	-	-	650	650	751	1,004
Non-GAAP research and development expense	15,855	4,751	4,644	5,331	5,895	20,621	8,278	7,660	8,197	7,054	31,189	7,167	7,632	8,790	9,630	33,219	10,409	10,922
GAAP sales and marketing expense	6,043	1,559	1,607	1,582	1,633	6,381	1,680	1,610	1,594	1,743	6,627	1,903	2,158	2,551	2,090	8,702	2,474	2,377
Share-based compensation expense	97	50	54	58	55	217	73	95	97	93	358	80	168	118	114	480	227	261
Non-GAAP sales and marketing expense	5,946	1,509	1,553	1,524	1,578	6,164	1,607	1,515	1,497	1,650	6,269	1,823	1,990	2,433	1,976	8,222	2,247	2,116
GAAP general and administrative expense	17,095	5,003	4,534	4,963	5,271	19,771	5,733	5,906	6,445	7,443	25,527	7,822	8,786	9,580	9,074	35,262	9,456	9,898
Share-based compensation expense	1,759	396	404	387	415	1,602	580	676	732	705	2,693	1,084	1,517	1,439	1,317	5,357	1,588	1,752
Amortization expense	356	100	102	104	106	412	110	112	115	117	454	118	120	122	125	485	126	127
Non-recurring expense	1,561	381	54	137	235	807	173	415	134	53	775	100	290	378	290	1,058	284	287
Non-GAAP general and administrative expense	13,419	4,126	3,974	4,335	4,515	16,950	4,870	4,703	5,464	6,568	21,605	6,520	6,859	7,641	7,342	28,362	7,458	7,732
GAAP total operating expense	39,108	11,367	10,842	11,931	12,864	47,004	15,809	15,330	16,401	16,394	63,934	17,157	19,017	21,321	21,834	79,329	23,666	24,920
Share-based compensation expense	1,971	500	515	500	535	2,050	771	925	994	952	3,642	1,429	2,126	1,957	1,822	7,334	2,391	2,689
Amortization expense	356	100	102	104	106	412	110	112	115	117	454	118	120	122	125	485	126	127
Non-recurring expense	1,561	381	54	137	235	807	173	415	134	53	775	100	290	378	289	1,057	284	330
Non-cash expenses associated with discontinued products	-	-	-	-	-	-	-	-	-	-	-	-	-	-	650	650	751	1,004
Non-GAAP total operating expense	35,220	10,386	10,171	11,190	11,988	43,735	14,755	13,878	15,158	15,272	59,063	15,510	16,481	18,864	18,948	69,803	20,114	20,770
GAAP operating income (loss)	5,138	(1,316)	5,889	6,122	2,754	13,450	(1,556)	1,972	6,760	15,844	23,020	24,315	34,265	18,051	10,320	86,951	2,170	8,943
Share-based compensation expense	2,060	516	534	517	553	2,120	808	975	1,046	1,003	3,832	1,507	2,260	2,082	1,946	7,795	2,569	2,900
Amortization expense	356	100	102	104	106	412	110	112	115	117	454	118	120	122	125	485	126	127
Non-recurring expense	2,358	381	54	182	235	852	173	415	134	53	775	100	290	378	289	1,057	290	330
Expenses associated with discontinued products	-	-	-	-	-	-	-	-	-	-	-	-	-	-	459	459	71	1,432
Non-cash expenses associated with discontinued products	-	-	-	-	-	-	-	-	-	-	-	-	-	-	650	650	751	1,004
Non-GAAP operating income (loss)	9,912	(319)	6,579	6,925	3,648	16,834	(465)	3,474	8,055	17,017	28,081	26,040	36,935	20,633	13,789	97,397	5,977	14,736
GAAP other income (loss)	(656)	641	335	(3,016)	(241)	(2,281)	34	(1,317)	(356)	(378)	(2,017)	(872)	(111)	(541)	(901)	(2,425)	(1,046)	1,387
Loss (gain) from disposal of idle assets	-	-	-	-	54	54	40	4	37	81	-	2	-	-	2	-	-	-
Unrealized exchange loss (gain)	1,300	(44)	(848)	3,160	299	2,567	(410)	42	(624)	46	(946)	248	(101)	60	741	948	(203)	(911)
Non-recurring expense	-	-	153	-	-	153	0	642	401	-	1,043	0	0	0	0	0	0	0
Non-GAAP other income (loss)	644	597	(360)	144	112	493	(376)	(593)	(295)	(1,839)	(624)	(210)	(481)	(160)	(1,475)	(1,249)	476	
GAAP net income (loss)	4,283	(675)	6,089	2,700	2,679	10,794	(1,330)	603	17,736	14,225	31,234	19,789	29,071	19,375	5,716	73,951	2,120	8,034
Amortization of intangible assets	356	100	102	104	106	412	110	112	115	117	454	118	120	122	125	485	126	127
Share-based compensation expense	2,060	516	534	517	553	2,120	808	975	1,046	1,003	3,832	1,507	2,260	2,082	1,946	7,795	2,569	2,900
Non-Recurring charges	2,358	381	54	182	235	852	173	415	134	53	775	100	290	378	289	1,057	290	330
Expenses associated with discontinued products	-	-	-	-	-	-	-	-	-	-	-	-	-	-	459	459	71	1,432
Non-cash expenses associated with discontinued products	-	-	-	-	-	-	-	-	-	-	-	-	-	-	650	650	751	1,004
Loss (gain) from disposal of idle assets	-	-	-	-	54	54	40	4	37	81	-	2	-	-	2	-	-	-
Unrealized exchange loss (gain)	1,300	(44)	(848)	3,160	299	2,567	(410)	42	(624)	46	(946)	248	(101)	60	741	948	(203)	(911)
Non-recurring Tax Benefit	-	-	-	-	-	-	-	-	(11,856)	-	(11,856)	-	(320)	-	8,016	7,696	(114)	(48)
Non-GAAP net income	10,357	278	5,931	6,663	3,926	16,799	(649)	2,187	6,555	15,481	23,574	21,762	31,322	22,017	17,942	93,043	5,610	12,868
GAAP net income (loss)	4,283	(675)	6,089	2,700	2,679	10,794	(1,330)	603	17,736	14,225	31,234	19,789	29,071	19,375	5,716	73,951	2,120	8,034
Amortization of intangible assets	356	100	102	104	106	412	110	112	115	117	454	118	120	122	125	485	126	127
Share-based compensation expense	2,060	516	534	517	553	2,120	808	975	1,046	1,003	3,832	1,507	2,260	2,082	1,946	7,795	2,569	2,900
Depreciation expense	5,813	1,935	2,176	2,317	2,584	9,012	2,847	3,172	3,569	4,146	13,734	4,184	4,507	5,280	5,924	19,895	6,837	7,202
Non-recurring charges	2,358	381	54	182	235	852	173	415	134	53	775	100	290	378	289	1,057	290	330
Expenses associated with discontinued products	-	-	-	-	-	-	-	-	-	-	-	-	-	-	459	459	71	1,432
Non-cash expenses associated with discontinued products	-	-	-	-	-	-	-	-	-	-	-	-	-	-	650	650	751	1,004
Loss (gain) from disposal of idle assets	-	-	-	-	54	54	40	4	37	81	-	2	-	-	2	-	-	-
Unrealized exchange loss (gain)	1,300	(44)	(848)	3,160	299	2,567	(410)	42	(624)	46	(946)	248	(101)	60	741	948	(203)	(911)
Interest (income) expense, net	(43)	51	220	269	150	690	300	385	422	363	1,470	264	175	187	11	637	19	194
Tax (benefit) expense related to the above	199	-	135	406	(166)	375	(192)	52	(11,332)	1,241	(10,231)	3,654	5,083	(1,865)	3,703	10,575	(996)	2,296
Adjusted EBITDA	\$16,326	\$2,264	\$6,462	\$9,655	\$6,494	\$26,876	\$2,306	\$5,796	\$11,070	\$21,231	\$40,403	\$29,864	\$41,407	\$25,619	\$19,564	\$116,454	\$11,584	\$22,608
GAAP diluted net income (loss) per share	\$ 0.28	\$ (0.05)	\$ 0.38	\$ 0.16	\$ 0.15	\$ 0.65	\$ (0.08)	\$ 0.03	\$ 0.97	\$ 0.77	\$ 1.76	\$ 1.00	\$ 1.43	\$ 0.95	\$ 0.28	\$ 3.67	\$ 0.11	\$ 0.40
Amortization of intangible assets	0.02	0.01	0.01	0.01	0.01	0.03	0.01	0.01	0.01	0.01	0.03	0.01	0.01	0.01	(0.00)	0.02	0.01	0.01
Share-based compensation expense	0.14	0.03	0.03	0.03	0.03	0.13	0.05	0.06	0.05	0.06	0.22	0.08	0.11	0.10	0.10	0.39	0.13	0.14
Non-Recurring charges	0.15	0.03	0.00	0.01	0.01	0.05	0.01	0.02	0.01	0.00	0.04	(0.00)	0.01	0.02	0.01	0.05	0.01	0.02
Expenses associated with discontinued products	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.02	0.02	0.00	0.07
Non-cash expenses associated with discontinued products	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0.03	0.03	0.04	0.05
Loss (gain) from disposal of idle assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-	0.00	-	-
Unrealized exchange loss (gain)	0.09	(0.00)	(0.05)	0.19														