

## Non-GAAP Financial Measures

We provide non-GAAP gross margin, non-GAAP net income (loss), and non-GAAP earnings per share to eliminate the impact of items that we do not consider indicative of our overall operating performance. To arrive at our non-GAAP gross margin, we exclude stock-based compensation expense, expenses associated with discontinued products, and non-recurring expenses, if any, from our GAAP gross margin. To arrive at our non-GAAP net income (loss), we exclude all amortization of intangible assets, stock-based compensation expense, non-recurring expenses, unrealized foreign exchange gain (loss), losses from the disposal of idle assets, if any, non-GAAP tax expenses (benefits), and expenses associated with discontinued products, if any, from our GAAP net income (loss). Included in our non-recurring expenses in Q2 2020 and Q2 2019 are certain one-time legal (if any) and consulting fees (if any) and employee severance expenses (if any). In computing our non-GAAP income tax expense (benefit), we have applied an estimate of our annual effective income tax rate and applied it to our net income before income taxes.

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

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

A reconciliation of our GAAP net income (loss) and GAAP earnings (loss) per share for the quarter ended June 30, 2020 to our non-GAAP net income (loss) and earnings (loss) per share is provided below, together with corresponding reconciliations for the quarter period ended June 30, 2019.

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

Applied Optoelectronics, Inc.  
Consolidated Balance Sheet

(In thousands)

Preliminary Unaudited

	6/30/2018	9/30/2018	12/31/2018	3/31/2019	6/30/2019	9/30/2019	12/31/2019	3/31/2020	6/30/2020
<b>ASSETS</b>									
<b>CURRENT ASSETS</b>									
Cash and Cash Equivalents	76,190	62,402	55,646	74,930	81,070	69,994	59,977	55,908	52,181
Restricted Cash	1,753	1,695	2,358	2,529	2,917	2,382	7,051	6,609	6,728
Short term Investment	0	0	0	0	0	0	0	0	0
Total Cash, Cash Equivalents and Short Term Investments	77,943	64,097	58,004	77,459	83,987	72,376	67,028	62,517	58,909
Accounts Receivable									
Allowance for doubtful accounts									
Accounts Receivable, Net	48,668	32,028	30,534	32,123	28,406	29,709	34,655	25,783	50,029
Inventories	93,269	107,905	93,256	84,464	81,475	82,118	85,028	87,109	97,251
Notes Receivable	0	0	0	79	136	0	0	0	0
Prepaid Income Tax	638	763	1,188	1,423	1,312	759	224	375	210
Prepaid Expenses and Other Current Assets	10,070	10,377	11,293	7,726	5,719	5,685	5,869	6,904	6,610
<b>Total Current Assets</b>	<b>230,588</b>	<b>215,170</b>	<b>194,275</b>	<b>203,274</b>	<b>201,035</b>	<b>190,647</b>	<b>192,804</b>	<b>182,688</b>	<b>213,009</b>
Cash Restricted for Construction in Progress	0	0	0	0	0	0	0	0	0
Property, Plant And Equipment, Net	212,105	222,545	234,211	242,623	247,887	245,535	248,444	243,717	244,126
Land Use Rights, Net	6,096	5,832	5,814	5,894	5,743	5,551	5,598	5,481	5,455
Right of use asset	0	0	0	8,293	7,912	7,738	7,887	7,756	7,656
Intangible Assets, Net	3,978	3,971	3,977	4,001	4,028	4,072	4,081	4,051	4,006
Deferred Income Tax Assets	13,151	18,493	21,714	24,188	27,437	29,362	7,287	9,078	2,136
Other Assets	6,286	15,074	6,849	2,932	1,080	973	724	765	1,703
<b>TOTAL ASSETS</b>	<b>472,204</b>	<b>481,085</b>	<b>466,840</b>	<b>491,205</b>	<b>495,122</b>	<b>483,878</b>	<b>466,825</b>	<b>453,536</b>	<b>478,091</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>									
<b>CURRENT LIABILITIES</b>									
Accounts Payable	51,429	53,706	29,910	28,332	31,526	28,074	32,828	36,236	51,154
Accrued Income Taxes	464	0	0	0	0	0	0	0	0
Current Lease Liability				1,053	903	924	982	955	958
Accrued Expenses	16,651	20,723	19,291	12,424	13,986	15,542	17,864	10,678	15,557
Bank Acceptance Payable	0	0	4,628	5,198	2,532	4,080	6,310	9,550	9,866
Current Portion of Notes Payable and Long Term Debt	3,161	8,275	23,589	18,168	19,180	15,803	33,371	38,096	42,234
<b>Total Current Liabilities</b>	<b>71,705</b>	<b>82,704</b>	<b>77,418</b>	<b>65,175</b>	<b>68,127</b>	<b>64,423</b>	<b>91,355</b>	<b>95,515</b>	<b>119,769</b>
Notes Payable and Long Term Debt	57,868	62,896	60,328	17,535	30,468	32,373	16,552	15,315	15,542
Convertible Senior Notes				76,439	76,630	76,835	77,041	77,235	77,439
Non-Current Lease Liability				8,438	8,182	7,962	8,083	7,973	7,886
Other Long-Term Liabilities	0	0	0	0	0	0	0	0	0
<b>TOTAL LIABILITIES</b>	<b>129,573</b>	<b>145,600</b>	<b>137,746</b>	<b>167,587</b>	<b>183,407</b>	<b>181,593</b>	<b>193,031</b>	<b>196,038</b>	<b>220,636</b>
<b>STOCKHOLDERS' EQUITY</b>									
Common Stock	20	20	20	20	20	20	20	20	22
Additional Paid-in Capital	288,686	290,070	292,480	295,130	297,922	300,725	303,401	306,305	323,405
Cumulative Translation Adjustment	5,633	835	602	2,950	(379)	(3,832)	430	(1,972)	(518)
Retained Earnings (Accumulated Deficit)	48,292	44,560	35,992	25,518	14,152	5,372	(30,057)	(46,855)	(65,454)
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>342,631</b>	<b>335,485</b>	<b>329,094</b>	<b>323,618</b>	<b>311,715</b>	<b>302,285</b>	<b>273,794</b>	<b>257,498</b>	<b>257,455</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>472,204</b>	<b>481,085</b>	<b>466,840</b>	<b>491,205</b>	<b>495,122</b>	<b>483,878</b>	<b>466,825</b>	<b>453,536</b>	<b>478,091</b>

Applied Optoelectronics, Inc.  
Consolidated Statement of Operations

(In thousands, except percentages and per share data)

	2Q18	3Q18	4Q18	CY2018	1Q19	2Q19	3Q19	4Q19	CY2019	1Q20	2Q20
Revenue											
Datacenter	69,040	38,954	41,659	200,236	38,499	31,806	34,006	39,252	143,563	33,264	52,533
CATV	14,184	14,295	12,652	51,699	11,962	9,818	8,797	6,753	37,330	4,223	6,141
Telecom	4,157	2,656	2,760	13,159	1,738	1,630	2,868	2,193	8,429	2,560	6,170
FTTH	166	221	320	818	94	16	39	41	190	0	1
Other	275	260	627	1,553	426	141	374	419	1,360	420	377
<b>Total Revenues</b>	<b>87,822</b>	<b>56,386</b>	<b>58,018</b>	<b>267,465</b>	<b>52,719</b>	<b>43,411</b>	<b>46,084</b>	<b>48,658</b>	<b>190,872</b>	<b>40,467</b>	<b>65,222</b>
YOY Growth %	-25.2%	-36.6%	-27.3%	-30.0%	-19.2%	-50.6%	-18.3%	-16.1%	229.0%	-30.3%	-75.6%
<b>Cost of Goods Sold</b>	<b>53,959</b>	<b>38,849</b>	<b>47,481</b>	<b>179,692</b>	<b>40,368</b>	<b>32,873</b>	<b>34,108</b>	<b>37,322</b>	<b>144,671</b>	<b>34,129</b>	<b>51,486</b>
COGS % of Revenue	61.4%	68.9%	81.8%	67.2%	76.6%	75.7%	74.0%	76.7%	75.8%	84.3%	78.9%
<b>Gross Profit</b>	<b>33,863</b>	<b>17,537</b>	<b>10,537</b>	<b>87,773</b>	<b>12,351</b>	<b>10,538</b>	<b>11,976</b>	<b>11,336</b>	<b>46,201</b>	<b>6,338</b>	<b>13,736</b>
Gross Margin	38.6%	31.1%	18.2%	32.8%	23.4%	24.3%	26.0%	23.3%	24.2%	15.7%	21.1%
Operating Expenses:											
Research and Development	12,645	14,180	11,342	49,903	11,185	11,151	10,466	10,597	43,399	10,558	10,803
R&D % of Revenue	14.4%	25.1%	19.5%	18.7%	21.2%	25.7%	22.7%	21.8%	22.7%	26.1%	16.6%
Sales and Marketing	2,377	2,370	1,920	9,141	2,595	2,331	2,518	2,615	10,059	2,936	3,430
S&M % of Revenue	2.7%	4.2%	3.3%	3.4%	4.9%	5.4%	5.5%	5.4%	5.3%	7.3%	5.3%
General and Administrative	9,898	10,591	9,552	39,497	10,440	10,884	9,988	10,178	41,490	10,638	10,611
G&A % of Revenue	11.3%	18.8%	16.5%	14.8%	19.8%	25.1%	21.7%	20.9%	21.7%	26.3%	16.3%
<b>Total Operating Expenses</b>	<b>24,920</b>	<b>27,141</b>	<b>22,814</b>	<b>98,541</b>	<b>24,220</b>	<b>24,366</b>	<b>22,972</b>	<b>23,390</b>	<b>94,948</b>	<b>24,132</b>	<b>24,844</b>
Operating Expenses % of Revenue	28.4%	48.1%	39.3%	36.8%	45.9%	56.1%	49.8%	48.1%	49.7%	59.6%	38.1%
<b>Operating Income (Loss)</b>	<b>8,943</b>	<b>(9,604)</b>	<b>(12,277)</b>	<b>(10,768)</b>	<b>(11,869)</b>	<b>(13,828)</b>	<b>(10,996)</b>	<b>(12,054)</b>	<b>(48,747)</b>	<b>(17,794)</b>	<b>(11,108)</b>
Operating Margin	10.2%	-17.0%	-21.2%	-4.0%	-22.5%	-31.9%	-23.9%	-24.8%	-25.5%	-44.0%	-17.0%
Other Income (Expense):											
Interest Income	85	86	59	282	72	310	347	196	925	147	47
Interest Expense	(279)	(274)	(482)	(1,106)	(996)	(1,490)	(1,517)	(1,402)	(5,405)	(1,455)	(1,489)
Other Income (Expense)	292	217	629	1,151	78	235	1,124	383	1,820	117	861
Foreign Exchange Gain (Loss)	1,289	549	(135)	663	(233)	216	322	(286)	19	139	113
<b>Total Other Income (Expense):</b>	<b>1,387</b>	<b>578</b>	<b>71</b>	<b>990</b>	<b>(1,079)</b>	<b>(729)</b>	<b>276</b>	<b>(1,109)</b>	<b>(2,641)</b>	<b>(1,052)</b>	<b>(468)</b>
Other Income % of Revenue	1.6%	1.0%	0.1%	0.4%	-2.0%	-1.7%	0.6%	-2.3%	-1.4%	-2.6%	-0.7%
<b>Net Income (Loss) before Income Taxes</b>	<b>10,330</b>	<b>(9,026)</b>	<b>(12,206)</b>	<b>(9,778)</b>	<b>(12,948)</b>	<b>(14,557)</b>	<b>(10,720)</b>	<b>(13,163)</b>	<b>(51,388)</b>	<b>(18,846)</b>	<b>(11,576)</b>
Net Margin	11.8%	-16.0%	-21.0%	-3.7%	-24.6%	-33.5%	-23.3%	-27.1%	-26.9%	-46.6%	-17.7%
Income Tax Benefit (Expense)	(2,296)	5,294	3,638	7,632	2,474	3,191	1,940	(22,267)	(14,662)	2,049	(7,024)
<b>Net Income (Loss)</b>	<b>8,034</b>	<b>(3,732)</b>	<b>(8,568)</b>	<b>(2,146)</b>	<b>(10,474)</b>	<b>(11,366)</b>	<b>(8,780)</b>	<b>(35,430)</b>	<b>(66,050)</b>	<b>(16,797)</b>	<b>(18,600)</b>
Net Margin after Taxes	9.1%	-6.6%	-14.8%	-0.8%	-19.9%	-26.2%	-19.1%	-72.8%	-34.6%	-41.5%	-28.5%
Earnings per share (Basic)	\$ 0.41	\$ (0.19)	\$ (0.43)	\$ (0.11)	\$ (0.53)	\$ (0.57)	\$ (0.44)	\$ (1.76)	\$ (3.31)	\$ (0.83)	\$ (0.89)
Earnings per share (Diluted)	\$ 0.40	\$ (0.19)	\$ (0.43)	\$ (0.11)	\$ (0.53)	\$ (0.57)	\$ (0.44)	\$ (1.76)	\$ (3.31)	\$ (0.83)	\$ (0.89)
Shares used to compute GAAP basic earnings per share	19,590	19,707	19,793	19,647	19,863	19,932	20,023	20,109	19,982	20,208	20,858
Shares used to compute GAAP diluted earnings per share	20,080	19,707	19,793	19,647	19,863	19,932	20,023	20,109	19,982	20,208	20,858

Applied Optoelectronics, Inc.  
Consolidated Statement of Operations

NON GAAP

(In thousands, except percentages and per share data)

Preliminary Unaudited

	2Q18	3Q18	4Q18	CY2018	1Q19	2Q19	3Q19	4Q19	CY2019	1Q20	2Q20
Revenue											
Datacenter	69,040	38,954	42,550	201,127	38,499	31,806	34,006	39,252	143,563	33,264	52,533
CATV	14,184	14,295	12,652	51,699	11,962	9,818	8,797	6,753	37,330	4,223	6,141
Telecom	4,157	2,656	2,760	13,159	1,738	1,630	2,868	2,193	8,429	2,560	6,170
FTTH	166	221	320	818	94	16	39	41	190	0	1
Other	275	260	627	1,553	426	141	374	419	1,360	420	377
<b>Total Revenues</b>	<b>87,822</b>	<b>56,386</b>	<b>58,909</b>	<b>268,356</b>	<b>52,719</b>	<b>43,411</b>	<b>46,084</b>	<b>48,658</b>	<b>190,872</b>	<b>40,467</b>	<b>65,222</b>
YOY Growth %	-25.2%	-36.6%	-26.2%	-29.8%	-19.2%	-50.6%	-18.3%	-17.4%	224.0%	-31.3%	-75.7%
<b>Cost of Goods Sold</b>	<b>52,316</b>	<b>37,232</b>	<b>44,384</b>	<b>173,080</b>	<b>39,254</b>	<b>31,607</b>	<b>32,794</b>	<b>35,242</b>	<b>138,897</b>	<b>32,559</b>	<b>50,171</b>
COGS % of Revenue	59.6%	66.0%	75.3%	64.5%	74.5%	72.8%	71.2%	72.4%	72.8%	80.5%	76.9%
<b>Gross Profit</b>	<b>35,506</b>	<b>19,154</b>	<b>14,525</b>	<b>95,276</b>	<b>13,465</b>	<b>11,804</b>	<b>13,290</b>	<b>13,416</b>	<b>51,975</b>	<b>7,908</b>	<b>15,051</b>
<b>Gross Margin</b>	<b>40.4%</b>	<b>34.0%</b>	<b>24.7%</b>	<b>35.5%</b>	<b>25.5%</b>	<b>27.2%</b>	<b>28.8%</b>	<b>27.6%</b>	<b>27.2%</b>	<b>19.5%</b>	<b>23.1%</b>
Operating Expenses:											
Research and Development	10,922	12,698	10,512	44,541	10,545	10,494	9,819	9,983	40,841	9,658	10,099
R&D % of Revenue	12.4%	22.5%	17.8%	16.6%	20.0%	24.2%	21.3%	20.5%	21.4%	23.9%	15.5%
Sales and Marketing	2,116	2,189	1,664	8,216	2,324	2,052	2,244	2,370	8,990	2,627	3,133
S&M % of Revenue	2.4%	3.9%	2.8%	3.1%	4.4%	4.7%	4.9%	4.9%	4.7%	6.5%	4.8%
General and Administrative	7,732	7,896	6,545	29,631	7,381	6,938	6,309	7,061	27,689	7,158	7,380
G&A % of Revenue	8.8%	14.0%	11.1%	11.0%	14.0%	16.0%	13.7%	14.5%	14.5%	17.7%	11.3%
<b>Total Operating Expenses</b>	<b>20,770</b>	<b>22,783</b>	<b>18,721</b>	<b>82,388</b>	<b>20,250</b>	<b>19,484</b>	<b>18,372</b>	<b>19,413</b>	<b>77,519</b>	<b>19,443</b>	<b>20,612</b>
<b>Operating Expenses % of Revenue</b>	<b>23.7%</b>	<b>40.4%</b>	<b>31.8%</b>	<b>30.7%</b>	<b>38.4%</b>	<b>44.9%</b>	<b>39.9%</b>	<b>39.9%</b>	<b>40.6%</b>	<b>48.0%</b>	<b>31.6%</b>
<b>Operating Income (Loss)</b>	<b>14,736</b>	<b>(3,629)</b>	<b>(4,196)</b>	<b>12,888</b>	<b>(6,785)</b>	<b>(7,680)</b>	<b>(5,082)</b>	<b>(5,998)</b>	<b>(25,545)</b>	<b>(11,535)</b>	<b>(5,561)</b>
<b>Operating Margin</b>	<b>16.8%</b>	<b>-6.4%</b>	<b>-7.1%</b>	<b>4.8%</b>	<b>-12.9%</b>	<b>-17.7%</b>	<b>-11.0%</b>	<b>-12.3%</b>	<b>-13.4%</b>	<b>-28.5%</b>	<b>-8.5%</b>
Other Income (Expense):											
Interest Income	85	86	59	282	72	310	347	196	925	147	47
Interest Expense	(279)	(274)	(482)	(1,106)	(823)	(1,490)	(1,517)	(1,402)	(5,232)	(1,455)	(1,489)
Other Income (Expense)	292	217	636	1,158	78	235	1,124	383	1,820	117	326
Foreign Exchange Gain (Loss)	378	1,055	(127)	63	(460)	272	257	(207)	(138)	(30)	155
<b>Total Other Income (Expense):</b>	<b>476</b>	<b>1,084</b>	<b>86</b>	<b>397</b>	<b>(1,133)</b>	<b>(673)</b>	<b>211</b>	<b>(1,030)</b>	<b>(2,625)</b>	<b>(1,221)</b>	<b>(961)</b>
<b>Other Income % of Revenue</b>	<b>0.5%</b>	<b>1.9%</b>	<b>0.1%</b>	<b>0.1%</b>	<b>-2.1%</b>	<b>-1.6%</b>	<b>0.5%</b>	<b>-2.1%</b>	<b>-1.4%</b>	<b>-3.0%</b>	<b>-1.5%</b>
<b>Net Income (Loss) before Income Taxes</b>	<b>15,212</b>	<b>(2,545)</b>	<b>(4,110)</b>	<b>13,285</b>	<b>(7,918)</b>	<b>(8,353)</b>	<b>(4,871)</b>	<b>(7,027)</b>	<b>(28,169)</b>	<b>(12,756)</b>	<b>(6,522)</b>
<b>Net Margin</b>	<b>17.3%</b>	<b>-4.5%</b>	<b>-7.0%</b>	<b>5.0%</b>	<b>-15.0%</b>	<b>-19.2%</b>	<b>-10.6%</b>	<b>-14.4%</b>	<b>-14.8%</b>	<b>-31.5%</b>	<b>-10.0%</b>
Income Tax Benefit (Expense)	(2,344)	5,294	3,638	7,470	2,474	3,191	1,940	3,468	11,073	3,964	1,538
<b>Net Income (Loss)</b>	<b>12,868</b>	<b>2,749</b>	<b>(472)</b>	<b>20,755</b>	<b>(5,444)</b>	<b>(5,162)</b>	<b>(2,931)</b>	<b>(3,559)</b>	<b>(17,096)</b>	<b>(8,792)</b>	<b>(4,984)</b>
<b>Net Margin after Income Tax</b>	<b>14.7%</b>	<b>4.9%</b>	<b>-0.8%</b>	<b>7.7%</b>	<b>-10.3%</b>	<b>-11.9%</b>	<b>-6.4%</b>	<b>-7.3%</b>	<b>-9.0%</b>	<b>-21.7%</b>	<b>-7.6%</b>
Depreciation & Amortization	7,327	7,516	7,891	29,698	5,948	6,017	6,009	6,027	24,001	5,798	5,798
<b>Adjusted EBITDA</b>	<b>22,608</b>	<b>5,034</b>	<b>4,075</b>	<b>43,301</b>	<b>(2,366)</b>	<b>(2,405)</b>	<b>1,057</b>	<b>(1,003)</b>	<b>(4,717)</b>	<b>(6,815)</b>	<b>(6,815)</b>
<b>EBITDA Margin</b>	<b>25.7%</b>	<b>8.9%</b>	<b>6.9%</b>	<b>16.1%</b>	<b>-4.5%</b>	<b>-5.5%</b>	<b>2.3%</b>	<b>-2.1%</b>	<b>-2.5%</b>	<b>-16.8%</b>	<b>-10.4%</b>
Earnings per share (Basic)	\$ 0.66	\$ 0.14	\$ (0.02)	\$ 1.06	\$ (0.27)	\$ (0.26)	\$ (0.15)	\$ (0.18)	\$ (0.86)	\$ (0.44)	\$ (0.24)
Earnings per share (Diluted)	\$ 0.64	\$ 0.14	\$ (0.02)	\$ 1.04	\$ (0.27)	\$ (0.26)	\$ (0.15)	\$ (0.18)	\$ (0.86)	\$ (0.44)	\$ (0.24)
Shares used to compute Non-GAAP basic earnings per share	19,590	19,707	19,793	19,647	19,863	19,932	20,023	20,109	19,982	20,208	20,858
Shares used to compute Non-GAAP diluted earnings per share	20,080	20,185	19,793	20,027	19,863	19,932	20,023	20,109	19,982	20,208	20,858

Applied Optoelectronics, Inc.  
GAAP to Non-GAAP Reconciliation

(In thousands)

Preliminary Unaudited

	2Q18	3Q18	4Q18	CY2018	1Q19	2Q19	3Q19	4Q19	CY2019	1Q20	2Q20
GAAP revenue	87,822	56,386	58,018	267,465	52,719	43,411	46,084	48,658	190,872	40,467	65,222
Non-recurring customer credit	-	-	891	891	-	-	-	-	-	-	-
Non-GAAP revenue	87,822	56,386	58,909	268,356	52,719	43,411	46,084	48,658	190,872	40,467	65,222
GAAP total gross profit	33,863	17,537	10,537	87,773	12,351	10,538	11,976	11,336	46,201	6,338	13,736
Non-recurring customer credit	-	-	891	891	-	-	-	-	-	-	-
Share-based compensation expense	211	205	202	795	189	199	197	189	774	246	237
Non-recurring expense	-	-	43	50	-	-	-	-	-	970	1
Expenses associated with discontinued products	1,432	1,412	2,852	5,767	925	1,067	1,117	1,891	5,000	354	1,077
Non-GAAP income from gross profit	35,506	19,154	14,525	95,276	13,465	11,804	13,290	13,416	51,975	7,908	15,051
GAAP research and development expense	12,645	14,180	11,342	49,903	11,185	11,151	10,466	10,597	43,399	10,558	10,803
Share-based compensation expense	676	623	544	2,419	640	657	647	614	2,558	688	704
Non-recurring expense	43	-	13	56	-	-	-	-	-	212	-
Non-cash expenses associated with discontinued products	1,004	859	273	2,887	-	-	-	-	-	-	-
Non-GAAP research and development expense	10,922	12,698	10,512	44,541	10,545	10,494	9,819	9,983	40,841	9,658	10,099
GAAP sales and marketing expense	2,377	2,370	1,920	9,141	2,595	2,331	2,518	2,615	10,059	2,936	3,430
Share-based compensation expense	261	181	256	925	271	279	274	245	1,069	291	295
Non-recurring expense	-	-	-	-	-	-	-	-	-	18	2
Non-GAAP sales and marketing expense	2,116	2,189	1,664	8,216	2,324	2,052	2,244	2,370	8,990	2,627	3,133
GAAP general and administrative expense	9,898	10,591	9,552	39,497	10,440	10,884	9,988	10,178	41,490	10,638	10,611
Share-based compensation expense	1,752	1,885	1,758	6,983	1,843	1,885	1,860	1,816	7,404	2,013	2,066
Amortization expense	127	125	128	506	130	133	137	140	540	141	143
Non-recurring expense	287	685	1,121	2,377	69	813	568	94	1,544	301	70
Non-cash expenses associated with discontinued products	-	-	-	-	1,017	1,115	1,114	1,067	4,313	1,025	952
Non-GAAP general and administrative expense	7,732	7,896	6,545	29,631	7,381	6,938	6,309	7,062	27,690	7,158	7,380
GAAP total operating expense	24,920	27,141	22,814	98,541	24,220	24,366	22,972	23,390	94,948	24,132	24,844
Share-based compensation expense	2,689	2,689	2,558	10,327	2,754	2,821	2,781	2,676	11,032	2,992	3,065
Amortization expense	127	125	128	506	130	133	137	140	540	141	143
Non-recurring expense	330	685	1,134	2,433	69	813	568	94	1,544	531	72
Non-cash expenses associated with discontinued products	1,004	859	273	2,887	1,017	1,115	1,114	1,067	4,313	1,025	952
Non-GAAP total operating expense	20,770	22,783	18,721	82,388	20,250	19,484	18,372	19,414	77,520	19,443	20,612
GAAP operating income (loss)	8,943	(9,604)	(12,277)	(10,768)	(11,869)	(13,828)	(10,996)	(12,054)	(48,747)	(17,794)	(11,108)
Non-recurring customer credit	-	-	891	891	-	-	0	0	0	-	-
Share-based compensation expense	2,900	2,894	2,757	11,120	2,943	3,020	2,978	2,864	11,805	3,238	3,302
Amortization expense	127	125	128	506	130	133	137	140	540	141	143
Non-recurring expense	330	685	1,180	2,485	69	813	568	94	1,544	1,501	73
Expenses associated with discontinued products	1,432	1,412	2,852	5,767	925	1,067	1,117	1,891	5,000	354	1,077
Non-cash expenses associated with discontinued products	1,004	859	273	2,887	1,017	1,115	1,114	1,067	4,313	1,025	952
Non-GAAP operating income (loss)	14,736	(3,629)	(5,087)	11,997	(6,785)	(7,680)	(5,082)	(5,999)	(25,546)	(11,535)	(5,561)
GAAP other income (loss)	1,387	578	71	990	(1,079)	(729)	276	(1,109)	(2,641)	(1,052)	(468)
Loss (gain) from disposal of idle assets	-	-	8	8	-	-	-	-	-	-	-
Unrealized exchange loss (gain)	(911)	506	7	(601)	(227)	56	(65)	79	(157)	(169)	43
Non-recurring expense	0	0	0	0	173	-	-	-	173	-	(536)
Non-GAAP other income (loss)	476	1,084	86	397	(1,133)	(673)	211	(1,030)	(2,625)	(1,221)	(961)

Applied Optoelectronics, Inc.  
GAAP to Non-GAAP Reconciliation

(In thousands)

Preliminary Unaudited

	2Q18	3Q18	4Q18	CY2018	1Q19	2Q19	3Q19	4Q19	CY2019	1Q20	2Q20
GAAP net income (loss)	8,034	(3,732)	(8,568)	(2,146)	(10,474)	(11,366)	(8,780)	(35,430)	(66,049)	(16,797)	(18,600)
Non-recurring customer credit			891	891	-	-	-	-	-	-	-
Amortization of intangible assets	127	125	128	506	130	133	137	140	540	141	143
Share-based compensation expense	2,900	2,894	2,757	11,120	2,943	3,020	2,978	2,864	11,804	3,238	3,302
Non Recurring charges	330	685	1,180	2,485	242	812	568	94	1,716	1,501	(463)
Expenses associated with discontinued products	1,432	1,412	2,852	5,767	925	1,067	1,117	1,891	5,000	354	1,077
Non-cash expenses associated with discontinued products	1,004	859	273	2,887	1,017	1,116	1,114	1,067	4,314	1,025	952
Loss (gain) from disposal of idle assets	-	-	8	8	-	-	-	-	-	-	-
Unrealized exchange loss (gain)	(911)	506	7	(601)	(227)	56	(65)	79	(157)	(169)	43
Non-GAAP Tax Benefit	(48)	-	-	(162)	-	-	-	25,736	25,736	1,915	8,562
Non-GAAP net income (loss)	12,868	2,749	(472)	20,755	(5,444)	(5,162)	(2,931)	(3,559)	(17,096)	(8,792)	(4,984)
GAAP net income (loss)	8,034	(3,732)	(8,568)	(2,146)	(10,474)	(11,366)	(8,780)	(35,430)	(66,049)	(16,797)	(18,600)
Non-recurring customer credit			891	891	-	-	-	-	-	-	-
Amortization of intangible assets	127	125	128	506	130	133	137	140	540	141	143
Share-based compensation expense	2,900	2,894	2,757	11,120	2,943	3,020	2,978	2,864	11,804	3,238	3,302
Depreciation expense	7,202	7,391	7,762	29,192	5,817	5,883	5,872	5,887	23,459	5,657	5,655
Non-recurring charges	330	685	1,180	2,485	242	812	568	94	1,716	1,501	(463)
Expenses associated with discontinued products	1,432	1,412	1,603	4,518	925	1,067	1,117	1,891	5,000	354	1,077
Loss (gain) from disposal of idle assets	-	-	8	8	-	-	-	-	-	-	-
Unrealized exchange loss (gain)	(911)	506	7	(601)	(227)	56	(65)	79	(157)	(169)	43
Interest (income) expense, net	194	188	423	824	752	1,181	1,170	1,206	4,309	1,308	1,308
Tax (benefit) expense related to the above	2,296	(5,294)	(3,638)	(7,632)	(2,474)	(3,191)	(1,940)	22,267	14,662	(2,048)	7,025
Adjusted EBITDA	\$21,604	\$4,175	\$2,553	\$39,165	(2,366)	(2,405)	\$1,057	(1,003)	(4,717)	(6,815)	(510)
GAAP diluted net income (loss) per share	\$ 0.40	\$ (0.19)	\$ (0.43)	\$ (0.11)	\$ (0.53)	\$ (0.57)	\$ (0.44)	\$ (1.76)	\$ (3.31)	\$ (0.83)	\$ (0.89)
Non-recurring customer credit			0.05	0.04	-	-	-	-	-	-	-
Amortization of intangible assets	0.01	0.01	0.01	0.03	0.01	0.01	0.01	0.01	0.03	0.01	0.01
Share-based compensation expense	0.14	0.14	0.15	0.56	0.15	0.15	0.15	0.14	0.59	0.16	0.16
Non Recurring charges	0.02	0.03	0.06	0.12	0.01	0.04	0.03	0.00	0.09	0.07	(0.02)
Expenses associated with discontinued products	0.07	0.07	0.14	0.29	0.05	0.05	0.06	0.09	0.25	0.02	0.05
Non-cash expenses associated with discontinued products	0.05	0.04	0.01	0.14	0.05	0.06	0.05	0.05	0.22	0.05	0.04
Loss (gain) from disposal of idle assets	-	-	0.00	0.00	-	-	-	-	-	-	-
Unrealized exchange loss (gain)	(0.05)	0.04	(0.01)	(0.03)	(0.01)	0.00	(0.01)	0.00	(0.01)	(0.01)	0.00
Non-GAAP Tax Benefit	(0.00)	-	0.01	(0.00)	-	-	-	1.29	1.30	0.09	0.41
Non-GAAP diluted net income (loss) per share	\$ 0.64	\$ 0.14	\$ (0.02)	\$ 1.04	\$ (0.27)	\$ (0.26)	\$ (0.15)	\$ (0.18)	\$ (0.86)	\$ (0.44)	\$ (0.24)
Shares used to compute diluted earnings per share	20,080	20,185	19,793	20,027	19,863	19,932	20,023	20,109	19,982	20,208	20,858