

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 (income) 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 Q3 2020 and Q3 2019 are certain one-time legal (if any) and consulting fees (if any) and employee severance expenses (if any). Also included in our non-recurring (income) expenses in Q3 of 2020, but not in 2019, were a one-time customer reimbursement of certain incurred expenses, and non-recurring government subsidy income in our Taiwan subsidiary due to COVID-19. 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 September 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 September 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

	9/30/2018	12/31/2018	3/31/2019	6/30/2019	9/30/2019	12/31/2019	3/31/2020	6/30/2020	9/30/2020
ASSETS									
CURRENT ASSETS									
Cash and Cash Equivalents	62,402	55,646	74,930	81,070	69,994	59,977	55,908	52,181	46,772
Restricted Cash	1,695	2,358	2,529	2,917	2,382	7,051	6,609	6,728	11,296
Short term Investment	0	0	0	0	0	0	0	0	0
Total Cash, Cash Equivalents and Short Term Investments	64,097	58,004	77,459	83,987	72,376	67,028	62,517	58,909	58,068
Accounts Receivable									
Allowance for doubtful accounts									
Accounts Receivable, Net	32,028	30,534	32,123	28,406	29,709	34,655	25,783	50,029	51,453
Inventories	107,905	93,256	84,464	81,475	82,118	85,028	87,109	97,251	111,427
Notes Receivable	0	0	79	136	0	0	0	0	0
Prepaid Income Tax	763	1,188	1,423	1,312	759	224	375	210	177
Prepaid Expenses and Other Current Assets	10,377	11,293	7,726	5,719	5,685	5,869	6,904	6,610	8,805
Total Current Assets	215,170	194,275	203,274	201,035	190,647	192,804	182,688	213,009	229,930
Cash Restricted for Construction in Progress	0	0	0	0	0	0	0	0	0
Property, Plant And Equipment, Net	222,545	234,211	242,623	247,887	245,535	248,444	243,717	244,126	249,740
Land Use Rights, Net	5,832	5,814	5,894	5,743	5,551	5,598	5,481	5,455	5,640
Right of use asset	0	0	8,293	7,912	7,738	7,887	7,756	7,656	7,888
Intangible Assets, Net	3,971	3,977	4,001	4,028	4,072	4,081	4,051	4,006	4,031
Deferred Income Tax Assets	18,493	21,714	24,188	27,437	29,362	7,287	9,078	2,136	0
Other Assets	15,074	6,849	2,932	1,080	973	724	765	1,703	558
TOTAL ASSETS	481,085	466,840	491,205	495,122	483,878	466,825	453,536	478,091	497,787
LIABILITIES AND STOCKHOLDERS' EQUITY									
CURRENT LIABILITIES									
Accounts Payable	53,706	29,910	28,332	31,526	28,074	32,828	36,236	51,154	56,134
Accrued Income Taxes	0	0	0	0	0	0	0	0	0
Current Lease Liability			1,053	903	924	982	955	958	1,000
Accrued Expenses	20,723	19,291	12,424	13,986	15,542	17,864	10,678	15,557	17,526
Bank Acceptance Payable	0	4,628	5,198	2,532	4,080	6,310	9,550	9,866	13,366
Current Portion of Notes Payable and Long Term Debt	8,275	23,589	18,168	19,180	15,803	33,371	38,096	42,234	44,292
Total Current Liabilities	82,704	77,418	65,175	68,127	64,423	91,355	95,515	119,769	132,318
Notes Payable and Long Term Debt	62,896	60,328	17,535	30,468	32,373	16,552	15,315	15,542	14,564
Convertible Senior Notes			76,439	76,630	76,835	77,041	77,235	77,439	77,646
Non-Current Lease Liability			8,438	8,182	7,962	8,083	7,973	7,886	8,093
Other Long-Term Liabilities	0	0	0	0	0	0	0	0	0
TOTAL LIABILITIES	145,600	137,746	167,587	183,407	181,593	193,031	196,038	220,636	232,621
STOCKHOLDERS' EQUITY									
Common Stock	20	20	20	20	20	20	20	22	23
Additional Paid-in Capital	290,070	292,480	295,130	297,922	300,725	303,401	306,305	323,405	335,035
Cumulative Translation Adjustment	835	602	2,950	(379)	(3,832)	430	(1,972)	(518)	5,178
Retained Earnings (Accumulated Deficit)	44,560	35,992	25,518	14,152	5,372	(30,057)	(46,855)	(65,454)	(75,070)
TOTAL STOCKHOLDERS' EQUITY	335,485	329,094	323,618	311,715	302,285	273,794	257,498	257,455	265,166
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	481,085	466,840	491,205	495,122	483,878	466,825	453,536	478,091	497,787

Applied Optoelectronics, Inc.
Consolidated Statement of Operations

(In thousands, except percentages and per share data)

	3Q18	4Q18	CY2018	1Q19	2Q19	3Q19	4Q19	CY2019	1Q20	2Q20	3Q20
Revenue											
Datacenter	38,954	41,659	200,236	38,499	31,806	34,006	39,252	143,563	33,264	52,533	55,336
CATV	14,295	12,652	51,699	11,962	9,818	8,797	6,753	37,330	4,223	6,141	11,642
Telecom	2,656	2,760	13,159	1,738	1,630	2,868	2,193	8,429	2,560	6,170	8,870
FTTH	221	320	818	94	16	39	41	190	0	1	67
Other	260	627	1,553	426	141	374	419	1,360	420	377	693
Total Revenues	56,386	58,018	267,465	52,719	43,411	46,084	48,658	190,872	40,467	65,222	76,608
YOY Growth %	-36.6%	-27.3%	-30.0%	-19.2%	-50.6%	-18.3%	-16.1%	-28.6%	-23.2%	50.2%	66.2%
Cost of Goods Sold	38,849	47,481	179,692	40,368	32,873	34,108	37,322	144,671	34,129	51,486	57,418
COGS % of Revenue	68.9%	81.8%	67.2%	76.6%	75.7%	74.0%	76.7%	75.8%	84.3%	78.9%	75.0%
Gross Profit	17,537	10,537	87,773	12,351	10,538	11,976	11,336	46,201	6,338	13,736	19,190
Gross Margin	31.1%	18.2%	32.8%	23.4%	24.3%	26.0%	23.3%	24.2%	15.7%	21.1%	25.0%
Operating Expenses:											
Research and Development	14,180	11,342	49,903	11,185	11,151	10,466	10,597	43,399	10,558	10,803	11,206
R&D % of Revenue	25.1%	19.5%	18.7%	21.2%	25.7%	22.7%	21.8%	22.7%	26.1%	16.6%	14.6%
Sales and Marketing	2,370	1,920	9,141	2,595	2,331	2,518	2,615	10,059	2,936	2,430	4,491
S&M % of Revenue	4.2%	3.3%	3.4%	4.9%	5.4%	5.5%	5.4%	5.3%	7.3%	5.3%	5.9%
General and Administrative	10,591	9,552	39,497	10,440	10,884	9,988	10,178	41,490	10,638	10,611	10,272
G&A % of Revenue	18.8%	16.5%	14.8%	19.8%	25.1%	21.7%	20.9%	21.7%	26.3%	16.3%	13.4%
Total Operating Expenses	27,141	22,814	98,541	24,220	24,366	22,972	23,390	94,948	24,132	24,844	25,969
Operating Expenses % of Revenue	48.1%	39.3%	36.8%	45.9%	56.1%	49.8%	48.1%	49.7%	59.6%	38.1%	33.9%
Operating Income (Loss)	(9,604)	(12,277)	(10,768)	(11,869)	(13,828)	(10,996)	(12,054)	(48,747)	(17,794)	(11,108)	(6,779)
Operating Margin	-17.0%	-21.2%	-4.0%	-22.5%	-31.9%	-23.9%	-24.8%	-25.5%	-44.0%	-17.0%	-8.8%
Other Income (Expense):											
Interest Income	86	59	282	72	310	347	196	925	147	47	26
Interest Expense	(274)	(482)	(1,106)	(996)	(1,490)	(1,517)	(1,402)	(5,405)	(1,455)	(1,489)	(1,480)
Other Income (Expense)	217	629	1,151	78	235	1,124	383	1,820	117	861	1,137
Foreign Exchange Gain (Loss)	549	(135)	663	(233)	216	322	(286)	19	139	113	(271)
Total Other Income (Expense):	578	71	990	(1,079)	(729)	276	(1,109)	(2,641)	(1,052)	(468)	(588)
Other Income % of Revenue	1.0%	0.1%	0.4%	-2.0%	-1.7%	0.6%	-2.3%	-1.4%	-2.6%	-0.7%	-0.8%
Net Income (Loss) before Income Taxes	(9,026)	(12,206)	(9,778)	(12,948)	(14,557)	(10,720)	(13,163)	(51,388)	(18,846)	(11,576)	(7,367)
Net Margin	-16.0%	-21.0%	-3.7%	-24.6%	-33.5%	-23.3%	-27.1%	-26.9%	-46.6%	-17.7%	-9.6%
Income Tax Benefit (Expense)	5,294	3,638	7,632	2,474	3,191	1,940	(22,267)	(14,662)	2,049	(7,024)	(2,249)
Net Income (Loss)	(3,732)	(8,568)	(2,146)	(10,474)	(11,366)	(8,780)	(35,430)	(66,050)	(16,797)	(18,600)	(9,616)
Net Margin after Taxes	-6.6%	-14.8%	-0.8%	-19.9%	-26.2%	-19.1%	-72.8%	-34.6%	-41.5%	-28.5%	-12.6%
Earnings per share (Basic)	\$ (0.19)	\$ (0.43)	\$ (0.11)	\$ (0.53)	\$ (0.57)	\$ (0.44)	\$ (1.76)	\$ (3.31)	\$ (0.83)	\$ (0.89)	\$ (0.42)
Earnings per share (Diluted)	\$ (0.19)	\$ (0.43)	\$ (0.11)	\$ (0.53)	\$ (0.57)	\$ (0.44)	\$ (1.76)	\$ (3.31)	\$ (0.83)	\$ (0.89)	\$ (0.42)
Shares used to compute GAAP basic earnings per share	19,707	19,793	19,647	19,863	19,932	20,023	20,109	19,982	20,208	20,858	22,744
Shares used to compute GAAP diluted earnings per share	19,707	19,793	19,647	19,863	19,932	20,023	20,109	19,982	20,208	20,858	22,744

Applied Optoelectronics, Inc.
Consolidated Statement of Operations

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

	3Q18	4Q18	CY2018	1Q19	2Q19	3Q19	4Q19	CY2019	1Q20	2Q20	3Q20
Revenue											
Datacenter	38,954	42,550	201,127	38,499	31,806	34,006	39,252	143,563	33,264	52,533	55,336
CATV	14,295	12,652	51,699	11,962	9,818	8,797	6,753	37,330	4,223	6,141	11,642
Telecom	2,656	2,760	13,159	1,738	1,630	2,868	2,193	8,429	2,560	6,170	8,870
FTTH	221	320	818	94	16	39	41	190	0	1	67
Other	260	627	1,553	426	141	374	419	1,360	420	377	693
Total Revenues	56,386	58,909	268,356	52,719	43,411	46,084	48,658	190,872	40,467	65,222	76,608
YOY Growth %	-36.6%	-26.2%	-29.8%	-19.2%	-50.6%	-18.3%	-17.4%	-28.9%	-23.2%	50.2%	66.2%
Cost of Goods Sold	37,232	44,384	173,080	39,254	31,607	32,794	35,242	138,897	32,559	50,171	55,623
COGS % of Revenue	66.0%	75.3%	64.5%	74.5%	72.8%	71.2%	72.4%	72.8%	80.5%	76.9%	72.6%
Gross Profit	19,154	14,525	95,276	13,465	11,804	13,290	13,416	51,975	7,908	15,051	20,985
Gross Margin	34.0%	24.7%	35.5%	25.5%	27.2%	28.8%	27.6%	27.2%	19.5%	23.1%	27.4%
Operating Expenses:											
Research and Development	12,698	10,512	44,541	10,545	10,494	9,819	9,983	40,841	9,658	10,099	10,500
R&D % of Revenue	22.5%	17.8%	16.6%	20.0%	24.2%	21.3%	20.5%	21.4%	23.9%	15.5%	13.7%
Sales and Marketing	2,189	1,664	8,216	2,324	2,052	2,244	2,370	8,990	2,627	3,133	4,192
S&M % of Revenue	3.9%	2.8%	3.1%	4.4%	4.7%	4.9%	4.9%	4.7%	6.5%	4.8%	5.5%
General and Administrative	7,896	6,545	29,631	7,381	6,938	6,309	7,061	27,689	7,158	7,380	7,579
G&A % of Revenue	14.0%	11.1%	11.0%	14.0%	16.0%	13.7%	14.5%	14.5%	17.7%	11.3%	9.9%
Total Operating Expenses	22,783	18,721	82,388	20,250	19,484	18,372	19,413	77,519	19,443	20,612	22,271
Operating Expenses % of Revenue	40.4%	31.8%	30.7%	38.4%	44.9%	39.9%	39.9%	40.6%	48.0%	31.6%	29.1%
Operating Income (Loss)	(3,629)	(4,196)	12,888	(6,785)	(7,680)	(5,082)	(5,998)	(25,545)	(11,535)	(5,561)	(1,286)
Operating Margin	-6.4%	-7.1%	4.8%	-12.9%	-17.7%	-11.0%	-12.3%	-13.4%	-28.5%	-8.5%	-1.7%
Other Income (Expense):											
Interest Income	86	59	282	72	310	347	196	925	147	47	26
Interest Expense	(274)	(482)	(1,106)	(823)	(1,490)	(1,517)	(1,402)	(5,232)	(1,455)	(1,489)	(1,480)
Other Income (Expense)	217	636	1,158	78	235	1,124	383	1,820	117	326	83
Foreign Exchange Gain (Loss)	1,055	(127)	63	(460)	272	257	(207)	(138)	(30)	155	(332)
Total Other Income (Expense):	1,084	86	397	(1,133)	(673)	211	(1,030)	(2,625)	(1,221)	(961)	(1,703)
Other Income % of Revenue	1.9%	0.1%	0.1%	-2.1%	-1.6%	0.5%	-2.1%	-1.4%	-3.0%	-1.5%	-2.2%
Net Income (Loss) before Income Taxes	(2,545)	(4,110)	13,285	(7,918)	(8,353)	(4,871)	(7,027)	(28,169)	(12,756)	(6,522)	(2,989)
Net Margin	-4.5%	-7.0%	5.0%	-15.0%	-19.2%	-10.6%	-14.4%	-14.8%	-31.5%	-10.0%	-3.9%
Income Tax Benefit (Expense)	5,294	3,638	7,470	2,474	3,191	1,940	3,468	11,073	3,964	1,538	1,570
Net Income (Loss)	2,749	(472)	20,755	(5,444)	(5,162)	(2,931)	(3,559)	(17,096)	(8,792)	(4,984)	(1,419)
Net Margin after Income Tax	4.9%	-0.8%	7.7%	-10.3%	-11.9%	-6.4%	-7.3%	-9.0%	-21.7%	-7.6%	-1.9%
Depreciation & Amortization	7,516	7,891	29,698	5,948	6,017	6,018	6,038	24,021	6,031	6,123	6,196
Adjusted EBITDA	5,034	2,820	42,046	(2,193)	(2,405)	1,066	(992)	(4,524)	(6,815)	(52)	4,020
EBITDA Margin	8.9%	4.8%	15.7%	-4.2%	-5.5%	2.3%	-2.0%	-2.4%	-16.8%	-0.1%	5.2%
Earnings per share (Basic)	\$ 0.14	\$ (0.02)	\$ 1.06	\$ (0.27)	\$ (0.26)	\$ (0.15)	\$ (0.18)	\$ (0.86)	\$ (0.44)	\$ (0.24)	\$ (0.06)
Earnings per share (Diluted)	\$ 0.14	\$ (0.02)	\$ 1.04	\$ (0.27)	\$ (0.26)	\$ (0.15)	\$ (0.18)	\$ (0.86)	\$ (0.44)	\$ (0.24)	\$ (0.06)
Shares used to compute Non-GAAP basic earnings per share	19,707	19,793	19,647	19,863	19,932	20,023	20,109	19,982	20,208	20,858	22,744
Shares used to compute Non-GAAP diluted earnings per share	20,185	19,793	20,027	19,863	19,932	20,023	20,109	19,982	20,208	20,858	22,744

Applied Optoelectronics, Inc.
GAAP to Non-GAAP Reconciliation

(In thousands)

Preliminary Unaudited

	3Q18	4Q18	CY2018	1Q19	2Q19	3Q19	4Q19	CY2019	1Q20	2Q20	3Q20
GAAP revenue	56,386	58,018	267,465	52,719	43,411	46,084	48,658	190,872	40,467	65,222	76,608
Non-recurring customer credit	-	891	891	-	-	-	-	-	-	-	-
Non-GAAP revenue	56,386	58,909	268,356	52,719	43,411	46,084	48,658	190,872	40,467	65,222	76,608
GAAP total gross profit	17,537	10,537	87,773	12,351	10,538	11,976	11,336	46,201	6,338	13,736	19,190
Non-recurring customer credit	-	891	891	-	-	-	-	-	-	-	-
Share-based compensation expense	205	202	795	189	199	197	189	774	246	237	229
Non-recurring expense	-	43	50	-	-	-	-	-	970	1	-
Expenses associated with discontinued products	1,412	2,852	5,767	925	1,067	1,117	1,891	5,000	354	1,077	1,566
Non-GAAP income from gross profit	19,154	14,525	95,276	13,465	11,804	13,290	13,416	51,975	7,908	15,051	20,985
GAAP research and development expense	14,180	11,342	49,903	11,185	11,151	10,466	10,597	43,399	10,558	10,803	11,206
Share-based compensation expense	623	544	2,419	640	657	647	614	2,558	688	704	706
Non-recurring expense	-	13	56	-	-	-	-	-	212	-	-
Non-cash expenses associated with discontinued products	859	273	2,887	-	-	-	-	-	-	-	-
Non-GAAP research and development expense	12,698	10,512	44,541	10,545	10,494	9,819	9,983	40,841	9,658	10,099	10,500
GAAP sales and marketing expense	2,370	1,920	9,141	2,595	2,331	2,518	2,615	10,059	2,936	3,430	4,491
Share-based compensation expense	181	256	925	271	279	274	245	1,069	291	295	298
Non-recurring expense	-	-	-	-	-	-	-	-	18	2	1
Non-GAAP sales and marketing expense	2,189	1,664	8,216	2,324	2,052	2,244	2,370	8,990	2,627	3,133	4,192
GAAP general and administrative expense	10,591	9,552	39,497	10,440	10,884	9,988	10,178	41,490	10,638	10,611	10,272
Share-based compensation expense	1,885	1,758	6,983	1,843	1,885	1,860	1,816	7,404	2,013	2,066	2,032
Amortization expense	125	128	506	130	133	137	140	540	141	143	146
Non-recurring expense	685	1,121	2,377	69	813	568	94	1,544	301	70	20
Non-cash expenses associated with discontinued products	-	-	-	1,017	1,115	1,114	1,067	4,313	1,025	952	495
Non-GAAP general and administrative expense	7,896	6,545	29,631	7,381	6,938	6,309	7,062	27,690	7,158	7,380	7,579
GAAP total operating expense	27,141	22,814	98,541	24,220	24,366	22,972	23,390	94,948	24,132	24,844	25,969
Share-based compensation expense	2,689	2,558	10,327	2,754	2,821	2,781	2,676	11,032	2,992	3,065	3,036
Amortization expense	125	128	506	130	133	137	140	540	141	143	146
Non-recurring expense	685	1,134	2,433	69	813	568	94	1,544	531	72	21
Non-cash expenses associated with discontinued products	859	273	2,887	1,017	1,115	1,114	1,067	4,313	1,025	952	495
Non-GAAP total operating expense	22,783	18,721	82,388	20,250	19,484	18,372	19,414	77,520	19,443	20,612	22,271
GAAP operating income (loss)	(9,604)	(12,277)	(10,768)	(11,869)	(13,828)	(10,996)	(12,054)	(48,747)	(17,794)	(11,108)	(6,779)
Non-recurring customer credit	-	891	891	-	-	0	0	0	-	-	-
Share-based compensation expense	2,894	2,757	11,120	2,943	3,020	2,978	2,864	11,805	3,238	3,302	3,265
Amortization expense	125	128	506	130	133	137	140	540	141	143	146
Non-recurring expense	685	1,180	2,485	69	813	568	94	1,544	1,501	73	21
Expenses associated with discontinued products	1,412	2,852	5,767	925	1,067	1,117	1,891	5,000	354	1,077	1,566
Non-cash expenses associated with discontinued products	859	273	2,887	1,017	1,115	1,114	1,067	4,313	1,025	952	495
Non-GAAP operating income (loss)	(3,629)	(5,087)	11,997	(6,785)	(7,680)	(5,082)	(5,999)	(25,546)	(11,535)	(5,561)	(1,286)
GAAP other income (loss)	578	71	990	(1,079)	(729)	276	(1,109)	(2,641)	(1,052)	(468)	(588)
Loss (gain) from disposal of idle assets	-	8	8	-	-	-	-	-	-	-	-
Unrealized exchange loss (gain)	506	7	(601)	(227)	56	(65)	79	(157)	(169)	43	(61)
Non-recurring expense	0	0	0	173	-	-	-	173	-	(536)	(1,054)
Non-GAAP other income (loss)	1,084	86	397	(1,133)	(673)	211	(1,030)	(2,625)	(1,221)	(961)	(1,703)

Applied Optoelectronics, Inc.
GAAP to Non-GAAP Reconciliation

(In thousands)

Preliminary Unaudited

	3Q18	4Q18	CY2018	1Q19	2Q19	3Q19	4Q19	CY2019	1Q20	2Q20	3Q20
GAAP net income (loss)	(3,732)	(8,568)	(2,146)	(10,474)	(11,366)	(8,780)	(35,430)	(66,049)	(16,797)	(18,600)	(9,616)
Non-recurring customer credit		891	891	-	-	-	-	-	-	-	-
Amortization of intangible assets	125	128	506	130	133	137	140	540	141	143	146
Share-based compensation expense	2,894	2,757	11,120	2,943	3,020	2,978	2,864	11,804	3,238	3,302	3,265
Non Recurring charges	685	1,180	2,485	242	812	568	94	1,716	1,501	(463)	(1,033)
Expenses associated with discontinued products	1,412	2,852	5,767	925	1,067	1,117	1,891	5,000	354	1,077	1,566
Non-cash expenses associated with discontinued products	859	273	2,887	1,017	1,116	1,114	1,067	4,314	1,025	952	495
Loss (gain) from disposal of idle assets	-	8	8	-	-	-	-	-	-	-	-
Unrealized exchange loss (gain)	506	7	(601)	(227)	56	(65)	79	(157)	(169)	43	(61)
Non-GAAP Tax Benefit	-	-	(162)	-	-	-	25,736	25,736	1,915	8,562	3,819
Non-GAAP net income (loss)	2,749	(472)	20,755	(5,444)	(5,162)	(2,931)	(3,559)	(17,096)	(8,792)	(4,984)	(1,419)
GAAP net income (loss)	(3,732)	(8,568)	(2,146)	(10,474)	(11,366)	(8,780)	(35,430)	(66,049)	(16,797)	(18,600)	(9,616)
Non-recurring customer credit		891	891	-	-	-	-	-	-	-	-
Amortization of intangible assets	125	128	506	130	133	137	140	540	141	143	146
Share-based compensation expense	2,894	2,757	11,120	2,943	3,020	2,978	2,864	11,804	3,238	3,302	3,265
Depreciation expense	7,391	7,762	29,192	5,817	5,883	5,872	5,887	23,459	5,890	5,980	6,050
Non-recurring charges	685	1,180	2,485	242	812	568	94	1,716	1,501	(463)	(1,033)
Expenses associated with discontinued products	1,412	1,603	4,518	925	1,067	1,117	1,891	5,000	354	1,077	1,566
Loss (gain) from disposal of idle assets	-	8	8	-	-	-	-	-	-	-	-
Unrealized exchange loss (gain)	506	7	(601)	(227)	56	(65)	79	(157)	(169)	43	(61)
Interest (income) expense, net	188	423	824	752	1,181	1,170	1,206	4,309	1,308	1,441	1,454
Tax (benefit) expense related to the above	(5,294)	(3,638)	(7,632)	(2,474)	(3,191)	(1,940)	22,267	14,662	(2,048)	7,025	2,249
Adjusted EBITDA	\$4,175	\$2,553	\$39,165	(2,366)	(2,405)	\$1,057	(1,003)	(4,717)	(6,582)	(52)	\$4,020
GAAP diluted net income (loss) per share	\$ (0.19)	\$ (0.43)	\$ (0.11)	\$ (0.53)	\$ (0.57)	\$ (0.44)	\$ (1.76)	\$ (3.31)	\$ (0.83)	\$ (0.89)	\$ (0.42)
Non-recurring customer credit		0.05	0.04	-	-	-	-	-	-	-	-
Amortization of intangible assets	0.01	0.01	0.03	0.01	0.01	0.01	0.01	0.03	0.01	0.01	0.01
Share-based compensation expense	0.14	0.15	0.56	0.15	0.15	0.15	0.14	0.59	0.16	0.16	0.14
Non Recurring charges	0.03	0.06	0.12	0.01	0.04	0.03	0.00	0.09	0.07	(0.02)	(0.05)
Expenses associated with discontinued products	0.07	0.14	0.29	0.05	0.05	0.06	0.09	0.25	0.02	0.05	0.07
Non-cash expenses associated with discontinued products	0.04	0.01	0.14	0.05	0.06	0.05	0.05	0.22	0.05	0.05	0.02
Loss (gain) from disposal of idle assets	-	0.00	0.00	-	-	-	-	-	-	-	-
Unrealized exchange loss (gain)	0.04	(0.01)	(0.03)	(0.01)	0.00	(0.01)	0.00	(0.01)	(0.01)	0.00	(0.00)
Non-GAAP Tax Benefit	-	0.01	(0.00)	-	-	-	1.29	1.30	0.09	0.41	0.17
Non-GAAP diluted net income (loss) per share	\$ 0.14	\$ (0.02)	\$ 1.04	\$ (0.27)	\$ (0.26)	\$ (0.15)	\$ (0.18)	\$ (0.86)	\$ (0.44)	\$ (0.24)	\$ (0.06)
Shares used to compute diluted earnings per share	20,185	19,793	20,027	19,863	19,932	20,023	20,109	19,982	20,208	20,858	22,744