

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 and related expenses, 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 loss (gain), losses from the disposal of idle assets, if any, non-GAAP tax benefit (expenses), and losses from the disposal of idle assets, if any, from our GAAP net income (loss). Included in our non-recurring expenses in Q3 2025 and Q3 2024 are employee severance expenses (if any), legal expenses associated with litigation and certain legal and advisory expenses associated with purchase termination or patent protection (if any). Also included in our non-recurring expenses in Q3 2024, but not in Q3 2025, is management's estimate on the loss of aged account receivables. Moreover, in our non-recurring expenses in Q3, 2025, but not in Q3, 2024, there is an early termination of factory lease related cost incurred. In computing our non-GAAP income tax benefit (expense), we have applied an estimate of our annual effective income tax rate and applied it to our net income before income taxes. Our adjusted EBITDA is calculated by excluding depreciation expense, non-GAAP tax benefit (expense), and interest (income) expense, as well as the items excluded from non-GAAP net income (loss), from our GAAP net loss. Our non-GAAP diluted net loss per share is calculated by dividing our non-GAAP net loss 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 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, 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 estimating non-GAAP income taxes allows comparison with prior periods and provides additional information regarding the generation of potential future deferred tax assets;
- 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.

Applied Optoelectronics, Inc.
Consolidated Balance Sheet

(In thousands)

Preliminary Unaudited

	3/31/2024	6/30/2024	9/30/2024	12/31/2024	3/31/2025	6/30/2025	9/30/2025
ASSETS							
CURRENT ASSETS							
Cash and Cash Equivalents	8,433	10,653	34,124	67,428	51,144	64,699	136,961
Restricted Cash	8,972	5,465	7,243	11,705	15,667	22,496	13,756
Total Cash, Cash Equivalents and Short Term	17,405	16,118	41,367	79,133	66,811	87,195	150,717
Accounts Receivable, Net	57,476	57,661	75,154	116,801	171,101	211,452	224,028
Notes Receivable	352	435	47	-	-	-	-
Inventories	54,322	54,322	64,382	88,135	102,313	138,867	170,214
Prepaid Income Tax	2	4	4	4	4	8	8
Prepaid Expenses and Other Current Assets	4,078	4,429	7,409	17,195	18,613	20,816	30,345
Total Current Assets	133,635	132,969	188,363	301,268	358,842	458,338	575,312
Property, Plant And Equipment, Net	199,941	197,781	205,303	219,235	241,453	269,386	310,303
Land Use Rights, Net	4,991	4,939	4,993	4,837	4,814	4,798	4,804
Right of use asset	4,552	4,249	4,102	9,646	9,216	22,106	42,048
Intangible Assets, Net	3,610	3,616	3,663	3,680	3,634	3,639	3,640
Other Assets	4,187	4,486	3,548	8,366	26,709	38,583	42,421
TOTAL ASSETS	350,916	348,040	409,972	547,032	644,668	796,850	978,528
LIABILITIES AND STOCKHOLDERS' EQUITY							
CURRENT LIABILITIES							
Accounts Payable	23,639	33,518	55,991	104,969	124,866	132,962	150,145
Bank Acceptance Payable	10,712	5,048	9,934	19,259	23,992	32,107	34,046
Accrued Expenses	13,345	17,210	19,140	22,091	20,488	27,686	34,135
Deferred Revenue	1,689	1,570	1,439	-	-	-	-
Current Lease Liability	1,095	1,087	1,115	1,380	1,349	1,905	2,838
Current Portion of Notes Payable and Lor	24,129	22,506	29,483	22,370	20,312	22,183	27,978
Current - convertible notes payable	-	-	-	-	-	-	-
Total Current Liabilities	74,609	80,939	117,102	170,069	191,007	216,843	249,142
Convertible Senior Notes	76,331	76,690	77,053	134,497	134,229	133,936	130,120
Other Long-Term Liabilities	4,250	3,917	3,731	13,354	10,419	21,090	40,181
TOTAL LIABILITIES	155,190	161,546	197,886	317,920	335,655	371,869	419,443
STOCKHOLDERS' EQUITY							
Common Stock	39	41	45	49	53	62	68
Additional Paid-in Capital	484,663	502,387	543,492	683,462	772,738	893,927	1,045,986
Cumulative Translation Adjustment	(688)	(1,531)	709	(2,548)	(2,755)	1,113	1,088
Retained Earnings (Accumulated Deficit)	(288,288)	(314,403)	(332,160)	(451,851)	(461,023)	(470,121)	(488,057)
TOTAL STOCKHOLDERS' EQUITY	195,726	186,494	212,086	229,112	309,013	424,981	559,085
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	350,916	348,040	409,972	547,032	644,668	796,850	978,528

Applied Optoelectronics, Inc.
Consolidated Statement of Operations

(In thousands, except percentages and per share data)

	1Q24	2Q24	3Q24	4Q24	CY2024	1Q25	2Q25	3Q25
Revenue								
CATV	8,736	5,818	20,947	52,212	87,713	64,501	56,019	70,602
Datacenter	28,986	34,352	40,945	44,242	148,525	32,049	44,791	43,935
Telecom	2,269	2,379	2,798	3,535	10,981	2,937	1,940	3,742
Other	682	721	461	279	2,143	372	202	351
Total Revenues	40,673	43,270	65,151	100,271	249,365	99,859	102,952	118,630
YOY Growth %	-23.3%	4.0%	4.2%	65.9%	14.6%	145.5%	137.9%	82.1%
Cost of Goods Sold	33,082	33,708	49,234	71,542	187,565	69,315	71,790	85,367
COGS % of Revenue	81.3%	77.9%	75.6%	71.3%	75.2%	69.4%	69.7%	72.0%
Gross Profit	7,591	9,562	15,917	28,729	61,800	30,544	31,162	33,263
Gross Margin	18.7%	22.1%	24.4%	28.7%	24.8%	30.6%	30.3%	28.0%
Operating Expenses:								
Research and Development	11,712	13,078	13,428	16,737	54,954	17,810	20,612	21,265
R&D % of Revenue	28.8%	30.2%	20.6%	16.7%	22.0%	17.8%	20.0%	17.9%
Sales and Marketing	3,798	5,910	4,796	3,652	18,154	5,357	8,135	9,871
S&M % of Revenue	9.3%	13.7%	7.4%	3.6%	7.3%	5.4%	7.9%	8.3%
General and Administrative	13,727	16,818	14,240	14,813	59,600	16,314	18,391	20,314
G&A % of Revenue	33.7%	38.9%	21.8%	14.8%	23.9%	16.3%	17.9%	17.1%
Total Operating Expenses	29,237	35,806	32,464	35,202	132,708	39,481	47,138	51,450
Operating Expenses % of Revenue	71.8%	82.8%	49.8%	35.1%	53.2%	71.8%	71.8%	71.8%
Operating Income (Loss)	(21,646)	(26,244)	(16,547)	(6,473)	(70,908)	(8,937)	(15,976)	(18,187)
Operating Margin	-53.2%	-60.7%	-25.4%	-6.5%	-28.4%	-8.9%	-15.5%	-15.3%
Other Income (Expense):								
Interest Income	260	93	156	365	873	224	286	450
Interest Expense	(1,676)	(1,693)	(1,702)	(1,754)	(6,825)	(934)	(818)	(901)
Other Income (Expense)	(108)	1,729	336	(111,828)	(109,871)	475	7,410	702
Total Other Income (Expense):	(1,524)	129	(1,210)	(113,217)	(115,823)	(235)	6,878	251
Other Income % of Revenue	-3.7%	0.3%	-1.9%	-112.9%	-46.4%	-0.2%	6.7%	0.2%
Net Income (Loss) before Income Taxes	(23,170)	(26,115)	(17,757)	(119,690)	(186,731)	(9,172)	(9,098)	(17,936)
Net Margin	-57.0%	-60.4%	-27.3%	-119.4%	-74.9%	-9.2%	-8.8%	-15.1%
Income Tax Benefit (Expense)	-	-	-	(2)	(2)	-	-	-
Net Income (Loss)	(23,170)	(26,115)	(17,757)	(119,692)	(186,733)	(9,172)	(9,098)	(17,936)
Net Margin after Taxes	-57.0%	-60.4%	-27.3%	-119.4%	-74.9%	-9.2%	-8.8%	-15.1%
Earnings per share (Basic)	\$ (0.60)	\$ (0.66)	\$ (0.42)	\$ (2.60)	\$ (4.50)	\$ (0.18)	\$ (0.16)	\$ (0.28)
Earnings per share (Diluted)	\$ (0.60)	\$ (0.66)	\$ (0.42)	\$ (2.60)	\$ (4.50)	\$ (0.18)	\$ (0.16)	\$ (0.28)
Shares used to compute GAAP basic earnings per share	38,362	38,864	42,312	46,057	41,539	50,041	56,772	63,329
Shares used to compute GAAP diluted earnings per share	38,362	38,864	42,312	46,057	41,539	50,041	56,772	63,329

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

Preliminary Unaudited	1Q 2024	2Q 2024	3Q 2024	4Q2024	CY2024	1Q 2025	2Q 2025	3Q 2025
GAAP total gross profit	7,591	9,562	15,918	28,729	61,800	30,544	31,162	33,263
Share-based compensation expense	102	137	116	118	473	83	94	87
Non-recurring expense	6	32	29	15	82	0	41	7
Expenses associated with discontinued products	-	-	202	98	-	-	-	3,372
Non-GAAP income from gross profit	<u>7,699</u>	<u>9,731</u>	<u>16,265</u>	<u>28,960</u>	<u>62,655</u>	<u>30,627</u>	<u>31,297</u>	<u>36,729</u>
GAAP research and development expense	11,712	13,078	13,428	16,737	54,955	17,810	20,612	21,265
Share-based compensation expense	280	478	356	341	1,455	275	331	293
Non-recurring expense	3	84	-	30	117	-	114	21
Non-GAAP research and development expense	<u>11,429</u>	<u>12,516</u>	<u>13,072</u>	<u>16,366</u>	<u>53,383</u>	<u>17,535</u>	<u>20,167</u>	<u>20,951</u>
GAAP sales and marketing expense	3,798	5,910	4,796	3,652	18,156	5,357	8,135	9,872
Share-based compensation expense	286	541	335	352	1,514	323	499	275
Non-recurring expense	-	1,842	20	(1,025)	837	-	75	11
Non-GAAP sales and marketing expense	<u>3,512</u>	<u>3,527</u>	<u>4,441</u>	<u>4,325</u>	<u>15,805</u>	<u>5,034</u>	<u>7,561</u>	<u>9,586</u>
GAAP general and administrative expense	13,727	16,818	14,240	14,813	59,598	16,314	18,391	20,314
Share-based compensation expense	2,173	4,902	2,137	2,137	11,349	1,880	2,240	2,460
Amortization expense	129	100	103	106	438	108	110	113
Non-recurring expense	513	818	498	743	2,572	393	632	116
Non-cash expenses associated with discontinued products	1,028	1,061	1,074	1,038	4,201	1,045	1,073	1,107
Non-GAAP general and administrative expense	<u>9,884</u>	<u>9,937</u>	<u>10,428</u>	<u>10,789</u>	<u>41,037</u>	<u>12,888</u>	<u>14,336</u>	<u>16,518</u>
GAAP total operating expense	29,237	35,806	32,464	35,202	132,709	39,481	47,138	51,451
Share-based compensation expense	2,738	5,921	2,828	2,830	14,317	2,478	3,070	3,028
Amortization expense	129	100	103	106	438	108	110	113
Non-recurring expense	516	2,744	518	(252)	3,526	393	821	148
Non-cash expenses associated with discontinued products	1,028	1,061	1,074	1,039	4,202	1,045	1,073	1,107
Non-GAAP total operating expense	<u>24,826</u>	<u>25,980</u>	<u>27,941</u>	<u>31,479</u>	<u>110,225</u>	<u>35,457</u>	<u>42,064</u>	<u>47,055</u>
GAAP operating income (loss)	(21,646)	(26,244)	(16,547)	(6,473)	(70,910)	(8,937)	(15,976)	(18,187)
Non-recurring customer credit	-	-	-	-	-	-	-	-
Share-based compensation expense	2,840	6,058	2,944	2,949	14,791	2,561	3,164	3,115
Amortization expense	129	100	103	106	438	108	110	113
Non-recurring expense	522	2,776	547	(237)	3,608	393	862	155
Expenses associated with discontinued products	-	-	202	98	300	-	-	3,372
Non-cash expenses associated with discontinued products	1,028	1,061	1,074	1,039	4,202	1,045	1,073	1,107
Non-GAAP operating income (loss)	<u>(17,127)</u>	<u>(16,249)</u>	<u>(11,677)</u>	<u>(2,518)</u>	<u>(47,570)</u>	<u>(4,830)</u>	<u>(10,767)</u>	<u>(10,325)</u>
GAAP other income (loss)	(1,524)	129	(1,210)	(113,217)	(115,822)	(235)	6,878	251
Loss (gain) from disposal of idle assets	-	-	-	-	-	-	-	-
Unrealized exchange loss (gain)	383	-107	-260	576	592	218	(5,278)	5,550
Non-recurring expense (income)	-	(1,200)	(139)	111,962	110,623	-	-	(69)
Non-GAAP other income (loss)	<u>(1,141)</u>	<u>(1,178)</u>	<u>(1,609)</u>	<u>(679)</u>	<u>(4,608)</u>	<u>(17)</u>	<u>1,600</u>	<u>5,732</u>

GAAP net income (loss)	(23,170)	(26,115)	(17,757)	(119,692)	(186,734)	(9,172)	(9,098)	(17,936)
Share-based compensation expense	2,840	6,058	2,944	2,949	14,791	2,561	3,164	3,116
Expenses associated with discontinued products	-	-	202	98	300	-	-	3,372
Non-cash expenses associated with discontinued products	1,028	1,061	1,074	1,039	4,202	1,045	1,073	1,106
Amortization of intangible assets	129	100	103	106	438	108	110	113
Non-recurring expense (income)	522	1,576	408	111,725	114,231	393	862	85
Unrealized exchange loss (gain)	383	(107)	(260)	576	592	218	(5,278)	5,550
Non-GAAP Tax Benefit	6,236	6,571	4,504	2,152	19,463	3,988	337	(806)
Non-GAAP net income (loss)	<u>(12,032)</u>	<u>(10,856)</u>	<u>(8,782)</u>	<u>(1,047)</u>	<u>(32,717)</u>	<u>(859)</u>	<u>(8,830)</u>	<u>(5,400)</u>
GAAP net income (loss)	(23,170)	(26,115)	(17,757)	(119,692)	(186,734)	(9,172)	(9,098)	(17,936)
Non-recurring customer credit					0			
Share-based compensation expense	2,840	6,058		2,949	11,847	2,561	3,164	3,116
Expenses associated with discontinued products	-	-	202	98	300	-	-	3,372
Non-cash expenses associated with discontinued products	1,028	1,061	1,074	1,039	4,202	1,045	1,073	1,106
Amortization of intangible assets	129	100	103	106	438	108	110	113
Non-recurring expense (income)	522	1,576	408	111,725	114,231	393	862	85
Unrealized exchange loss (gain)	383	(107)	(260)	576	592	218	(5,278)	5,550
Tax (benefit) expense related to the above	-	-	-	-	-	-	-	-
Depreciation expense	3,837	3,907	4,055	4,213	16,012	4,573	5,217	6,148
Loss (gain) from disposal of idle assets					0			
Interest (income) expense, net	1,416	1,600	1,546	1,390	5,952	709	532	451
Adjusted EBITDA	<u>(13,015)</u>	<u>(11,920)</u>	<u>(10,629)</u>	<u>2,404</u>	<u>(33,160)</u>	<u>435</u>	<u>(3,418)</u>	<u>2,005</u>
GAAP diluted net income (loss) per share	\$ (0.60)	\$ (0.66)	\$ (0.42)	\$ (2.60)	\$ (4.50)	\$ (0.18)	\$ (0.16)	\$ (0.28)
Share-based compensation expense	0.07	0.15	0.07	0.06	0.36	0.05	0.06	0.05
Expenses associated with discontinued products	0.00	0.00	0.00	0.00	0.01	0.00	0.00	0.05
Non-cash expenses associated with discontinued products	0.03	0.02	0.03	0.02	0.10	0.02	0.02	0.02
Amortization of intangible assets	0.01	0.00	0.00	0.00	0.01	0.00	0.00	0.00
Non-recurring expense (income)	0.01	0.04	0.01	2.43	2.75	0.01	0.01	0.00
Unrealized exchange loss (gain)	0.01	0.00	(0.01)	0.01	0.01	0	(0.10)	0.08
Non-GAAP Tax Benefit	0.16	0.17	0.11	0.06	0.47	0.08	0.01	(0.01)
Non-GAAP diluted net income (loss) per share	<u>\$ (0.31)</u>	<u>\$ (0.28)</u>	<u>\$ (0.21)</u>	<u>\$ (0.02)</u>	<u>\$ (0.79)</u>	<u>\$ (0.02)</u>	<u>\$ (0.16)</u>	<u>\$ (0.09)</u>
Shares used to compute diluted earnings per share	38,362	39,365	42,312	46,057	41,539	50,041	56,772	63,329

Applied Optoelectronics, Inc.
Consolidated Statement of Operations

NON GAAP

(In thousands, except percentages and per share data)

Preliminary Unaudited

	1Q24	2Q24	3Q24	4Q24	CY2024	1Q25	2Q25	3Q25
Revenue								
CATV	8,736	5,818	20,947	52,212	87,713	64,501	56,019	70,602
Datacenter	28,986	34,352	40,945	44,242	148,525	32,049	44,791	43,935
Telecom	2,269	2,379	2,798	3,535	10,981	2,937	1,940	3,742
Other	682	721	461	279	2,143	372	202	351
Total Revenues	40,673	43,270	65,151	100,271	249,365	99,859	102,952	118,630
YOY Growth %	-23.3%	4.0%	4.2%	65.9%	14.6%	145.5%	137.9%	82.1%
Cost of Goods Sold	32,974	33,539	48,887	71,310	186,710	69,232	71,655	81,901
COGS % of Revenue	81.1%	77.5%	75.0%	71.1%	74.9%	69.3%	69.6%	69.0%
Gross Profit	7,699	9,731	16,264	28,961	62,655	30,627	31,297	36,729
Gross Margin	18.9%	22.5%	25.0%	28.9%	25.1%	30.7%	30.4%	31.0%
Operating Expenses:								
Research and Development	11,429	12,516	13,072	16,366	53,383	17,535	20,167	20,951
R&D % of Revenue	28.1%	28.9%	20.1%	16.3%	21.4%	17.6%	19.6%	17.7%
Sales and Marketing	3,512	3,527	4,441	4,325	15,805	5,034	7,561	9,586
S&M % of Revenue	8.6%	8.2%	6.8%	4.3%	6.3%	5.0%	7.3%	8.1%
General and Administrative	9,885	9,937	10,429	10,789	41,037	12,888	14,336	16,518
G&A % of Revenue	24.3%	23.0%	16.0%	10.8%	16.5%	12.9%	13.9%	13.9%
Total Operating Expenses	24,826	25,980	27,942	31,480	110,225	35,457	42,064	47,055
Operating Expenses % of Revenue	61.0%	60.0%	42.9%	31.4%	44.2%	35.5%	40.9%	39.7%
Operating Income (Loss)	(17,127)	(16,249)	(11,678)	(2,519)	(47,570)	(4,830)	(10,767)	(10,326)
Operating Margin	-42.1%	-37.6%	-17.9%	-2.5%	-19.1%	-4.8%	-10.5%	-8.7%
Other Income (Expense):								
Interest Income	261	93	156	365	874	224	286	450
Interest Expense	(1,676)	(1,693)	(1,702)	(1,754)	(6,825)	(933)	(818)	(901)
Other Income (Expense)	274	422	(63)	710	1,343	692	2,132	6,184
Total Other Income (Expense):	(1,141)	(1,178)	(1,609)	(679)	(4,608)	(17)	1,600	5,733
Other Income % of Revenue	-2.8%	-2.7%	-2.5%	-0.7%	-1.8%	0.0%	1.6%	4.8%
Net Income (Loss) before Income Taxes	(18,268)	(17,427)	(13,287)	(3,197)	(52,178)	(4,847)	(9,167)	(4,593)
Net Margin	-44.9%	-40.3%	-20.4%	-3.2%	-20.9%	-4.9%	-8.9%	-3.9%
Income Tax Benefit (Expense)	6,236	6,571	4,505	2,150	19,462	3,988	337	(806)
Net Income (Loss)	(12,032)	(10,856)	(8,782)	(1,047)	(32,716)	(859)	(8,830)	(5,399)
Net Margin after Income Tax	-29.6%	-25.1%	-13.5%	-1.0%	-13.1%	-0.9%	-8.6%	-4.6%
Interest Income (Expense)	(1,416)	(1,600)	(1,547)	(1,389)	(5,952)	(709)	(532)	(451)
Depreciation and Amortization	3,837	3,907	4,055	4,212	16,010	4,573	5,217	6,147
Adjusted EBITDA	(13,015)	(11,920)	(7,685)	2,404	(30,216)	435	(3,418)	2,005
EBITDA Margin	-32.0%	-27.5%	-11.8%	2.4%	-12.1%	0.4%	-3.3%	1.7%
Earnings per share (Basic)	\$ (0.31)	\$ (0.28)	\$ (0.21)	(\$0.02)	\$ (0.79)	\$ (0.02)	\$ (0.16)	\$ (0.09)
Earnings per share (Diluted)	\$ (0.31)	\$ (0.28)	\$ (0.21)	(\$0.02)	\$ (0.79)	\$ (0.02)	\$ (0.16)	\$ (0.09)
Shares used to compute Non-GAAP basic earnings per share	38,362	39,365	42,312	46,057	41,539	50,041	56,772	63,329
Shares used to compute Non-GAAP diluted earnings per share	38,362	39,365	42,312	46,057	41,539	50,041	56,772	63,329