

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-36083

Applied Optoelectronics, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

76-0533927
(I.R.S. Employer Identification No.)

13115 Jess Pirtle Blvd.
Sugar Land, TX 77478
(Address of principal executive offices)

(281) 295-1800
(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 ("Exchange Act") during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: as of November 3, 2015 there were 16,835,013 shares of the registrant's Common Stock outstanding.

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Part I. Financial Information

Item 1. Condensed Consolidated Financial Statements

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

	<u>September 30, 2015</u>	<u>December 31, 2014</u>
	(Unaudited)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 37,592	\$ 32,175
Restricted cash	3,491	509
Short-term investments	8,024	8,189
Accounts receivable - trade, net	41,069	31,589
Inventories	60,237	33,780
Notes receivable	-	980
Prepaid expenses and other current assets	9,781	6,017
Total current assets	160,194	113,239
Cash restricted for construction in progress	953	-
Property, plant and equipment, net	87,836	64,808
Land use rights, net	877	930
Intangible assets, net	3,858	3,833
Other assets, net	3,231	860
TOTAL ASSETS	\$ 256,949	\$ 183,670
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of long-term debt	\$ 20,793	\$ 9,591
Accounts payable	31,518	30,799
Bank acceptance payable	3,109	1,271
Accrued liabilities	9,941	6,940
Total current liabilities	65,361	48,601
Long-term debt, less current portion	28,436	19,057
Other long term liabilities	250	1,000
TOTAL LIABILITIES	94,047	68,658
Stockholders' equity:		
Preferred Stock: 5,000 shares authorized; no shares issued and outstanding at September 30, 2015 and December 31, 2014, \$0.001 par value	-	-
Common Stock: 45,000 shares authorized; 16,826 shares issued and outstanding at September 30, 2015, \$0.001 par value; 14,824 shares issued and outstanding at December 31, 2014, \$0.001 par value	17	15
Additional paid-in capital	232,799	192,112
Accumulated other comprehensive gain	1,012	1,925
Accumulated deficit	(70,926)	(79,040)
TOTAL STOCKHOLDERS' EQUITY	162,902	115,012
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 256,949	\$ 183,670

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenue, net	\$ 57,085	\$ 36,549	\$ 136,951	\$ 94,058
Cost of goods sold	39,032	24,403	92,116	62,071
Gross profit	18,053	12,146	44,835	31,987
Operating expenses				
Research and development	5,386	4,194	14,892	11,749
Sales and marketing	1,582	1,622	4,748	4,452
General and administrative	4,963	4,458	14,500	11,964
Total operating expenses	11,931	10,274	34,140	28,165
Income from operations	6,122	1,872	10,695	3,822
Other income (expense)				
Interest income	82	95	236	280
Interest expense	(351)	(55)	(776)	(277)
Other income (expense), net	413	(55)	770	148
Unrealized foreign exchange loss	(3,160)	(203)	(2,270)	(205)
Total other income (expense)	(3,016)	(218)	(2,040)	(54)
Income before income taxes	3,106	1,654	8,655	3,768
Income taxes	(406)	(77)	(541)	(187)
Net income	<u>\$ 2,700</u>	<u>\$ 1,577</u>	<u>\$ 8,114</u>	<u>\$ 3,581</u>
Net income per share				
Basic	\$ 0.17	\$ 0.11	\$ 0.53	\$ 0.25
Diluted	\$ 0.16	\$ 0.10	\$ 0.50	\$ 0.24
Weighted average shares used to compute net income per share				
Basic	15,868,989	14,805,668	15,220,301	14,135,184
Diluted	16,693,656	15,594,544	16,184,991	14,949,827

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

Applied Optoelectronics, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited, in thousands)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Net income	\$ 2,700	\$ 1,577	\$ 8,114	\$ 3,581
Foreign currency translation adjustment, net of tax	(1,009)	(115)	(913)	(255)
Comprehensive income	<u>\$ 1,691</u>	<u>\$ 1,462</u>	<u>\$ 7,201</u>	<u>\$ 3,326</u>

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

Applied Optoelectronics, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Nine months ended September 30, 2015
(Unaudited, in thousands)

	<u>Common Stock</u>		<u>Additional paid-in capital</u>	<u>Accumulated other comprehensive gain</u>	<u>Accumulated deficit</u>	<u>Total stockholders' equity</u>
	<u>Number of shares</u>	<u>Amount</u>				
December 31, 2014	14,824	\$ 15	\$ 192,112	\$ 1,925	\$ (79,040)	\$ 115,012
Issuance of shares under equity plans	145	-	430	-	-	430
Stock based compensation	-	-	1,567	-	-	1,567
Net income	-	-	-	-	8,114	8,114
Issuance of common stock, net	1,857	2	38,690	-	-	38,692
Foreign currency translation adjustment	-	-	-	(913)	-	(913)
September 30, 2015	<u>16,826</u>	<u>\$ 17</u>	<u>\$ 232,799</u>	<u>\$ 1,012</u>	<u>\$ (70,926)</u>	<u>\$ 162,902</u>

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

Applied Optoelectronics, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Nine months ended September 30,	
	2015	2014
Operating activities:		
Net income	\$ 8,114	\$ 3,581
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for obsolete inventory	2,177	1,182
Depreciation and amortization	6,733	4,349
Loss on disposal of assets	13	26
Share-based compensation and warrant expense	1,567	1,494
Changes in operating assets and liabilities:		
Accounts receivable	(9,767)	(2,171)
Notes receivable	980	-
Inventory	(30,578)	(15,016)
Other current assets	(4,073)	(2,404)
Accounts payable	1,657	9,137
Accrued liabilities	3,246	487
Net cash provided by (used in) operating activities	<u>(19,931)</u>	<u>665</u>
Investing activities:		
Purchase of short-term investments	(149)	(53)
Change in restricted cash for construction in progress	(953)	-
Purchase of property, plant and equipment	(31,932)	(24,773)
Proceeds from disposal of equipment	78	45
Deposits and deferred charges	(2,370)	(1,034)
Purchase of intangible assets	(331)	(3,237)
Net cash used in investing activities	<u>(35,657)</u>	<u>(29,052)</u>
Financing activities:		
Proceeds from issuance of long-term debt	8,357	3,150
Principal payments of long-term debt	(1,727)	(8,076)
Proceeds from line of credit borrowings	99,923	30,294
Repayments of line of credit borrowings	(84,727)	(27,924)
Proceeds from bank acceptance payable	5,680	5,337
Repayments of bank acceptance payable	(3,723)	(5,545)
Repayments of notes payable	(750)	-
Increase in restricted cash	(3,108)	(21)
Exercise of stock options	430	310
Proceeds from issuance of common stock, net	38,692	45,630
Net cash provided by financing activities	<u>59,047</u>	<u>43,155</u>
Effect of exchange rate changes on cash	1,958	260
Net increase in cash	5,417	15,028
Cash and cash equivalents at beginning of period	32,175	22,006
Cash and cash equivalents at end of period	<u>\$ 37,592</u>	<u>\$ 37,034</u>
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	\$ 843	\$ 306
Income taxes	\$ 117	\$ 148
Non-cash investing and financing activities:		
Purchase of intangible assets with notes payable	\$ -	\$ 3,000

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

Applied Optoelectronics, Inc. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Description of Business

Business Overview

Applied Optoelectronics, Inc., or AOI, was originally incorporated in Texas in February of 1997 and then converted to a Delaware corporation in March of 2013. AOI together with its wholly-owned subsidiaries are collectively referred to as the Company. The Company is a leading, vertically integrated provider of fiber-optic networking products, primarily for three networking end-markets: internet data centers, cable television, and fiber-to-the-home. The Company designs and manufactures a wide range of optical communications products at varying levels of integration, from components, subassemblies and modules to complete turn-key equipment.

The Company has manufacturing and research and development facilities in all three of its sites, located in the U.S., Taiwan and China. At its corporate headquarters and manufacturing facilities in Sugar Land, Texas, the Company primarily manufactures lasers and laser components and performs research and development activities for laser component products. The Company operates a division in Taipei, Taiwan that primarily manufactures transceivers for both the data center and fiber-to-the-home ("FTTH") markets and performs research and development activities for the transceiver products. The Company operates in Ningbo, China through its wholly-owned subsidiary Prime World International Holdings, Ltd. (incorporated in the British Virgin Islands). Prime World International Holdings, Ltd. is the sole parent of Global Technology, Inc. (incorporated in the People's Republic of China). Through Global Technology Inc., the Company primarily manufactures Cable TV Broadband ("CATV") systems and equipment and performs research and development activities for the CATV products.

Interim Financial Statements

The condensed consolidated financial statements of the Company, as of September 30, 2015 and December 31, 2014 and for the three and nine months ended September 30, 2015 and September 30, 2014, have been prepared in accordance with the instructions on Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). In accordance with those rules and regulations, the Company has omitted certain information and notes normally provided in the Company's annual consolidated financial statements. In the opinion of management, the condensed consolidated financial statements contain all adjustments, except as otherwise noted, necessary for the fair presentation of the Company's financial position and results of operations for the periods presented. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. generally accepted accounting principles ("GAAP"). These condensed consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K ("Annual Report") for the fiscal year ended December 31, 2014. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results expected for the entire fiscal year. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

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

Note 2. Significant Accounting Policies

There have been no changes in the Company's significant accounting policies for the nine months ended September 30, 2015, as compared to the significant accounting policies described in its Annual Report.

Recent accounting pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016. In April 2015, the FASB deferred this standard's effective date by one year. The deferral allows early adoption at the original effective date. Entities have the option of either a full retrospective or a modified retrospective approach to adopt this new guidance. The Company is in the process of evaluating the impact of adoption on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, Inventory ("ASU 2015-11"). The amendments in ASU 2015-11 clarify the subsequent measurement of inventory requiring an entity to subsequently measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This ASU applies only to inventory that is measured using the first-in, first-out (FIFO) or average cost method. Subsequent measurement is unchanged for inventory measured using last-in, first-out (LIFO) or the retail inventory method. The amendments in ASU 2015-11 should be applied prospectively and are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. The company is currently assessing the impact that this standard will have on its consolidated financial statements.

Note 3. Fair Value of Financial Instruments

The following table presents a summary of the Company's financial instruments measured at fair value on a recurring basis for the periods indicated (in thousands):

	As of September 30, 2015				As of December 31, 2014			
	(Level 1)	(Level 2)	(Level 3)	Total	(Level 1)	(Level 2)	(Level 3)	Total
Assets:								
Cash and cash equivalents	\$ 37,592	\$ -	\$ -	\$ 37,592	\$ 32,175	\$ -	\$ -	\$ 32,175
Restricted cash	3,491	-	-	3,491	509	-	-	509
Short term investments	8,024	-	-	8,024	8,189	-	-	8,189
Notes receivable	-	-	-	-	-	980	-	980
Cash restricted for construction in progress	953	-	-	953	-	-	-	-
Total assets	50,060	\$ -	\$ -	\$ 50,060	\$ 40,873	\$ 980	\$ -	\$ 41,853
Liabilities:								
Bank acceptance payable	-	3,109	-	3,109	-	1,271	-	1,271
Total liabilities	\$ -	\$ 3,109	\$ -	\$ 3,109	\$ -	\$ 1,271	\$ -	\$ 1,271

The carrying value amounts of accounts receivable, prepaid expenses and other current assets, borrowings from our credit facility, accounts payable, accrued expenses and other current liabilities approximate fair value because of the short-term maturity of these instruments.

Note 4. Earnings Per Share

Basic net income per share has been computed using the weighted-average number of shares of common stock outstanding during the period. Diluted net income per share has been computed using the weighted-average number of shares of common stock and dilutive potential common shares from stock options, restricted stock units/awards and warrants outstanding during the period.

The following table sets forth the computation of the basic and diluted net loss per share for the periods indicated (in thousands, except per share amounts):

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Numerator:				
Net income	\$ 2,700	\$ 1,577	\$ 8,114	\$ 3,581
Denominator:				
Weighted average shares used to compute net income per share				
Basic	15,869	14,806	15,220	14,135
Effect of dilutive options and warrants	825	789	965	815
Diluted	16,694	15,595	16,185	14,950
Net income per share				
Basic	\$ 0.17	\$ 0.11	\$ 0.53	\$ 0.25
Diluted	\$ 0.16	\$ 0.10	\$ 0.50	\$ 0.24

There were no securities that were excluded from the computation of diluted net income per share.

Note 5. Inventories

Inventories consist of the following for the periods indicated (in thousands):

	September 30, 2015	December 31, 2014
Raw materials	\$ 23,139	\$ 16,243
Work in process	26,594	13,379
Finished goods	10,504	4,158
	<u>\$ 60,237</u>	<u>\$ 33,780</u>

The lower of cost or market adjustment expensed for inventory for the three months ended September 30, 2015 and 2014 was \$0.9 million and \$0.4 million, respectively. The lower of cost or market adjustment expensed for inventory for the nine months ended September 30, 2015 and 2014 was \$2.2 million and \$1.2 million, respectively.

Note 6. Property, Plant & Equipment

Property, plant and equipment consisted of the following for the periods indicated (in thousands):

	September 30, 2015	December 31, 2014
Land improvements	\$ 863	\$ 103
Building and improvements	25,938	16,196
Machinery and equipment	76,328	61,529
Furniture and fixtures	2,148	1,938
Computer equipment and software	5,729	4,712
Transportation equipment	262	270
	<u>111,268</u>	<u>84,748</u>
Less accumulated depreciation and amortization	(37,773)	(32,412)
	<u>73,495</u>	<u>52,336</u>
Construction in progress	13,240	11,371
Land	1,101	1,101
Property, plant and equipment, net	<u>\$ 87,836</u>	<u>\$ 64,808</u>

For the three months ended September 30, 2015 and 2014, depreciation expense of property, plant and equipment was \$2.3 million and \$1.6 million, respectively. Among them, \$1.5 million and \$1.0 million were recorded as cost of sales for the three months ended September 30, 2015 and 2014, respectively. For the nine months ended September 30, 2015 and 2014, depreciation expense of property, plant and equipment was \$6.4 million and \$4.1 million, respectively. Among them, \$3.9 million and \$2.4 million were recorded as cost of sales for the nine months ended September 30, 2015 and 2014, respectively.

Note 7. Intangible Assets

Intangible assets consisted of the following for the periods indicated (in thousands):

	September 30, 2015		
	Gross Amount	Accumulated amortization	Intangible assets, net
Patents	\$ 5,298	\$ (1,445)	\$ 3,853
Trademarks	14	(9)	5
Total intangible assets	<u>5,312</u>	<u>(1,454)</u>	<u>3,858</u>
	December 31, 2014		
	Gross Amount	Accumulated amortization	Intangible assets, net
Patents	\$ 4,968	\$ (1,141)	\$ 3,827
Trademarks	14	(8)	6
Total intangible assets	<u>4,982</u>	<u>(1,149)</u>	<u>3,833</u>

For the three months ended September 30, 2015 and 2014, amortization expense for intangible assets, included in general and administrative expenses on the income statement, was \$104,000 and \$94,000, respectively. For the nine months ended September 30, 2015 and 2014, amortization expense for intangible assets, included in general and administrative expenses on the income statement, was \$305,000 and \$258,000, respectively. The remaining weighted average amortization period for intangible assets is approximately 9 years.

Note 8. Notes Payable and Long-Term Debt

Notes payable and long-term debt consisted of the following for the periods indicated (in thousands):

	<u>September 30, 2015</u>	<u>December 31, 2014</u>
Revolving line of credit with a U.S. bank up to \$25,000 with interest at LIBOR plus 2.75% or 3%, maturing June 30, 2018	20,000	15,000
Term loan with a U.S. bank with monthly payments of principal and interest at LIBOR plus 2.75%, maturing July 31, 2019	4,340	5,000
Term loan with a U.S. bank with monthly payments of principal and interest at LIBOR plus 2.75%, maturing June 30, 2020	2,000	–
Revolving line of credit with a Taiwan bank up to \$3,000 with interest based on the bank's corporate interest rate index+ 1.5%, or 2.40% maturing on November 15, 2015	2,751	–
Revolving line of credit with a Taiwan bank up to \$7,000 with interest at Taiwan deposit index plus 0.41% or LIBOR plus 1.7% maturing on February 6, 2016	3,543	3,605
Revolving line of credit with a Taiwan bank up to \$4,000 with interest at Taiwan Time Deposit Interest Rate Index plus 1% or LIBOR plus 1% maturing on December 11, 2015	3,396	3,536
Revolving line of credit with the Taiwan branch of a China bank up to \$6,000 with interest at LIBOR plus 1.5% or Taiwan Interbank Offered Rate plus 0.9% , maturing April 1, 2016	5,559	–
Note payable to a finance company due in monthly installments with 4.95% interest, maturing July 30, 2015	–	443
Note payable to a finance company due in monthly installments with 4.5% interest, maturing June 30, 2018	5,328	–
Revolving line of credit with a China bank up to \$5,000 with interest of 3.15%, which mature between October and December 2015	2,105	1,064
Revolving line of credit with a China bank up to \$2,205 with interest at 108% of China Prime rate, ranging between 4.8% and 5.79%, maturing from March 2016 to August 2016	207	–
Total	<u>49,229</u>	<u>28,648</u>
Less current portion	<u>(20,793)</u>	<u>(9,591)</u>
Non-current portion	<u>\$ 28,436</u>	<u>\$ 19,057</u>

Bank Acceptance Notes Payable

Bank acceptance notes issued to vendors with a zero percent interest rate, a 30% guarantee deposit of \$797, and maturity dates ranging from November 2015 to March 2016	3,109	1,271
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The current portion of long-term debt is the amount payable within one year of the balance sheet date of September 30, 2015. The one-month LIBOR rate was 0.1994% on September 30, 2015.

Maturities of long-term debt are as follows for the future one-year periods ending September 30 (in thousands):

2016	\$ 20,793
2017	3,607
2018	23,011
2019	1,443
2020 thereafter	375
Total outstanding	<u>\$ 49,229</u>

On June 30, 2015, the Company entered into a credit agreement with East West Bank and Comerica Bank, a second lien deed of trust, multiple security agreements and promissory notes evidencing two credit facilities and a term loan. The credit agreement included a \$25.0 million revolving line of credit which matures on June 30, 2018 and a \$10 million term loan maturing on June 30, 2020. The interest rate on these loans is the LIBOR Borrowing Rate plus 2.75% or 3.0%. As of September 30, 2015, \$20.0 million was outstanding under the revolving line of credit and \$2.0 million was outstanding under the term loans.

We also have with East West Bank a term loan of \$5 million with monthly payments of principal and interest that matures on July 31, 2019. As of September 30, 2015, the outstanding balance of such term loan was \$4.3 million.

On January 26, 2015, the Company entered into a construction loan agreement with East West Bank for up to \$22.0 million dollars to finance the construction of its campus expansion plan in Sugar Land, Texas. Upon signing the agreement, the Company deposited \$11.0 million into a restricted bank account for owner's contribution of construction costs. The loan will have a fifteen month draw down period with monthly interest payments commencing on February 26, 2015 and ending April 26, 2016. Thereafter, the entire outstanding principal balance shall be converted to a sixty-nine month term loan with principal and interest payments due monthly amortized over three hundred months. The first principal and interest payment is due on May 26, 2016 and will continue the same day of each month thereafter. The final principal and interest payment is due on January 26, 2022 and will include all unpaid principal and all accrued and unpaid interest. The Company may pay without penalty all or a portion of the amount owed earlier than due. Under the loan agreement, the loan bears interest, at an annual rate based on the one-month LIBOR Borrowing Rate plus 2.75%. As of September 30, 2015, there were no amounts outstanding under this loan agreement and there was a balance of \$1.0 million in the restricted bank account.

The loan and security agreements with East West Bank and Comerica Bank require the Company to maintain certain financial covenants, including a minimum current ratio and minimum annual EBITDA. As of September 30, 2015, the Company was in compliance with all covenants contained in these agreements.

On January 6, 2015, the Company's Taiwan branch entered into a Credit Facility with CTBC Bank Co. Ltd. in Taipei, Taiwan for 90.0 million New Taiwan dollar, one year revolving credit facility. Its obligations under the Credit Facility are unsecured. Borrowings under the Credit Facility will bear interest at a rate based on the Bank's corporate interest rate index plus 1.5%, adjusted monthly. As of the execution of the Credit Facility the Bank's corporate interest rate index is 0.91%. As of September 30, 2015, \$2.8 million was outstanding under this credit facility.

On March 9, 2015, the Company's Taiwan branch increased its \$4.0 million credit facility to a \$7.0 million revolving credit facility with E. Sun Commercial Bank. Its obligations under the credit facility are secured by our \$4.0 million cash deposit in a one-year CD with such bank and mature on May 27, 2016. The \$4.0 million revolving line of credit with CD security bears interest at a rate equal to Taiwan Deposit Index Rate plus 0.41% for New Taiwan dollar borrowings and a 0.1% service fee for U.S. dollar borrowings. The additional \$3.0 million credit facility bears interest at a rate equal to LIBOR plus 1.7% divided by 0.946 and a 0.5% service fee for U.S. dollar borrowings. As of September 30, 2015, \$3.5 million was outstanding under this credit facility.

On March 25, 2015, the Company's Taiwan branch renewed its \$4.0 million, one year revolving credit facility agreement, originally dated December 31, 2013, with Mega International Commercial Bank. Obligations under the credit facility are secured by a \$4.0 million cash deposit in a CD with such bank. Borrowings under this credit facility will bear interest at a rate not less than the LIBOR borrowing rate plus 1.0%, divided by 0.946 for U.S. and other currency borrowings, New Taiwan dollar borrowings interest will bear at a rate equal to the Bank's base lending rate plus 0.76%. The current effective interest rate is 1.77%. As of September 30, 2015, \$3.4 million was outstanding under this credit facility.

On April 1, 2015, the Company's Taiwan branch entered into a comprehensive credit line agreement with the Taipei branch of China Construction Bank, providing a revolving credit line of \$6 million, maturing on April 1, 2016. Borrowings under the credit line agreement are secured by a standby letter of credit issued by the China branch of the bank under existing agreements between the bank and our China subsidiary. Borrowings under the credit line agreement reduce the amounts available under the existing credit line between the bank and the Company's China subsidiary and cannot exceed 97% of the amount of the standby letter of credit issued by the China branch of the bank. Borrowings under the credit line agreement will bear interest at a rate not less than LIBOR plus 1.5% for US dollar borrowings and at a rate of not less than Taiwan Interbank Offered Rate plus 0.9% for New Taiwan dollar borrowings. As of September 30, 2015, \$5.6 million was outstanding under this credit facility.

On July 30, 2015, the Company's Taiwan branch fully repaid its note payable with a financing company.

On June 30, 2015, the Company's Taiwan branch entered into a purchase and sale contract and a finance lease agreement together with the sale contract with Chailease Finance Co, Ltd. in connection with certain equipment, structured as a sale lease-back transaction. Pursuant to the sale contract, the Company sold certain equipment to Chailease and simultaneously leased the equipment back from Chailease pursuant to the finance lease agreement. The finance lease agreement has a three year term, with monthly lease payments, maturing on May 27 and June 30, 2018 respectively. The title to the equipment will be transferred to the Company upon the expiration of the finance lease agreement. As of September 30, 2015, \$5.3 million was outstanding under this finance lease agreement.

As of September 30, 2015, the Company's China subsidiary had credit facilities with China Construction Bank totaling \$16.3 million, which can be drawn in U.S. currency, RMB currency, issuing bank acceptance notes to vendors with different interest rates or issuing standby letters of credit. As of September 30, 2015, the Company's China subsidiary used \$6 million of its credit facility and issued standby letters of credit as collateral for the Company's Taiwan branch line of credit with China Construction Bank. As of September 30, 2015, the Company had a U.S. currency based loan of \$2.1 million outstanding under various notes with three-month terms, maturing from October 2015 to December 2015 with effective interest rate of 3.15%. There was \$0.2 million outstanding RMB currency cash loan as of September 30, 2015, with a maturity date of August 26, 2016. The effective interest rate for the RMB currency loan was 5.79%. The outstanding balance of bank acceptance notes issued to vendors was \$3.1 million with zero interest rate as of September 30, 2015.

As of September 30, 2015, the Company had \$43.1 million of unused borrowing capacity.

As of September 30, 2015, there was \$11.8 million of restricted cash, investments or security deposit associated with the loan facilities.

Note 9. Accrued Liabilities

Accrued liabilities consisted of the following for the periods indicated (in thousands):

	<u>September 30, 2015</u>	<u>December 31, 2014</u>
Accrued payroll	\$ 5,295	\$ 3,662
Accrued employee benefits	973	808
Accrued income taxes	478	52
Accrued state and local taxes	1,097	330
Advance payments	277	528
Accrued product warranty	193	247
Accrued other	1,628	1,313
	<u>\$ 9,941</u>	<u>\$ 6,940</u>

Note 10. Other Income and Expense

Other income and (expense) consisted of the following for the periods indicated (in thousands):

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Realized foreign exchange gain (loss)	\$ 393	\$ (17)	\$ 552	\$ 53
Government subsidy income	3	-	202	108
Other non-operating gain (loss)	20	(11)	29	16
Loss on disposal of assets	(3)	(27)	(13)	(29)
	<u>\$ 413</u>	<u>\$ (55)</u>	<u>\$ 770</u>	<u>\$ 148</u>

Note 11. Share-Based Compensation

Equity Plans

The Company's board of directors and stockholders approved the following equity plans:

- the 1998 Share Incentive Plan
- the 2000 Share Incentive Plan
- the 2004 Share Incentive Plan
- the 2006 Share Incentive Plan
- the 2013 Equity Incentive Plan ("2013 Plan")

The Company issues stock options, restricted stock awards ("RSAs") and restricted units ("RSUs") to employees, consultants and non-employee directors. Stock option awards generally vest over a four year period and have a maximum term of ten years. Stock options under these plans have been granted with an exercise price equal to the fair market value on the date of the grant. Nonqualified and Incentive Stock Options, RSAs and RSUs may be granted from these plans. Prior to the Company's initial public offering, the fair market value of the Company's stock had been historically determined by the board of directors and from time to time with the assistance of third party valuation specialists.

Stock Options

Options have been granted to the Company's employees under the five incentive plans and generally become exercisable as to 25% of the shares on the first anniversary date following the date of grant and 12.5% on a semi-annual basis thereafter. All options expire ten years after the date of grant.

The following is a summary of option activity:

	Number of shares (in thousands)	Weighted Average Exercise Price	Weighted Average Share Price on Date of Exercise	Weighted Average Fair Value	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding, December 31, 2014	1,423	8.96		4.48	–	3,486
Exercised	(68)	7.13	\$ 15.99	2.75	–	604
Cancelled/Forfeited	(26)	9.39		5.01	–	135
Outstanding, September 30, 2015	1,329	\$ 9.04		\$ 4.55	7.408	\$ 12,938
Exercisable, September 30, 2015	775	\$ 8.52		\$ 4.05	7.091	\$ 7,954
Vested and expected to vest	1,283	\$ 9.00		\$ 4.53	7.389	\$ 12,537

As of September 30, 2015, there was approximately \$2.5 million of unrecognized stock option expense, net of estimated forfeitures, which is expected to be recognized over 1.89 years.

Restricted Stock Units/Awards

The following is a summary of RSU/RSA activity:

	Number of shares (in thousands)	Weighted Average Share Price on Date of Exercise	Weighted Average Fair Value	Aggregate Intrinsic Value
Outstanding at December 31, 2014	21		18.22	238
Granted	147		10.50	1,542
Exercised/Released	(19)	\$ 13.51	18.24	251
Cancelled/Forfeited	(5)		10.16	86
Outstanding at September 30, 2015	144		\$ 10.65	\$ 2,711
Exercisable, September 30, 2015	6		\$ 19.45	\$ 106
Vested and expected to vest	139		\$ 10.67	\$ 2,620

The table above includes 57,600 RSA's granted on January 30, 2015 and issued on March 5, 2015.

As of September 30, 2015, there was \$1.2 million of unrecognized compensation expense related to these RSU's and RSA's. This expense is expected to be recognized over 2.9 years.

Share-Based Compensation

Employee share-based compensation expenses recognized for the periods indicated (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Share-Based compensation - by expense type				
Cost of sales	\$ 17	\$ 7	\$ 52	\$ 60
Research and development	55	28	165	84
Sales and marketing	58	24	162	72
General and administrative	387	428	1,188	1,278
	<u>\$ 517</u>	<u>\$ 487</u>	<u>\$ 1,567</u>	<u>\$ 1,494</u>
Share-Based compensation - by award type				
Employee stock options	\$ 388	\$ 405	\$ 1,152	\$ 1,238
Restricted stock units/awards	129	82	415	240
Warrants	–	–	–	16
	<u>\$ 517</u>	<u>\$ 487</u>	<u>\$ 1,567</u>	<u>\$ 1,494</u>

Note 12. Stockholders' Equity

Common Stock

The Company has authorized the issuance of up to 45,000,000 shares of common stock, all of which have been designated voting common stock, under its Amended and Restated Certificate of Incorporation.

Convertible Preferred Stock

The Company has authorized the issuance of up to 5,000,000 shares of preferred stock under the Company's Amended and Restated Certificate of Incorporation.

Warrants

As of September 30, 2015 and December 31, 2014, the Company had no outstanding warrants to purchase common or preferred stock.

Public Offerings of Common Stock

On September 25, 2013, the Company's registration statement on Form S-1 for its initial public offering was declared effective by the Securities and Exchange Commission. The offering commenced on September 26, and the Company sold 3.6 million shares of its common stock in its initial public offering at a price of \$10.00 per share, providing proceeds of \$31.5 million, net of expenses and underwriting discounts and commissions. The Company's initial public offering closed on October 1, 2013.

On March 19, 2014, the Company sold 2.0 million shares of its common stock in a secondary offering at a price of \$24.25 per share, providing proceeds of \$45.7 million, net of expenses and underwriting discounts and commissions. The Company's sale of 1.6 million shares in the secondary offering closed on March 25, 2014 and the Company's sale of an additional 0.4 million shares as a result of the underwriters' exercise of their option to purchase additional shares closed on March 28, 2014.

On June 3, 2015, the Company filed a Securities Registration Statement on Form S-3 (the "Form S-3") with the Securities and Exchange Commission effective June 23, 2015, providing for the public offer and sale of certain securities of the Company from time to time, at its discretion, up to an aggregate amount of \$140 million. In connection with the Company's Form S-3, the Company entered into an Equity Distribution Agreement with Raymond James & Associates, Inc. (the "sales agent") pursuant to which the Company may issue and sell shares of the Company's stock having an aggregate offering price of up to \$40 million (the "ATM Offering") from time to time through the sales agent. On July 16, 2015, the Company commenced sales of common stock through the ATM Offering, and as of September 30, 2015, the Company has sold 1.9 million shares under the ATM Offering at a weighted average price of \$21.54 per share, providing proceeds of \$38.7 million, net of expenses and underwriting discounts and commissions.

Note 13. Segment and Geographic Information

The Company operates in one reportable segment. The Company's Chief Executive Officer, who is considered to be the chief operating decision maker, manages the Company's operations as a whole and reviews financial information presented on a consolidated basis, accompanied by information about product revenue, for purposes of evaluating financial performance and allocating resources.

The following tables set forth the Company's revenue and asset information by geographic region. Revenue is classified based on the location of where the product is manufactured. Long-lived assets in the tables below comprise only property, plant, equipment and intangible assets (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenues:				
United States	\$ 13,433	\$ 7,826	\$ 31,687	\$ 19,950
Taiwan	36,670	23,795	87,919	58,684
China	6,982	4,928	17,345	15,424
	<u>\$ 57,085</u>	<u>\$ 36,549</u>	<u>\$ 136,951</u>	<u>\$ 94,058</u>

	As of the period ended	
	September 30, 2015	December 31, 2014
Long-lived assets:		
United States	\$ 32,079	\$ 15,875
Taiwan	40,117	35,688
China	20,375	18,008
	<u>\$ 92,571</u>	<u>\$ 69,571</u>

Note 14. Subsequent Events

On November 5, 2015, the Company entered into a new lease agreement for 2,983 square feet of office space located at 3025 Breckenridge Boulevard,, Suite 130, Duluth, Georgia, having a three year term beginning December 1, 2015 and ending November 30, 2018. The Company provided a \$2,983 security deposit upon execution of the agreement. Under the terms of the lease agreement, monthly rent will be \$2,983 per month for the first 12 months and shall increase 3% each year.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q for the period ended September 30, 2015 and the audited consolidated financial statements and notes thereto and management’s discussion and analysis of financial condition and results of operations for the fiscal year ended December 31, 2014 included in our Annual Report on Form 10-K. References to “Applied Optoelectronics” “we,” “our” and “us” are to Applied Optoelectronics, Inc. and its subsidiaries unless otherwise specified or the context otherwise requires.

This Quarterly Report on Form 10-Q contains “forward-looking statements” that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Quarterly Report that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Terminology such as “believe,” “may,” “estimate,” “continue,” “anticipate,” “intend,” “should,” “could,” “would,” “target,” “seek,” “aim,” “believe,” “predicts,” “think,” “objectives,” “optimistic,” “new,” “goal,” “strategy,” “potential,” “is likely,” “will,” “expect,” “plan” “project,” “permit” or by other similar expressions that convey uncertainty of future events or outcomes are intended to identify forward-looking statements.

We have based these forward-looking statements largely on our current expectations and projections about future events and industry and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified in “Part II —Item 1A. Risk Factors” provided below, and those discussed in other documents we file with the SEC. Furthermore, such forward-looking statements speak only as of the date of this Quarterly Report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of this Quarterly Report.

Overview

We are a leading, vertically integrated provider of fiber-optic networking products, primarily for three networking end-markets: internet data center, cable television, or CATV, and fiber-to-the-home, or FTTH. We design and manufacture a range of optical communications products at varying levels of integration, from components, subassemblies and modules to complete turn-key equipment. In designing products for our customers, we begin with the fundamental building blocks of lasers and laser components. From these foundational products, we design and manufacture a wide range of products to meet our customers’ needs and specifications, and such products differ from each other by their end market, intended use and level of integration. We are primarily focused on the higher-performance segments within all three of our target markets, which increasingly demand faster connectivity and innovation.

The three end markets we target are all driven by significant bandwidth demand fueled by the growth of network-connected devices, video traffic, cloud computing and online social networking. To address this increased bandwidth demand, CATV and telecommunications service providers are competing directly against each other by providing bundles of voice, video and data services to their subscribers and investing to enhance the capacity, reliability and capability of their networks. The trend of rising bandwidth consumption also impacts the internet data center market, as reflected in the shift to higher speed server connections. As a result of these trends, fiber-optic networking technology is becoming essential in all three of our target markets, as it is often the only economic way to deliver the desired bandwidth.

Our vertically integrated manufacturing model provides us several advantages, including rapid product development, fast response times to customer requests and control over product quality and manufacturing costs. We design, manufacture and integrate our own analog and digital lasers using a proprietary Molecular Beam Epitaxy, or MBE, fabrication process, which we believe is unique in our industry. We manufacture the majority of the laser chips and optical components that are used in our products. The lasers we manufacture are proven to be reliable over time and highly tolerant of changes in temperature and humidity, making them well-suited to the CATV and FTTH markets where networking equipment is often installed outdoors.

We have three manufacturing sites: Sugar Land, Texas, Ningbo, China and Taipei, Taiwan. Our research and development functions are partnered with our manufacturing locations and we have an additional research and development center in Lawrenceville, Georgia. In our Sugar Land facility, we manufacture laser chips (utilizing our MBE process), subassemblies and components. The subassemblies are used in the manufacture of components by our other manufacturing facilities or sold to third parties as modules. We manufacture our laser chips only within our Sugar Land facility, where our laser design team is located. In our Taiwan location, we manufacture optical components, such as our butterfly lasers, which incorporate laser chips, subassemblies and components manufactured within our U.S. facility. In addition, in our Taiwan location, we manufacture transceivers for the internet data center, FTTH, and other markets. In our China facility, we take advantage of lower labor costs and manufacture certain more labor intensive components and optical equipment systems, such as optical subassemblies for the internet data center market, CATV transmitters (at the headend) and CATV outdoor equipment (at the node). Each facility conducts testing on the components, modules or subsystems it manufactures and each facility is certified to ISO 9001:2008. Our China and Taiwan facilities are both certified to ISO14001:2004.

Our sales model focuses on direct engagement and close coordination with our customers to determine product design, qualifications, and performance through coordination of our sales, product engineering and manufacturing teams. Our strategy is to use our direct sales force to sell to key accounts within our markets, increasing product penetration within those customers while also growing our overall customer base in certain international and domestic markets. We have direct sales personnel in each of our U.S., Taiwan and China locations focusing on a direct and local interaction with our CATV, FTTH and internet data center customers. Throughout our sales cycle, we work closely with our customers to achieve design wins that we believe provide long-lasting relationships and promotes higher customer retention.

We have grown our revenue at a 31.7% Compound Annual Growth Rate between 2009 and 2014, including 66.3% growth year-over-year from 2013 to 2014. Our revenue growth in 2014 was driven primarily by increasing revenue from our internet data center customers. Growth in the first nine months of 2015 has been driven primarily by increasing revenue from our internet data center and CATV customers.

Our principal executive offices are located at 13115 Jess Pirtle Blvd., Sugar Land, TX 77478, and our telephone number is (281) 295-1800.

Results of Operations

The following table set forth our consolidated results of operations for the periods presented and as a percentage of our revenue for those periods.

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenue, net	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	68.4%	66.8%	67.3%	66.0%
Gross profit	31.6%	33.2%	32.7%	34.0%
Operating expenses				
Research and development	9.4%	11.5%	10.9%	12.5%
Sales and marketing	2.8%	4.4%	3.5%	4.7%
General and administrative	8.7%	12.2%	10.5%	12.7%
Total operating expenses	20.9%	28.1%	24.9%	29.9%
Income from operations	10.7%	5.1%	7.8%	4.1%
Other income (expense)				
Interest income	0.1%	0.3%	0.2%	0.3%
Interest expense	-0.6%	-0.2%	-0.6%	-0.3%
Other expense, net	-4.8%	-0.7%	-1.1%	-0.1%
Total other expense	-5.3%	-0.6%	-1.5%	-0.1%
Income before income taxes	5.4%	4.5%	6.3%	4.0%
Income taxes	-0.7%	-0.2%	-0.4%	-0.2%
Net income	4.6%	4.3%	5.9%	3.8%

Comparison of Financial Results

Revenue

We generate revenue through the sale of our products to equipment providers and network operators for the internet data center, CATV, and FTTH markets. We derive a significant portion of our revenue from our top ten customers, and we anticipate that we will continue to do so for the foreseeable future. We also anticipate that our revenue derived from the internet data center market will continue to increase as a percentage of our revenue as we further penetrate and extend our products into this market. The following charts provide the revenue contribution from each of the markets we served for the three and nine months ended September 30, 2015 and 2014:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
CATV	24.9%	33.5%	31.2%	34.7%
Data Center	67.6%	54.9%	61.7%	52.7%
FTTH	1.7%	7.2%	1.7%	8.4%
Other	5.8%	4.5%	5.4%	4.2%
	100.0%	100.0%	100.0%	100.0%

	Three months ended September 30,				Nine months ended September 30,				
	2015		2014		2015		2014		
	Amount	%	Amount	%	Amount	%	Amount	%	
CATV	\$ 14,233		\$ 12,245	\$ 1,988	16.2%	\$ 42,675	\$ 32,639	\$ 10,036	30.7%
Data Center	38,591		20,056	18,535	92.4%	84,517	49,530	34,987	70.6%
FTTH	962		2,616	(1,654)	(63.2%)	2,371	7,928	(5,557)	(70.1%)
Other	3,299		1,632	1,667	102.1%	7,388	3,961	3,427	86.5%
Total Revenue	\$ 57,085		\$ 36,549	\$ 20,536	56.2%	\$ 136,951	\$ 94,058	\$ 42,893	45.6%

Revenues in the internet data center market were driven primarily by increasing demand for our 40 gigabits per second transceivers as our customers continued to upgrade their technology infrastructure. The decrease in revenue in our FTTH market is due to decreased demand from our major FTTH customer. The increase in revenues in the CATV market for the year was a result of revenue derived from newly-designed products that have begun to be sold in higher quantities by our customers, as well as increased demand for new and existing products in certain international markets.

For the three and nine months ended September 30, 2015, our top ten customers represented 89.5% and 88.1% of our revenue, respectively.

Cost of goods sold and gross margin

	Three months ended September 30,					
	2015		2014		Change	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(in thousands, except percentages)					
Cost of goods sold	\$ 39,032	68.4%	\$ 24,403	66.8%	\$ 14,629	59.9%
Gross profit/margin	\$ 18,053	31.6%	\$ 12,146	33.2%	\$ 5,907	48.6%

	Nine months ended September 30,					
	2015		2014		Change	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(in thousands, except percentages)					
Cost of goods sold	\$ 92,116	67.3%	\$ 62,071	66.0%	\$ 30,045	48.4%
Gross profit/margin	\$ 44,835	32.7%	\$ 31,987	34.0%	\$ 12,848	40.2%

Cost of goods sold increased by \$14.6 million, or 59.9%, from the three months ended September 30, 2014 to 2015, primarily due to a 56.2% increase in sales over the prior year. Cost of goods sold increased by \$30.0 million, or 48.4%, from the nine months ended September 30, 2014 to 2015, primarily due to a 45.6% increase in sales over the prior year. Within our markets, we sell similar products in different geographic regions at different prices, resulting in different gross margins among our products. The decrease in gross margin for both the three and nine months ended September 30, 2015 compared to the same periods ended September 30, 2014 were primarily the result of a product mix in our internet data center and CATV products.

Operating expenses

	Three months ended September 30,					
	2015		2014		Change	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(in thousands, except percentages)					
Research and development	\$ 5,386	9.4%	\$ 4,194	11.5%	\$ 1,192	28.4%
Sales and marketing	1,582	2.8%	1,622	4.4%	(40)	(2.5%)
General and administrative	4,963	8.7%	4,458	12.2%	505	11.3%
Total operating expenses	<u>\$ 11,931</u>	<u>20.9%</u>	<u>\$ 10,274</u>	<u>28.1%</u>	<u>\$ 1,657</u>	<u>16.1%</u>

	Nine months ended September 30,					
	2015		2014		Change	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(in thousands, except percentages)					
Research and development	\$ 14,892	10.9%	\$ 11,749	12.5%	\$ 3,143	26.8%
Sales and marketing	4,748	3.5%	4,452	4.7%	296	6.6%
General and administrative	14,500	10.5%	11,964	12.7%	2,536	21.2%
Total operating expenses	<u>\$ 34,140</u>	<u>24.9%</u>	<u>\$ 28,165</u>	<u>29.9%</u>	<u>\$ 5,975</u>	<u>21.2%</u>

Research and development expense

Research and development expense increased by \$1.2 million, or 28.4%, from the three months ended September 30, 2014 compared to the three months ended September 30, 2015. Research and development expense increased by \$3.1 million, or 26.8%, from the nine months ended September 30, 2014 compared to the nine months ended September 30, 2015. This was primarily due to increases in personnel costs, rent and utilities, R&D work orders and project costs related to 100G data center products, DOCSIS 3.1-capable CATV products, and other new product development, and increase in depreciation expense resulting from additional R&D equipment investments. The percentage of research and development expenses over sales decreased from 11.5% to 9.4%, from the three months ended September 30, 2014 compared to the three months ended September 30, 2015. The percentage of research and development expenses over sales decreased from 12.5% to 10.9% from the nine months ended September 30, 2014 compared to the nine months ended September 30, 2015.

Sales and marketing expense

Sales and marketing expense decreased slightly from the three months ended September 30, 2014 compared to the three months ended September 30, 2015. Sales and marketing expense increased by \$0.3 million, or 6.6%, from the nine months ended September 30, 2014 compared to the nine months ended September 30, 2015. This was due to an increase in expenses for a new sales incentive program which was implemented in May, 2014, and an increase in sales commissions directly related to our revenue growth. The percentage of sales and marketing expenses over sales decreased from 4.4% to 2.8%, from the three months ended September 30, 2014 compared to the three months ended September 30, 2015. The percentage of sales and marketing expenses over sales decreased from 4.7% to 3.5% from the nine months ended September 30, 2014 compared to the nine months ended September 30, 2015.

General and administrative expense

General and administrative expense increased by \$0.5 million, or 11.3%, from the three months ended September 30, 2014 compared to the three months ended September 30, 2015. General and administrative expense increased by \$2.5 million, or 21.2%, from the nine months ended September 30, 2014 compared to the nine months ended September 30, 2015. This was primarily due to an increase in payroll and benefits, professional fees and depreciation. The percentage of general and administrative expenses over sales decreased from 12.2% to 8.7%, from the three months ended September 30, 2014 compared to the three months ended September 30, 2015. The percentage of general and administrative expenses over sales decreased from 12.7% to 10.6% from the nine months ended September 30, 2014 compared to the nine months ended September 30, 2015.

Other income (expense), net

	Three months ended September 30,					
	2015		2014		Change	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(in thousands, except percentages)					
Interest income	\$ 82	0.1%	\$ 95	0.3%	\$ (13)	(13.7%)
Interest expense	(351)	(0.6%)	(55)	(0.2%)	(296)	538.2%
Other income (expense), net	(2,747)	(4.8%)	(258)	(0.7%)	(2,489)	964.7%
Total Other income (expense), net	<u>\$ (3,016)</u>	<u>(5.3%)</u>	<u>\$ (218)</u>	<u>(0.6%)</u>	<u>\$ (2,798)</u>	<u>1283.5%</u>

	Nine months ended September 30,					
	2015		2014		Change	
	Amount	% of Revenue	Amount	% of Revenue	Amount	%
	(in thousands, except percentages)					
Interest income	\$ 236	0.2%	\$ 280	0.3%	\$ (44)	(15.7%)
Interest expense	(776)	(0.6%)	(277)	(0.3%)	(499)	180.1%
Other income (expense), net	(1,500)	(1.1%)	(57)	(0.1%)	(1,443)	2531.6%
Total Other income (expense), net	<u>\$ (2,040)</u>	<u>(1.5%)</u>	<u>\$ (54)</u>	<u>(0.1%)</u>	<u>\$ (1,986)</u>	<u>3677.8%</u>

Interest income decreased over the same prior year periods due to lower cash and investment balances.

Interest expense increased overall for the periods with additional borrowing activities during the three and nine months ended September 30, 2015 to fund the expansion projects.

Other income decreased by \$2.5 million for the three months ended September 30, 2015 compared to the same period of the prior year due to \$3.1 million of unrealized foreign exchange loss resulting from the fluctuation of Asia currencies against the U.S. dollar offset by \$0.4 million realized exchange gain.

Other income increased by \$1.4 million for the nine months ended September 30, 2015 compared to the same period in 2014 due to an increase of \$2.2 million in unrealized foreign exchange loss resulting from the fluctuation of Asia currencies against the U.S. dollar, \$0.1 million from insurance claims, \$0.6 million from realized exchange gain and offset by a decrease of \$0.2 million in non-recurring plant restoration expenses. We qualify as a high-tech enterprise in China, as determined by the Chinese government, and are paid subsidies from time to time by the Chinese government to foster local high-tech manufacturing. We received \$0.1 million more in subsidies in the nine months ended September 30, 2015 compared to the same period in 2014.

Provision for income taxes

	Three months ended September 30,				
	2015		2014		Change
	Amount	% of Revenue	Amount	% of Revenue	Amount
	(in thousands, except percentages)				
Provision (benefit) for income taxes	\$ (406)		\$ (77)		(329) 427.3%

	Nine months ended September 30,				
	2015		2014		Change
	Amount	% of Revenue	Amount	% of Revenue	Amount
	(in thousands, except percentages)				
Provision (benefit) for income taxes	\$ (541)		\$ (187)		(354) 189.3%

Our income tax expense consists of U.S. alternative minimum tax, state taxes and Taiwan income tax recorded during the periods. Due to historic losses in the U.S., our net deferred tax assets are fully offset by a deferred tax valuation allowance.

Liquidity and Capital Resources

From inception until our initial public offering, we financed our operations through private sales of equity securities, cash generated from operations and from various lending arrangements. In 2015, we entered into credit agreements with East West Bank and Comerica Bank totaling \$62.0 million to finance our working capital, campus expansion and equipment investments. In addition, we also entered various credit agreements with several Taiwan banks through our Taiwan branch totaling \$26.5 million. On June 3, 2015, we filed a Securities Registration Statement on Form S-3 with the Securities and Exchange Commission effective June 23, 2015, providing for the public offer and sale of certain securities of the Company from time to time, at our discretion, up to an aggregate amount of \$140 million. As of September 30, 2015, we have sold 1.9 million shares at a weighted average price of \$21.54 per share, providing proceeds of \$38.7 million, net of expenses and underwriting discounts and commissions. As of September 30, 2015, we had \$43.1 million of unused borrowing capacity from all of our loan agreements. As of September 30, 2015, our cash, cash equivalents, restricted cash and short-term investments totaled \$49.1 million. Cash and cash equivalents are held for working capital purposes and are invested primarily in money market or time deposit funds. We do not enter into investments for trading or speculative purposes.

The table below sets forth selected cash flow data for the periods presented (in thousands):

	Nine months ended September 30,	
	2015	2014
Net cash provided by (used in) operating activities	\$ (19,931)	\$ 665
Net cash used in investing activities	(35,657)	(29,052)
Net cash provided by financing activities	59,047	43,155
Effect of exchange rates on cash and cash equivalents	1,958	260
Net increase (decrease) in cash and cash equivalents	<u>\$ 5,417</u>	<u>\$ 15,028</u>

Operating activities

For the nine months ended September 30, 2015, net cash used in operating activities was \$19.9 million. During the nine months ended September 30, 2015, we recorded net income of \$8.1 million. The net income included non-cash charges, including depreciation and amortization of \$6.7 million, share-based compensation expense of \$1.6 million and non-cash increases to our inventory reserve account of \$2.2 million. Cash used in operating activities primarily related to an increase in inventory related to sales orders, an increase in our accounts receivable from the sale of our products, offset by cash provided by an increase in accounts payable to our vendors.

For the nine months ended September 30, 2014, net cash provided by operating activities was \$0.7 million. During the nine months ended September 30, 2014, we recorded net income of \$3.6 million. The net income included non-cash charges, including depreciation and amortization of \$4.3 million, share-based compensation and warrant expense of \$1.5 million and non-cash increases to our inventory reserve account of \$1.2 million. Cash provided by operating activities primarily related to an increase in accounts receivable from the sale of our products and an increase in inventory related to sales orders, offset by cash provided by an increase in accounts payable to our vendors and an increase in accrued liabilities.

Investing activities

For the nine months ended September 30, 2015, net cash used in investing activities was \$35.7 million mainly for the purchase of additional machinery and equipment and investment in construction of our U.S. plant.

For the nine months ended September 30, 2014, net cash used in investing activities was \$29.1 million for the purchase of additional machinery and equipment and the payment for intellectual property licenses to support new product development efforts and manufacturing activities.

Financing activities

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

For the nine months ended September 30, 2015, our financing activities provided \$59.0 million in cash. We received \$21.8 million in net borrowings associated with our bank loans, \$2.0 million in net proceeds from acceptance payable, offset by increased restricted cash of \$3.1 million related to our bank loan requirements. We also received \$38.7 million in net proceeds from our ATM Offering. See "At-the-Market Offering."

For the nine months ended September 30, 2014, our financing activities provided \$43.2 million in cash. We received \$45.6 million in net proceeds from a secondary offering of common stock. This increase was offset by the repayment of \$2.8 million in net borrowings associated with our bank loans.

Loans and commitments

We have lending arrangements with several financial institutions, including a revolving line of credit and a term loan with East West Bank and Comerica Bank in the U.S., lines of credit and financing agreements for our Taiwan branch and several lines of credit arrangements for our China subsidiary. As of September 30, 2015, we had \$43.1 million of unused borrowing capacity.

On June 30, 2015, we entered into a credit agreement with East West Bank and Comerica Bank, a second lien deed of trust, multiple security agreements and promissory notes evidencing two credit facilities and a term loan. The credit agreement included a \$25.0 million revolving line of credit which matures on June 30, 2018 and a \$10 million term loan maturing on June 30, 2020. The interest rate on these loans is the LIBOR Borrowing Rate plus 2.75% or 3.0%. As of September 30, 2015, \$20.0 million was outstanding under the revolving line of credit and \$2.0 million was outstanding under the term loans.

We also have with East West Bank a term loan of \$5 million with monthly payments of principal and interest that matures on July 31, 2019. As of September 30, 2015, the outstanding balance of such term loan was \$4.3 million.

On January 26, 2015, we entered into a construction loan agreement with East West Bank for up to \$22.0 million dollars to finance the construction of our campus expansion plan in Sugar Land, Texas. Upon signing the agreement, we deposited \$11.0 million into a bank account for owner's contribution of construction costs. The loan will have a fifteen month draw down period with monthly interest payments commencing on February 26, 2015 and ending April 26, 2016. Thereafter, the entire outstanding principal balance shall be converted to a sixty-nine month term loan with principal and interest payments due monthly amortized over three hundred months. The first principal and interest payment is due on May 26, 2016 and will continue the same day of each month thereafter. The final principal and interest payment is due on January 26, 2022 and will include all unpaid principal and all accrued and unpaid interest. We may pay without penalty all or a portion of the amount owed earlier than due. Under the loan agreement, the loan bears interest, at an annual rate based on the one-month LIBOR Borrowing Rate plus 2.75%. As of September 30, there were no amounts outstanding under this loan agreement and there was a balance of \$1.0 million in the restricted bank account.

Our loan and security agreements with East West Bank and Comerica Bank require us to maintain certain financial covenants, including a minimum current ratio and minimum annual EBITDA. As of September 30, 2015, we were in compliance with all covenants contained in these agreements.

On January 6, 2015, our Taiwan branch entered into a Credit Facility with CTBC Bank Co. Ltd. in Taipei, Taiwan for 90.0 million New Taiwan dollar, one year revolving credit facility. Our obligations under the Credit Facility are unsecured. Borrowings under the Credit Facility will bear interest at a rate based on the Bank's corporate interest rate index plus 1.5%, adjusted monthly. As of the execution of the Credit Facility the Bank's corporate interest rate index is 0.91%. As of September 30, 2015, \$2.8 million was outstanding under this credit facility.

On March 9, 2015, our Taiwan branch increased its \$4.0 million credit facility to a \$7.0 million revolving credit facility with E. Sun Commercial Bank. Our obligations under the credit facility are secured by our \$4.0 million cash deposit in a one-year CD with such bank and mature on May 27, 2016. The \$4.0 million revolving line of credit with CD security bears interest at a rate equal to Taiwan Deposit Index Rate plus 0.41% for New Taiwan Dollar borrowings and a 0.1% service fee for U.S. dollar borrowings. The additional \$3.0 million credit facility bears interest at a rate equal to LIBOR plus 1.7% divided by 0.946 and a 0.5% service fee for U.S. dollar borrowings. As of September 30, 2015, \$3.5 million was outstanding under this credit facility.

On March 25, 2015, our Taiwan branch renewed its \$4.0 million, one year revolving credit facility agreement, originally dated December 31, 2013, with Mega International Commercial Bank. Our obligations under the credit facility are secured by our \$4.0 million cash deposit in a CD with such bank. Borrowings under this credit facility will bear interest at a rate not less than the LIBOR borrowing rate plus 1.0%, divided by 0.946 for U.S. dollar borrowings. New Taiwan Dollar borrowings interest will bear at a rate equal to the Bank's base lending rate plus 0.76%. The current effective interest rate is 1.77%. As of September 30, 2015, \$3.4 million was outstanding under this credit facility.

On April 1, 2015, our Taiwan branch entered into a comprehensive credit line agreement with the Taipei branch of China Construction Bank, providing a revolving credit line of \$6.0 million, maturing on April 1, 2016. Borrowings under the credit line agreement are secured by a standby letter of credit issued by the China branch of the bank under existing agreements between the bank and our China subsidiary. Borrowings under the credit line agreement reduce the amounts available under the existing credit line between the bank and our China subsidiary and cannot exceed 97% of the amount of the standby letter of credit issued by the China branch of the bank. Borrowings under the credit line agreement will bear interest at a rate not less than LIBOR plus 1.5% for US dollar borrowings and at a rate of not less than Taiwan Interbank Offered Rate plus 0.9% for New Taiwan dollar borrowings. As of September 30, 2015, \$5.6 million was outstanding under this credit facility.

On July 30, 2015, our Taiwan branch fully repaid its note payable with a financing company.

On June 30, 2015, our Taiwan branch entered into a purchase and sale contract and a finance lease agreement together with the sale contract with Chailease Finance Co, Ltd. in connection with certain equipment, structured as a sale lease-back transaction. Pursuant to the sale contract, we sold certain equipment to Chailease and simultaneously leased the equipment back from Chailease pursuant to the finance lease agreement. The finance lease agreement has a three year term, with monthly lease payments, maturing on May 27 and June 30, 2018, respectively. The title to the equipment will be transferred to us upon the expiration of the finance lease agreement. As of September 30, 2015, \$5.3 million was outstanding under this finance lease agreement.

As of September 30, 2015, our China subsidiary had credit facilities with China Construction Bank totaling \$16.3 million, which can be drawn in U.S. currency, RMB currency, issuing bank acceptance notes to vendors with different interest rates or issuing standby letters of credit. As of September 30, 2015, our China subsidiary used \$6 million of its credit facility and issued standby letters of credit as collateral for our Taiwan branch line of credit with China Construction Bank. As of September 30, 2015, we had a U.S. currency based loan of \$2.1 million outstanding under various notes with three-month terms, maturing from October 2015 to December 2015 with effective interest rate of 3.15%. There was \$0.2 million outstanding RMB currency cash loan as of September 30, 2015, with a maturity date of August 26, 2016. The effective interest rate for the RMB currency loan was 5.79%. The outstanding balance of bank acceptance notes issued to vendors was \$3.1 million with zero interest rate as of September 30, 2015.

As of September 30, 2015, there was \$11.8 million of restricted cash, investments or security deposit associated with the loan facilities.

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

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

Future liquidity needs

We believe that our existing cash and cash equivalents, and cash flows from our operating activities, will be sufficient to meet our anticipated cash needs for the next 12 months. Our future capital requirements will depend on many factors including our growth rate, the timing and extent of spending to support our research and development efforts, the expansion of our sales and marketing activities, the introduction of new and enhanced products, the expansion of our manufacturing capacity and the continuing market acceptance of our products. In the event that additional liquidity is required to meet our long-term investments, we may need to explore additional sources of liquidity by additional bank credit facilities or raising capital through additional equity or debt financing. The sale of additional equity or debt security could result in additional dilution to our stockholders, and its terms and prices may not be acceptable to us. If we are unable to raise additional capital when desired, our business, operating results and financial condition would be adversely affected.

At-The-Market Offering

On June 3, 2015, we filed a Securities Registration Statement on Form S-3 with the Securities and Exchange Commission effective June 23, 2015, providing for the public offer and sale of certain securities of the Company from time to time up to an aggregate amount of \$140 million.

On July 14, 2015, we entered into an Equity Distribution Agreement (the "Distribution Agreement") with Raymond James & Associates, Inc. (the "Sales Agent") pursuant to which we may issue and sell shares of the Company's common stock, par value \$0.001 per share (the "Shares"), having an aggregate offering price of up to \$40 million (the "ATM Offering") from time to time through the Sales Agent. Upon delivery of a placement notice and subject to the terms and conditions of the Distribution Agreement, sales, if any, of the Shares will be made through the Sales Agent in transactions that are deemed to be "at the market" offerings as defined in Rule 415 of the Securities Act of 1933, as amended (the "Securities Act"), including sales made through the facilities of the NASDAQ Global Market, the principal trading market for the Company's common stock, on any other existing trading market for the Company's common stock, to or through a market maker or as otherwise agreed by the Company and the Sales Agent. In the placement notice, the Company will designate the maximum number of Shares to be sold through the Sales Agent, the time period during which sales are requested to be made, the minimum price for the Shares to be sold, and any limitation on the number of Shares that may be sold in any one day. Subject to the terms and conditions of the Distribution Agreement, the Sales Agent will use its commercially reasonable efforts to sell Shares on the Company's behalf up to the designated amount specified in the placement notice. We have no obligation to sell any Shares under the Agreement and may at any time suspend offers and sales of the Shares under the Distribution Agreement.

The Agreement provides that the Sales Agent will be entitled to compensation of up to 2.5% of the gross sales price of the Shares sold through the Sales Agent from time to time. We have also agreed to reimburse the Sales Agent for certain specified expenses in connection with the registration of Shares under state blue sky laws and any filing with, and clearance of the offering by, the Financial Industry Regulatory Authority Inc., not to exceed \$10,000 in the aggregate, and any associated application fees incurred. Additionally, if the Agreement is terminated under certain circumstances, and we fail to sell a minimum amount of the Shares as set forth in the Agreement, then the Company has agreed to reimburse the Sales Agent for reasonable out-of-pocket expenses, including the reasonable fees and disbursements of counsel incurred by the Sales Agent, up to a maximum of \$50,000 in the aggregate. We agreed to indemnify the Sales Agent against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Sales Agent may be required to make because of any of those liabilities.

In July 2015, we commenced sales of common stock through the ATM Offering. The details of the shares of common stock sold through the ATM Offering through September, 2015 are as follows (dollars in thousands, except per share data):

Distribution Agent	Month	Weighted Average Per Share Price	Number of Shares Sold	Net Proceeds	Compensation to Distribution Agent
Raymond James & Associates, Inc.	July 2015	\$ 19.32	171	\$ 3,220	\$ 83
Raymond James & Associates, Inc.	August 2015	21.76	1,686	\$ 35,780	\$ 917
Total		<u>\$ 21.54</u>	<u>1,857</u>	<u>\$ 39,000</u>	<u>\$ 1,000</u>

As of September 30, 2015, the total gross sales were \$40.0 million and there is no remaining amount of common stock available to sell under the ATM Offering.

Contractual Obligations and Commitments

The following summarizes our contractual obligations as of September 30, 2015 (in thousands):

	Payments due by period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt ⁽¹⁾	\$ 49,229	\$ 20,793	\$ 26,618	\$ 1,818	\$ –
Bank acceptance payable ⁽¹⁾	3,109	3,109	–	–	–
Operating leases ⁽²⁾	13,460	1,046	2,546	1,928	7,940
Total commitments	<u>\$ 65,798</u>	<u>\$ 24,948</u>	<u>\$ 29,164</u>	<u>\$ 3,746</u>	<u>\$ 7,940</u>

(1) We have several loan and security agreements in China, Taiwan and the U.S. that provide various credit facilities, including lines of credit, term loans and bank acceptance notes. The amount presented in the table represents the principal portion of the obligations.

(2) We have entered into various non-cancellable operating lease agreements for our offices in Taiwan and the U.S.

Off-Balance Sheet Arrangements

For the three and nine months ended September 30, 2015, we did not, and we do not currently, have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

In our annual report on Form 10-K for the year ended December 31, 2014, we identified our most critical accounting policies. In preparing the financial statements, we make assumptions, estimates and judgments that affect the amounts reported. We periodically evaluate our estimates and judgments that are most critical in nature which are related to revenue recognition under long-term construction contracts; allowance for doubtful accounts; inventory reserves; impairment of long-lived assets (excluding goodwill and other indefinite-lived intangible assets); goodwill and other indefinite-lived intangible assets; purchase price allocation of acquisitions; service and product warranties; and income taxes. Our estimates are based on historical experience and on our future expectations that we believe are reasonable. The combination of these factors forms the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results are likely to differ from our current estimates and those differences may be material.

JOBS Act

The Jumpstart Our Business Startups Act of 2012, or JOBS Act, contains provisions that, among other things, reduce certain reporting requirements for qualifying public companies. As defined in the JOBS Act, a public company whose initial public offering of common equity securities occurred after December 8, 2011 and whose annual gross revenues are less than \$1.0 billion will, in general, qualify as an “emerging growth company” until the earliest of:

- the last day of its fiscal year following the fifth anniversary of the date of its initial public offering of common equity securities;
- the last day of its fiscal year in which it has annual gross revenue of \$1.0 billion or more;
- the date on which it has, during the previous three-year period, issued more than \$1.0 billion in non-convertible debt; and

- the date on which it is deemed to be a “large accelerated filer,” which will occur at such time as the company (a) has an aggregate worldwide market value of common equity securities held by non-affiliates of \$700 million or more as of the last business day of its most recently completed second fiscal quarter, (b) has been required to file annual and quarterly reports under the Exchange Act for a period of at least 12 months and (c) has filed at least one annual report pursuant to the Securities Act of 1934, as amended.

Under this definition, we are an “emerging growth company” and could remain one until as late as December 31, 2018.

As an “emerging growth company” we have chosen to rely on such exemptions and are therefore not required to, among other things, (i) provide an auditor’s attestation report on our system of internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act, (ii) provide all of the compensation disclosure that may be required of non-emerging growth public companies under the Dodd-Frank Wall Street Reform and Consumer Protection Act, (iii) comply with any requirement that may be adopted by the Public Company Accounting Oversight Board, or PCAOB, regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements (auditor discussion and analysis) and (iv) disclose certain executive compensation-related items such as the correlation between executive compensation and performance and comparisons of the Chief Executive Officer’s compensation to median employee compensation.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market Risks

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

Interest Rate Fluctuation Risk

Our cash equivalents consisted primarily of money market funds, and interest and non-interest bearing bank deposits. Our primary objective is to maintain the security of our principal balances and ensure liquidity. We attempt to maximize the return on these balances without significantly increasing risk, but have little opportunity to do so given the short-term nature of our investments and current interest rate environments. We do not anticipate any material effect on our cash balances or investment portfolio due to fluctuations in interest rates.

We are exposed to market risk due to the possibility of changing interest rates associated with certain debt instruments. As of September 30, 2015, our U.S. debt bears a variable rate of interest that is based on LIBOR. The debt subject to variable rates is subject to fluctuation in the LIBOR. As of September 30, 2015, the interest on our China debt varied based on when each term loan is drawn. Once drawn the interest remains fixed for the term of that draw. As of September 30, 2015, we had not hedged our interest rate risk.

With respect to our interest expense for the three months ended September 30, 2015, an increase of 1.0% in each of our interest rates would have resulted in an increase of \$0.5 million in our interest expense for such period.

Foreign Exchange Rates

We operate on an international basis with a large portion of our business conducted in our Taiwan branch and China subsidiary. We use the U.S. dollar as our reporting currency for our consolidated financial statements. The financial records of our China subsidiary and our Taiwan branch are maintained in their respective local currencies, the RMB and the NT dollar, which are the functional currencies for our China subsidiary and our Taiwan branch, respectively. Assets and liabilities are translated at prevailing exchange rates at the balance sheet date, equity accounts are translated at historical exchange rates and revenues, expenses, gains and losses are translated using the average rate for the then current period using a monthly average. Translation adjustments are reported as cumulative translation adjustments and are shown as a separate component of accumulated other comprehensive income in our statement of stockholders’ equity (deficit) and comprehensive income.

All transactions in currencies other than their functional currencies during the year are subject to foreign exchange risk when the exchange rate fluctuates on the respective relevant dates of such transactions. Transaction gains and losses are recognized in our statements of operations in other income (expense). Monetary assets and liabilities existing at the balance sheet date denominated in currencies other than the functional currencies are re-measured at the exchange rates prevailing on the Balance Sheet date and unrealized exchange differences are recorded in our consolidated income statement.

During the three months ended September 30, 2015, we recognized \$0.4 million of realized exchange gain arising from foreign currency transactions and \$3.1 million of unrealized exchange losses arising from re-measurement of monetary assets and liabilities dominated in non-functional currency. During the nine months ended September 30, 2015, we recognized \$0.5 million of realized exchange gain arising from foreign currency transactions and \$2.2 million of unrealized exchange losses arising from re-measurement of monetary assets and liabilities dominated in non-functional currency on balance sheet date.

During the three months ended September 30, 2015, 1.7% of our revenue was denominated in RMB and less than 1% of revenue was denominated in NT dollars. In the three months ended September 30, 2015, 17.6% of our operating expenses were denominated in RMB and 31.1% of our operating expenses were denominated in NT dollars. Accordingly, fluctuations in exchange rates directly affect our cost of goods sold and net income, and have a significant impact on our operating margins. If exchange rates of RMB and NT dollars for U.S. dollars were 1% higher during the three months ended September 30, 2015, our operating expenses would have been higher by \$0.1 million.

As of September 30, 2015, we held the U.S. dollar denominated liabilities net of assets of approximately \$20.9 million in our China subsidiary and \$36.3 million in our Taiwan branch. With respect these U.S. Dollar denominated net liabilities as of September 30, 2015, if exchange rates of RMB and NT dollars for U.S. dollars were 1.0% higher during the three months ended September 30, 2015, our other operating income would have been \$0.2 million and \$0.4 million lower, respectively. Any significant revaluation of the RMB and NT dollars may materially and adversely affect the cash flows, revenues, and net income as reported in U.S. Dollars.

We currently do not use derivative financial instruments to mitigate this exposure. We continue to review this issue and may consider hedging certain foreign exchange risks through the use of currency forwards or options in future years.

Inflation

We believe that the relatively low rate of inflation in the U.S. over the past few years has not had a significant impact on our sales or operating results or on the prices of raw materials. However, an increase in the rate of inflation in the future may have an adverse effect on our levels of gross profit if material prices rise and if sales prices for our products do not proportionately increase. Changes in the proportion of our operations in China or Taiwan may result in the rate of inflation having a more significant impact on our operating results in the future.

Item 4. Controls and Procedures

The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2015, the end of the period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of such date.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three month period covered by this Quarterly Report on Form 10-Q, which were identified in connection with management’s evaluation required by the Rules 13a-15(d) and 15d-15(d) under the Exchange Act that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

As of September 30, 2015, we were not involved in any material pending legal proceedings.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider the following risk factors and all other information contained in this Quarterly Report on Form 10-Q, including our condensed consolidated financial statements and related notes. If any of the following risks actually occur, we may be unable to conduct our business as currently planned and our financial condition and results of operations could be seriously harmed. In addition, the trading price of our common stock could decline due to the occurrence of any of these risks and you may lose all or part of your investment.

Risks Inherent in Our Business

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

We generate much of our revenue from a limited number of customers. In the nine months ended September 30, 2015 and years ended December 31, 2014, 2013 and 2012, our top ten customers represented 88.1%, 87.2%, 76.9%, and 77.6% of our revenue, respectively. In the nine month ended September 30, 2015 and the year ended 2014, Amazon represented 54.3% and 45.8% of our revenue and Cisco Systems, Inc. represented 11.1% and 8.9% of our revenue, respectively. As a result, the loss of, or a significant reduction in orders from any of our key customers would materially and adversely affect our revenue and results of operations. We typically do not have long-term contracts with our customers and instead rely on recurring purchase orders. If our key customers do not continue to purchase our existing products or fail to purchase additional products from us, our revenue would decline and our results of operations would be adversely affected.

Adverse events affecting our key customers could also negatively affect our ability to retain their business and obtain new purchase orders, which could adversely affect our revenue and results of operations. For example, in recent years, there has been consolidation among various network equipment manufacturers and this trend is expected to continue. We are unable to predict the impact that industry consolidation would have on our existing or potential customers. We may not be able to offset any potential decline in revenue arising from the consolidation of our existing customers with revenue from new customers or additional revenue from the merged company.

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

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

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

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

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

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

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

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

Product development delays may result from numerous factors, including:

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

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

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

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

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

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

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

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

The market for fiber-optic products in the internet data center market is relatively new and our business could be harmed if this market does not continue to develop as we expect

In the internet data center market, we are relying on the emergence of new internet data center providers and their adoption of open internet data center architectures that use a mix of systems and components from a variety of vendors, including non-traditional equipment vendors. Internet data center operators may instead elect to use traditional equipment vendors, which often require internet data center operators to purchase the optical modules for their systems from such larger vendors. Also, internet data centers may not expand as much or as quickly as expected and any slowdown in expansion could adversely impact our business and growth prospects. If our expectations for the growth of the internet data center market are not realized, our financial condition or results of operations will be adversely affected.

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

Historically, we have generated much of our revenue from the CATV market. In 2014, 2013 and 2012, the CATV market represented 36.3%, 60.4% and 78.6% of our revenue, respectively. In the CATV market, we are relying on expected increasing demand for bandwidth-intensive services and applications such as on-demand television programs, high-definition television channels, or HDTV, social media, peer-to-peer file sharing and online video creation and viewing from network service providers. Without network and bandwidth growth, the need for our products will not increase and may decline, adversely affecting our financial condition and results of operations. Although demand for broadband access is increasing, network and bandwidth growth may be limited by several factors, including an uncertain regulatory environment, high infrastructure costs to purchase and install equipment and uncertainty as to which competing content delivery solution, such as telecommunications, wireless or satellite, will gain the most widespread acceptance. CATV network operators may reduce or forego equipment purchases in anticipation of the availability of next generation DOCSIS 3.1 solutions that are expected to be available soon, which may adversely affect our sales. If the trend of outsourcing for the design and manufacture of CATV equipment does not continue, or continues at a slower pace than currently expected, our customers' demand for our design and manufacturing services may not grow as quickly as expected. If expectations for the growth of the CATV market are not realized, our financial condition or results of operations will be adversely affected. In addition, if the CATV market is adversely impacted, whether due to competitive pressure from telecommunication service providers, regulatory changes, or otherwise, our business would be adversely affected. We may not be able to offset any potential decline in revenue from the CATV market with revenue from new customers in other markets.

We have limited operating history in the FTTH market, and our business could be harmed if this market does not develop as we expect.

For 2014, we generated 10.4% of our revenue from the FTTH market. We have only recently begun offering products to the FTTH market, and our business in this market has been largely dependent on a single customer who has not recently placed any orders for FTTH products from us. Our business in this market is dependent on the deployment of our optical components, modules and subassemblies. In this market, we are relying on increasing demand for bandwidth-intensive services and telecommunications service providers' acceptance and deployment of WDM-PON as a technology supporting 1 gigabit per second service to the home. Without network and bandwidth growth and adoption of our solutions by operators in these markets, we will not be able to sell our products in these markets in high volume or at our targeted margins, which would adversely affect our financial condition and results of operations. For example, WDM-PON technology may not be adopted by equipment and service providers in the FTTH market as rapidly as we expect or in the volumes we need to achieve acceptable margins.

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

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

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

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

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

We have a high fixed cost base due to our vertically integrated business model, including the fact that 1,206 of our employees as of December 31, 2014 were employed in manufacturing and research and development operations. We may not be able to adjust these fixed costs quickly to adapt to rapidly changing market conditions. Our gross profit and gross margin are greatly affected by our sales volume and volatility on a quarterly basis and the corresponding absorption of fixed manufacturing overhead expenses. In addition, because we are a vertically integrated manufacturer, insufficient demand for our products may subject us to the risk of high inventory carrying costs and increased inventory obsolescence. Given our vertical integration, the rate at which we turn inventory has historically been low when compared to our cost of sales. We do not expect this to change significantly in the future and believe that we will have to maintain a relatively high level of inventory compared to our cost of sales. As a result, we continue to expect to have a significant amount of working capital invested in inventory. We may be required to write down inventory costs in the future and our high inventory costs may have an adverse effect on our gross profits and our results of operations.

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

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

We have a history of losses and have a substantial accumulated deficit.

We have a history of losses and have a substantial accumulated deficit. In the years ended December 31, 2013 and 2012, we experienced net losses of \$1.4 million and \$0.9 million, respectively. In the nine months ended September 30, 2015 and year ended December 31, 2014, we experienced profits of \$8.1 and \$4.3 million, respectively. As of September 30, 2015 and December 31, 2014 and 2013, our accumulated deficit was \$70.9 million, \$79.0 million and \$83.3 million, respectively. These losses were due to expenditures made to expand our business, including expenditures for hiring additional research and development, and sales and marketing personnel, and expenditures to expand and maintain our manufacturing facilities and research and development operations. We expect to continue to make significant expenditures related to our business, including expenditures for hiring additional research and development, and sales and marketing personnel, and expenditures to maintain and expand our manufacturing facilities and research and development operations. In addition, we have incurred significant additional time demands and legal, accounting and other expenses since we became a public company in September 2013. Our management and other personnel devote a substantial amount of time to complying with the applicable rules and requirements of being a public company.

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

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

- the timing, size and mix of sales of our products;
- fluctuations in demand for our products, including the increase, decrease, rescheduling or cancellation of significant customer orders;
- our ability to design, manufacture and deliver products to our customers in a timely and cost-effective manner and that meet customer requirements;
- new product introductions and enhancements by us or our competitors;
- the gain or loss of key customers;
- the rate at which our present and potential customers and end users adopt our technologies;
- changes in our pricing and sales policies or the pricing and sales policies of our competitors;
- quality control or yield problems in our manufacturing operations;
- supply disruption for certain raw materials and components used in our products;
- capacity constraints of our outside contract manufacturers for a portion of the manufacturing process for some of our products;
- length and variability of the sales cycles of our products;
- unanticipated increases in costs or expenses;
- the loss of key employees;
- different capital expenditure and budget cycles for our customers, affecting the timing of their spending for our products;
- political stability in the areas of the world in which we operate;
- fluctuations in foreign currency exchange rates;
- changes in accounting rules;
- the evolving and unpredictable nature of the markets for products incorporating our solutions; and
- general economic conditions and changes in such conditions specific to our target markets.

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

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

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

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

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

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

We depend upon outside contract manufacturers for a portion of the manufacturing process for some of our products.

Almost all of our products are manufactured internally. However we also rely upon manufacturers in China, Taiwan and other Asia locations to provide back-end manufacturing and produce the finished portion of a few of our products. Our reliance on a contract manufacturer for these products makes us vulnerable to possible capacity constraints and reduced control over delivery schedules, manufacturing yields, manufacturing quality/controls and costs. If one of our contract manufacturers is unable to meet all of our customer demand in a timely fashion, this could have a material adverse effect on the revenue from our products. If the contract manufacturer for one of our product were unable or unwilling to manufacture such produce in required volumes and at high quality levels or to continue our existing supply arrangement, we would have to identify, qualify and select an acceptable alternative contract manufacturer or move these manufacturing operations to our internal manufacturing facilities. An alternative contract manufacturer may not be available to us when needed or may not be in a position to satisfy our quality or production requirements on commercially reasonable terms, including price. Any significant interruption in manufacturing our products would require us to reduce our supply of products to our customers, which in turn, would reduce our revenue, harm our relationships with the customer of these products and cause us to forego potential revenue opportunities.

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

Our products are complex and undergo quality testing as well as formal qualification by our customers. Our customers' testing procedures are limited to evaluating our products under likely and foreseeable failure scenarios and over varying amounts of time. For various reasons, such as the occurrence of performance problems that are unforeseeable in testing or that are detected only when products age or are operated under peak stress conditions, our products may fail to perform as expected long after customer acceptance. Failures could result from faulty components or design, problems in manufacturing or other unforeseen reasons. As a result, we could incur significant costs to repair or replace defective products under warranty, particularly when such failures occur in installed systems. Our products are typically embedded in, or deployed in conjunction with, our customers' products, which incorporate a variety of components, modules and subsystems and may be expected to interoperate with modules produced by third parties. As a result, not all defects are immediately detectable and when problems occur, it may be difficult to identify the source of the problem. While we have not experienced material failures in the past, we will continue to face this risk going forward because our products are widely deployed in many demanding environments and applications worldwide. In addition, we may in certain circumstances honor warranty claims after the warranty has expired or for problems not covered by warranty to maintain customer relationships. Any significant product failure could result in litigation, damages, repair costs and lost future sales of the affected product and other products, divert the attention of our engineering personnel from our product development efforts and cause significant customer relations problems, all of which would harm our business. Although we carry product liability insurance, this insurance may not adequately cover our costs arising from defects in our products or otherwise.

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

We currently derive, and expect to continue to derive, a significant portion of our revenue from sales to international customers. In 2014, 2013 and 2012, 29.5%, 41.0% and 55.7% of our revenue was derived from sales that occurred outside of North America, respectively. In addition, a significant portion of our manufacturing operations is based in Ningbo, China and Taipei, Taiwan. Our international revenue and operations are subject to a number of material risks, including:

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

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

Our business operations conducted in China and Taiwan are important to our success. A substantial portion of our property, plant and equipment is located in China and Taiwan. We expect to make further investments in China and Taiwan in the future. Therefore, our business, financial condition, results of operations and prospects are subject to economic, political, legal, and social events and developments in China and Taiwan. Factors affecting military, political or economic conditions in China and Taiwan could have a material adverse effect on our financial condition and results of operations, as well as the market price and the liquidity of our common shares.

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

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

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

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

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

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

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

We operate in a market that makes our prospects difficult to evaluate and, to remain competitive, we will be required to make continued investments in capital equipment, facilities and technological improvements. We expect that substantial capital will be required to expand our manufacturing capacity and fund working capital for anticipated growth. If we do not generate sufficient cash flow from operations or otherwise have the capital resources to meet our future capital needs, we may need additional financing to implement our business strategy, which includes:

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

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

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

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

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

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

We may be subject to disruptions or failures in information technology systems and network infrastructures that could have a material adverse effect on our business and financial condition.

We rely on the efficient and uninterrupted operation of complex information technology systems and network infrastructures to operate our business. A disruption, infiltration or failure of our information technology systems as a result of software or hardware malfunctions, system implementations or upgrades, computer viruses, third-party security breaches, employee error, theft or misuse, malfeasance, power disruptions, natural disasters or accidents could cause a breach of data security, loss of intellectual property and critical data and the release and misappropriation of sensitive competitive information and partner, customer, and employee personal data. Any of these events could harm our competitive position, result in a loss of customer confidence, cause us to incur significant costs to remedy any damages and ultimately materially adversely affect our business and financial condition.

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

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

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

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

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

Natural disasters or other catastrophic events could harm our operations.

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

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

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

Policing unauthorized use of our technology is difficult and we cannot be certain that the steps we have taken will prevent the misappropriation, unauthorized use or other infringement of our intellectual property rights. Further, we may not be able to effectively protect our intellectual property rights from misappropriation or other infringement in foreign countries where we have not applied for patent protections, and where effective patent, trademark, trade secret and other intellectual property laws may be unavailable, or may not protect our proprietary rights as fully as U.S. law. We may seek to secure comparable intellectual property protections in other countries. However, the level of protection afforded by patent and other laws in other countries may not be comparable to that afforded in the U.S.

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

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

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

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

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

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

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

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

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

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

Preparing our consolidated financial statements involves a number of complex manual and automated processes, which are dependent upon individual data input or review and require significant management judgment. One or more of these elements may result in errors that may not be detected and could result in a material misstatement of our consolidated financial statements. We have not performed an evaluation of our internal control over financial reporting, such as would be required by Section 404 of the Sarbanes-Oxley Act, nor have we engaged our independent registered public accounting firm to perform an audit of our internal control over financial reporting. In addition, for so long as we qualify as an "emerging growth company" under the JOBS Act, which may be up to five years following our initial public offering in September 2013, we will not have to provide an auditor's attestation report on our internal controls in future annual reports on Form 10-K as otherwise required by Section 404(b) of the Sarbanes-Oxley Act. During the course of any evaluation, documentation or attestation, we or our independent registered public accounting firm may identify weaknesses and deficiencies that we may not otherwise identify in a timely manner or at all as a result of the deferred implementation of this additional level of review.

We have implemented internal controls that we believe provide reasonable assurance that we will be able to avoid accounting errors or material weaknesses in future periods. However, our internal controls cannot guarantee that no accounting errors exist or that all accounting errors, no matter how immaterial, will be detected because a control system, no matter how well designed and operated, can provide only reasonable, but not absolute assurance that the control system's objectives will be met. If we are unable to implement and maintain effective internal control over financial reporting, our ability to accurately and timely report our financial results could be adversely impacted. This could result in late filings of our annual and quarterly reports under the Securities Exchange Act of 1934, or the Exchange Act, restatements of our consolidated financial statements, a decline in our stock price, suspension or delisting of our common stock by NASDAQ, or other material adverse effects on our business, reputation, results of operations or financial condition.

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

As of December 31, 2014, we had U.S. accumulated net operating losses, or NOLs, of approximately \$56.5 million for U.S. federal income tax purposes. Under Section 382 of the Internal Revenue Code of 1986, as amended, if a corporation undergoes an “ownership change,” the corporation’s ability to use its pre-change NOLs, R&D credits and other pre-change tax attributes to offset its post-change income may be limited. An ownership change is generally defined as a greater than 50% change in equity ownership, of 5-percent or greater shareholders, by value over a 3-year rolling period. Based upon an analysis of our equity ownership, we have experienced ownership changes which could limit our ability to utilize the NOLs and other pre-change attributes. The amount of NOL available each year may decrease by the amount of NOL utilized and may increase by the amount of any operating losses incurred. Should we experience additional ownership changes, our NOL carry forwards may be subject to further limitations.

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

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

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

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

We are exposed to risks and increased expenses and business risk as a result of Restriction on Hazardous Substances, or RoHS directives.

Following the lead of the European Union, or EU, various governmental agencies have either already put into place or are planning to introduce regulations that regulate the permissible levels of hazardous substances in products sold in various regions of the world. For example, the RoHS directive for EU took effect on July 1, 2006. The labeling provisions of similar legislation in China went into effect on March 1, 2007. Consequently, many suppliers of products sold into the EU have required their suppliers to be compliant with the new directive. Many of our customers have adopted this approach and have required our full compliance. Though we have devoted a significant amount of resources and effort in planning and executing our RoHS program, it is possible that some of our products might be incompatible with such regulations. In such events, we could experience the following consequences: loss of revenue, damages reputation, diversion of resources, monetary penalties, and legal action.

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

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

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

We are subject to export and import control laws, trade regulations and other trade requirements that limit which products we sell and where and to whom we sell our products. Specifically, the Bureau of Industry and Security of the U.S. Department of Commerce is responsible for regulating the export of most commercial items that are so called dual-use goods that may have both commercial and military applications. A limited number of our products are exported by license under the Export Control Classification Number, or ECCN, of 5A991. Export Control Classification requirements are dependent upon an item's technical characteristics, the destination, the end-use, and the end-user, and other activities of the end-user. Should the regulations applicable to our products change, or the restrictions applicable to countries to which we ship our products change, then the export of our products to such countries could be restricted. As a result, our ability to export or sell our products to certain countries could be restricted, which could adversely affect our business, financial condition and results of operations. Changes in our products or any change in export or import regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, or change in the countries, persons or technologies targeted by such regulations, could result in delayed or decreased sales of our products to existing or potential customers. In such event, our business and results of operations could be adversely affected.

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

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

Compliance with regulations related to conflict minerals could increase costs and affect the manufacturing and sale of our products.

Public companies are required to disclose the use of tin, tantalum, tungsten and gold (collectively, "conflict minerals") mined from the Democratic Republic of the Congo and adjoining countries (the "covered countries") if a conflict mineral(s) is necessary to the functionality of a product manufactured, or contracted to be manufactured, by the company. We may determine, as part of our compliance efforts, that certain products or components we obtain from our suppliers contain conflict minerals. If we are unable to conclude that all our products are free from conflict minerals originating from covered countries, this could have a negative impact on our business, reputation and/or results of operations. We may also encounter challenges to satisfy customers who require that our products be certified as conflict free, which could place us at a competitive disadvantage if we are unable to substantiate such a claim. Compliance with these rules could also affect the sourcing and availability of some of the minerals used in the manufacture of products or components we obtain from our suppliers, including our ability to obtain products or components in sufficient quantities and/or at competitive prices. Certain of our customers are requiring additional information from us regarding the origin of our raw materials, and complying with these customer requirements may cause us to incur additional costs, such as costs related to determining the origin of any minerals used in our products. Our supply chain is complex and we may be unable to verify the origins for all metals used in our products. We may also encounter challenges with our customers and stockholders if we are unable to certify that our products are conflict free.

Risks Related to Our Operations in China

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

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

In addition, the laws, regulations and legal requirements in China, including the laws that apply to foreign-invested enterprises, or FIEs, are subject to frequent changes. The interpretation and enforcement of such laws is uncertain. Protections of intellectual property rights and confidentiality in China may not be as effective as in the U.S. or other countries or regions with more developed legal systems. Any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. Any adverse changes to these laws, regulations and legal requirements or their interpretation or enforcement could have a material adverse effect on our business.

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

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

Prior to January 1, 2008, entities established in China were generally subject to a 30% state and 3% local enterprise income tax rate. In accordance with the China Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises, effective through December 31, 2007, our China subsidiary enjoyed preferential income tax rates. Effective January 1, 2008, the China Enterprise Income Tax Law, or the EIT law, imposes a single uniform income tax rate of 25% on all Chinese enterprises, including FIEs, and eliminates or modifies most of the tax exemptions, reductions and preferential treatment available under the previous tax laws and regulations. As a result, our China subsidiary may be subject to the uniform income tax rate of 25% unless we are able to qualify for preferential status. Currently, we have qualified for a preferential 15% tax rate that is available for state-encouraged new high technology enterprises. The preferential rate has applied to calendar years 2012 through 2014, and we have received approval from the Chinese government to extend this preferential rate for 2015 through 2017. Any future increase in the enterprise income tax rate applicable to us or the expiration or other limitation of preferential tax rates available to us could increase our tax liabilities and reduce our net income.

China regulation of loans and direct investment by offshore holding companies to China entities may delay or prevent us from making loans or additional capital contributions to our China subsidiary.

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

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

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

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

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

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

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

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

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

Businesses in China have historically not adopted a western style of management and financial reporting concepts and practices, which includes strong corporate governance, internal controls and computer, financial and other control systems. Moreover, familiarity with U.S. GAAP principles and reporting procedures is less common in China. As a consequence, we may have difficulty finding accounting personnel experienced with U.S. GAAP, and we may have difficulty training and integrating our China-based accounting staff with our U.S.-based finance organization. As a result of these factors, we may experience difficulty in establishing management and financial controls over our China operations. These difficulties include collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet U.S. public-company reporting requirements. We may, in turn, experience difficulties in implementing and maintaining adequate internal controls as required under Section 404 of the Sarbanes-Oxley Act.

Risks Related to Our Common Stock

Our stock price has been and is likely to be volatile.

The market price of our common stock has been and is likely to be subject to wide fluctuations in response to, among other things, the risk factors described in this section of this Quarterly Report on Form 10-Q, and other factors beyond our control, such as fluctuations in the valuation of companies perceived by investors to be comparable to us.

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

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

We have incurred and will continue to incur significant increased expenses and administrative burdens as a public company, which could have a material adverse effect on our operations and financial results.

We face increased legal, accounting, administrative and other costs and expenses as a public company that we did not incur as a private company, and greater expenditures may be necessary in the future with the advent of new laws, regulations and stock exchange listing requirements pertaining to public companies. These increased costs will require us to divert a significant amount of money that we could otherwise use to expand our business and achieve our strategic objectives. The Sarbanes-Oxley Act, including the requirements of Section 404, as well as rules and regulations subsequently implemented by the SEC, the Public Company Accounting Oversight Board and the NASDAQ Global Market, impose additional reporting and other obligations on public companies. Compliance with public company requirements has increased our costs and made some activities more time-consuming. For example, we have created new board committees and adopted new internal controls and disclosure controls and procedures. In addition, we will have incurred and will continue to incur additional expenses associated with our SEC reporting requirements. Furthermore, if we identify any issues in complying with those requirements (for example, if we or our auditors identify a material weakness or significant deficiency in our internal control over financial reporting), we could incur additional costs rectifying those issues, and the existence of those issues could adversely affect us, our reputation or investor perceptions of us. Advocacy efforts by stockholders and third parties may also prompt additional changes in governance and reporting requirements, which could further increase our costs.

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

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

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

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

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

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

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

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

Certain provisions contained in our employment agreements with our named executive officers regarding change of control or separation of service may obligate us to make lump sum severance payments and related payments upon the termination of their employment with us, other than such executive officer’s resignation without good reason or our termination of their employment as a result of their disability or for cause. In the event we are required to make these separation payments, it could have a material adverse effect on our results of operations for the fiscal period in which such payments are made.

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

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

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

We are an emerging growth company within the meaning of the rules under the Securities Act. We have in this Quarterly Report on Form 10-Q utilized, and we plan in future filings with the SEC to continue to utilize, the modified disclosure requirements available to emerging growth companies, including reduced disclosure about our executive compensation and omission of compensation discussion and analysis, and an exemption from the requirement of holding a nonbinding advisory vote on executive compensation and an exemption from the requirement that outside auditors attest as to our internal control over financial reporting. As a result, our stockholders may not have access to certain information they may deem important.

In addition, Section 107 of the JOBS Act also provides that an emerging growth company can utilize the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. Thus, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to utilize this extended transition period. Our financial statements may therefore not be comparable to those of companies that comply with such new or revised accounting standards as they become applicable to public companies.

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

See Exhibit Index on page 45.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

APPLIED OPTOELECTRONICS, INC.

Date: November 9, 2015

By: /s/ STEFAN J. MURRY
STEFAN J. MURRY
Chief Financial Officer
*(principal financial officer and
principal accounting officer)*

EXHIBIT INDEX

<u>Number</u>	<u>Description</u>
3.1*	Amended and Restated Certificate of Incorporation, as currently in effect (filed as Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2013).
3.2*	Amended and Restated Bylaws, as currently in effect (filed as Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 14, 2013).
4.1*	Common Stock Specimen (filed as Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 15, 2015).
10.1**	Office Lease Agreement between Applied Optoelectronics, Inc. and GIG VAOI Breckinridge, LLC dated November 5, 2015.
31.1**	Certification of Chief Executive Officer pursuant to Exchange Act Rule, 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2**	Certification of Chief Financial Officer pursuant to Exchange Act Rule, 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification pursuant to 18 U.S.C. 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Chief Executive Officer and Chief Financial Officer
101.INS***	XBRL Instance Document.
101.SCH***	XBRL Taxonomy Extension Schema Document.
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF***	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB***	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE***	XBRL Taxonomy Extension Presentation Linkbase Document.

* Incorporated herein by reference to the indicated filing.

** Filed herewith.

*** XBRL (Extensible Business Reporting Language) information is furnished and not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Exchange Act of 1933, as amended, is deemed not filed for purpose of Section 18 of the Securities Exchange Act of 1934, as amended, and is not otherwise subject to liability under these Sections.

Exhibit 10.1

BRECKINRIDGE EXCHANGE
3005, 3025, 3055, 3075 Breckinridge Boulevard

LEASE SUMMARY

Terms:

Lessor: GIG VAOI Breckinridge, LLC

Lessee: Applied Optoelectronics, Inc.

Building: 3025 Breckinridge Boulevard
Duluth, Georgia 30096

Premises: (a) Suite 130
(b) Rentable Area: 2,983 square feet
(c) See Floor Plan attached hereto as Exhibit "A".

Lease Term: Thirty-six (36) months

Occupancy Date: December 1, 2015

Rent Commencement: December 1, 2015

Expiration Date: November 30, 2018

Base Taxes: Lessor pays Base Year 2015 amount. Lessee pays prorata share of increases above Base Year amount.

Base Insurance: Lessor pays Base Year 2015 amount. Lessee pays prorata share of increases above Base Year amount.

Common Area Maintenance: Lessee pays prorata share of common area maintenance expense.

Lessee's Share: For the purpose of calculating CAM, Taxes and Insurance, Lessee's share is 2.07% of the Project, which consists of 144,375 square feet.

Security Deposit: \$2,983.00

Agency Disclosure: Colliers International - Atlanta represents and is paid by Lessor.
N/A represents Lessee and is paid by Lessor.

Broker(s): Colliers International – Will Tyler

It is understood that the foregoing is intended as a summary of portions of the Lease for convenience only and if there is a conflict between the above summary and any provisions of this Lease hereinafter set forth, the latter shall control.

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Exhibit "A": Floor Plan of the Premises
Exhibit "B": Legal Description of Project
Exhibit "C": Lessor's Work
Exhibit "D": Special Stipulations
Exhibit "E": Lease Commencement Letter

LEASE

THIS LEASE, dated the ____ day of November, 2015, by and between **GIG VAOI Breckinridge, LLC**, a Georgia limited liability company ("Lessor"), and **Applied Optoelectronics, Inc.**, a Delaware corporation ("Lessee").

WITNESSETH:

1. **Premises.** Lessor does hereby rent and lease to Lessee, and Lessee does hereby rent and hire from Lessor, that certain space containing approximately 2,983 rentable square feet designated as **Suite 130**, as shown on the floor plan attached hereto as Exhibit "A", which is made a part hereof by this reference (said space being herein referred to as the "Premises"). The Premises are located in Lessor's building (herein referred to as the "Building") known as **Building 3025 in the office complex known as Breckinridge Exchange** located at **3005-3075 Breckinridge Boulevard** (the "Project"), the real property on which such Project is located being further described in the legal description attached hereto as Exhibit "B", which is made a part hereof by this reference.

2.1 **Lease Term.** To have and to hold the same for a term (the "Term") beginning on the "Commencement Date" (as hereinafter defined) and ending on the "Expiration Date" (as hereinafter defined), unless sooner terminated as hereinafter provided.

2.2 **Commencement Date.** The "Commencement Date" shall be December 1, 2015; provided, however, that if the Premises have not been substantially completed so as to allow Lessee to conduct its business therein on or before the date set forth above, Lessor shall not be liable to Lessee in any manner for such delay, but the Commencement Date shall not occur until the preparation of the Premises has been substantially completed, except that the Commencement Date shall not be delayed to the extent that the delay in substantial completion of the Premises was due to the fault or otherwise caused by acts, omissions, change orders or other requests of Lessee. Delays in the Commencement Date shall also result in an adjustment of the "Expiration Date" (as hereinafter defined) and the schedule of Base Rent schedule shown in Section 3 below. The term "Lease Year", as used in this Lease, shall mean the 12-month period commencing on the Commencement Date, and each 12-month period thereafter during the Term; *provided, however*, that if the Commencement Date is a day other than the first day of a calendar month, the first Lease Year shall include the period between the Commencement Date and the end of the calendar month in which the Commencement Date occurs and shall extend through the end of the twelfth (12th) full calendar month following the Commencement Date. The Commencement Date and the Expiration Date shall be evidenced by a supplemental agreement similar to that described in Exhibit "E".

2.3 **Expiration Date.** The "Expiration Date" shall be November 30, 2018 unless otherwise adjusted as described in Section 2.2.

3. **Base Rent.** (a) During the Term, Lessee shall pay annual Base Rent (and all other rent due and owing by Lessee under this Lease) to Lessor at such place as Lessor shall from time to time designate in writing, such annual Base Rent to be payable in equal monthly installments, as follows:

From Month:	To Month:	Number of Months	Annual Base Rent		Monthly Rental		Period Total
			PSF	Monthly Rental	Abatement		
1	12	12	\$12.00	\$2,983.00	\$0.00	\$35,796.00	
13	24	12	\$12.36	\$3,072.49	\$0.00	\$36,869.88	
25	36	12	\$12.73	\$3,164.66	\$0.00	\$37,975.92	
		36				\$110,641.80	

(b) All monthly installments of Base Rent shall be payable to Lessor in advance on the first (1st) day of each month during the Term without notice, demand, deduction or set-off. Together with executed copies of this Lease, Lessee shall deliver to Lessor the first month's installment of Base Rent, the CAM charge of \$320.67 for the first month, and a security deposit as set forth in Section 5 below.

(c) As used in this Lease, the terms "rent", "rental" or "additional rent" shall include all amounts payable pursuant to Paragraphs 3 and 4 of this Lease and all other additional charges or sums payable to Lessor hereunder. All rent due and owing by Lessee under this Lease shall be paid by Lessee to Lessor without deduction, set off or abatement.

(d) Lessee's obligation to pay Base Rent, additional rent, and all other charges due and owing by Lessee under this Lease shall survive the expiration or earlier termination of this Lease.

(e) Any installment of Base Rent, additional rent or any other charge due and owing by Lessee under this Lease not received by Lessor within five (5) calendar days of the due date therefor shall be subject to a late charge in an amount equal to the greater of (i) \$100.00, or (ii) five percent (5%) of the amount due as agreed liquidated damages and interest on the unpaid balance at a rate of 18% per annum thereafter until paid in full, for each and every full or partial calendar month that said amount remains unpaid (but in no event shall the amount of such late charge exceed an amount based upon the highest legally permissible rate chargeable at any time by Lessor under the circumstances). In the event Lessee makes a partial payment of past due amounts, the amount of such partial payment shall be applied first to reduce all accrued and unpaid late charges, in inverse order of their maturity, and then to reduce all other past due amounts, in inverse order of their maturity. Acceptance by Lessor of a payment in an amount less than that which is currently due shall in no way affect Lessor's rights under this Lease and in no way be an accord and satisfaction.

(f) Lessee acknowledges, understands and agrees that (i) any concessions (free rent, etc.) which Lessor may have granted to Lessee as set forth in Section 3 and/or the Special Stipulations attached hereto and incorporated herein by this reference are personal to Lessee and shall not be assigned, in whole or in part, to any other person or entity without Lessor's prior written approval, and (ii) Lessor has provided such concessions, if any, to Lessee in reliance upon Lessee's warranty that Lessee shall faithfully and timely perform all the terms and conditions of this Lease. Accordingly, in the event of an "Event of Default" (as that term is defined in Paragraph 13 hereof) by Lessee under this Lease, the aggregate amount (expressed in U. S. dollars) of any such concessions shall be immediately due and payable by Lessee to Lessor as additional rent without demand or notice to Lessee and will not be returned to Lessee until such event(s) of default is cured.

4. **Common Costs.** In addition to the Base Rent, Lessee shall pay to Lessor, as additional rent, the amounts described in subparagraphs 4(a), 4(b), 4(c) and 4(d) below:

(a) **Taxes.**

(i) Commencing January 1 following the Base Year (as hereinafter defined) and continuing thereafter during each calendar year of the Term, in the event that Lessor's per square foot cost of taxes and assessments (as hereinafter defined) for the Project increases above the Base Year per square foot amount, then Lessee shall pay to Lessor as additional rent an amount equal to Lessee's Share (as hereinafter defined) of the aggregate amount of such increase (the "Tax Increase"), as provided in subparagraph 4(d) below. The term "taxes and assessments" shall include every type of special and general tax and/or charge imposed or assessed against the Project, or any part thereof, or upon the operation of the Project, or any part thereof, including, but not limited to, ad valorem taxes, special assessments and governmental charges, excepting only income taxes imposed upon Lessor. Reasonable expenses incurred by Lessor in obtaining or attempting to obtain a reduction of any taxes or assessments shall be added to and included in the amount of taxes and assessments.

(ii) If at any time during the Term of this Lease, the present method of taxation shall be changed so that in lieu of the whole or any part of any taxes, assessments of governmental charges levied, assessed, or imposed on real estate and the improvements thereon, there shall be levied, assessed or imposed on Lessor a capital levy or other tax directly on the rents received therefrom and/or a franchise tax, assessment, levy or charge measured by or based, in whole or in part, upon such rents for the present or any future building or buildings on the Premises, then all such taxes, assessments, levies or charges, or the part thereof so measured or based, shall be deemed to be included within the term "taxes and assessments" for the purposes hereof.

(iii) Lessee shall pay, or cause to be paid, before delinquency any and all taxes levied or assessed during the Term of this Lease upon all improvements installed by Lessee in the Premises, Lessee's other leasehold improvements, equipment, furniture, fixtures and any other personal property located on the Premises. In the event any or all of said improvements, Lessee's other leasehold improvements, equipment, furniture, fixtures and other personal property shall be assessed and taxed with the Premises or the Project, Lessee shall pay to Lessor its share of such taxes within ten (10) calendar days after delivery to Lessee by Lessor of a statement in writing setting forth the amount of such taxes attributable to the above property.

(b) Insurance. Commencing January 1 following the Base Year and continuing thereafter during each calendar year of the Term, in the event that Lessor's per square foot cost of insurance (as hereinafter defined) increases above the Base Year per square foot amount, then Lessee shall pay to Lessor an amount equal to Lessee's Share of the aggregate amount of such increase (the "Insurance Increase"), as provided in subparagraphs 4(d) and 4(e) below. The term "insurance" shall include all fire and extended casualty insurance on the Project and all liability coverage on the grounds, sidewalks, driveways, parking areas, and any other exterior or interior areas of the Project, together with such other insurance protections, including, but not limited to, rents insurance, as are from time to time obtained by Lessor. The term "insurance" shall also include any deductible amount paid by Lessor in connection with any insured loss.

(c) CAM. During the Term, Lessee shall pay to Lessor, as additional rent, Lessee's Share of all common area electrical, grounds maintenance charges, property management costs, security services and other common area charges and expenses for the Project (the "CAM Charges"), as provided in subparagraph 4(d) below. The term "grounds maintenance" shall include, without limitation, all landscaping, planting, lawn and grounds care, all improvements to the grounds and other common areas adjacent to the Premises and to all sidewalks, driveways, loading areas and parking areas.

(d) Estimated Payments.

(i) Prior to the Commencement Date and prior to January 1 of each subsequent calendar year during the Term, or as soon thereafter as possible, Lessor shall deliver to Lessee an estimate of (A) the Tax Increase for that calendar year (the "Tax Estimate"), (B) the Insurance Increase for that calendar year (the "Insurance Estimate"), and (C) the total CAM Charges for that calendar year (the "CAM Estimate") and Lessee's Share thereof. (The Tax Estimate, the Insurance Estimate and the CAM Estimate are sometimes referred to hereinafter collectively as the "Common Cost Estimates".) Lessee shall thereafter during that calendar year pay to Lessor one-twelfth (1/12) of the amount of Lessee's Share of the Common Cost Estimates at the same time its monthly installments of Base Rent hereunder are due and payable. In the event Lessor shall not have furnished the Common Cost Estimates to Lessee by January 1 of any calendar year, then until the first day of the first month next following the month in which the Common Cost Estimates are furnished to Lessee, Lessee shall pay to Lessor on the first day of each calendar month an amount equal to the aggregate monthly installment of Lessee's Share of the Tax Increase, Insurance Increase and CAM Charges which was payable by Lessee to Lessor with respect to the last month of the preceding calendar year. In such event, at such time as Lessor furnishes the Common Cost Estimates to Lessee, Lessor shall give Lessee notice stating whether the aggregate amount of the installments of Lessee's Share of the Tax Increase, Insurance Increase and CAM Charges previously paid for such calendar year is more or less than the aggregate amount of the installments due for such portion of the calendar year as computed in accordance with the Common Cost Estimates, and (A) if there shall be a deficiency, then within ten (10) days after the Lessee receives the Common Cost Estimates, Lessee shall pay the amount of such deficiency, (B) if there shall have been an overpayment, Lessor shall credit Lessee in the amount thereof toward the subsequent installments of the Tax Increase, Insurance Increase and CAM Charges, and (C) on the first day of the first month next following the month in which the Common Cost Estimates are furnished to Lessee, and monthly thereafter for the balance of such calendar year, Lessee shall pay to Lessor one-twelfth (1/12) of the amount of Lessee's Share of the Tax Increase, Insurance Increase and CAM Charges as set forth in the Common Cost Estimates.

(ii) At such time as Lessor is able to determine the actual Tax Increase, Insurance Increase and CAM Charges for each calendar year, Lessor shall deliver to Lessee a statement thereof and, in the event the estimated Tax Increase, Insurance Increase and CAM Charges differ from the actual Tax Increase, Insurance Increase and CAM Charges, then (A) if there shall be a deficiency, then within ten (10) days after Lessee receives the statement of the actual Tax Increase, Insurance Increase and CAM Charges, Lessee shall pay the amount of such deficiency, and (B) if there shall have been an overpayment, Lessor shall credit Lessee in the amount thereof toward the subsequent installments of the Tax Increase, Insurance Increase and CAM Charges coming due in the next calendar year.

(e) "Lessee's Share," as used herein, shall mean the number, stated as a percentage, determined by dividing the rentable square footage of the Premises as stated in Paragraph 1 by the number of rentable square feet in the improvements in the Project (which, for the purpose of this calculation, is 144,375 RSF). Notwithstanding the foregoing, for the purpose of calculating real estate taxes, Lessee's Share shall mean the number, stated as a percentage, determined by dividing the rentable square footage of the Premises as stated in Paragraph 1 by the number of rentable square feet in the Building.

(f) "Base Year," as used herein, shall mean the calendar year of 2015.

(g) Any payment to be made pursuant to this Paragraph 4 with respect to the calendar year in which this Lease commences or terminates shall be prorated.

5. **Security Deposit.** Upon execution of this Lease, Lessee shall pay to Lessor a security deposit equal to \$2,983.00 (the "Security Deposit") which Security Deposit will be refunded if Lessee has complied with all the terms and conditions of this Lease, occupied the Premises for the full Term of the Lease and any renewals thereof, and has not damaged the Premises beyond normal wear and tear. If Lessee fails to pay any rent or other charges due hereunder or otherwise defaults with respect to any provision of this Lease, Lessor may use, apply or retain, at Lessor's sole discretion, any or all of the Security Deposit for the payment of any rent or other charge in default, or for payment of any other sum which Lessor may become obligated to pay by reason of Lessee's default, or to compensate Lessor for any loss or damage which the Lessor may suffer thereby. If Lessor so uses or applies all or any portion of the Security Deposit, Lessee shall deposit sufficient cash with the Lessor to restore the Security Deposit to the full amount within fifteen (15) days after written demand therefor, and failure to do so shall be a material and immediate breach of this Lease.

6. **Utilities.** Lessee shall promptly pay all charges for utilities and other services furnished to the Premises by Lessor or the applicable utility company, including, but not limited to, gas, water, electricity, fuel, light and heat. In the event any utilities furnished to the Project are not separately metered, Lessee shall pay to Lessor, as additional rental, Lessee's Share of the utilities, within ten (10) calendar days following receipt of a statement showing the amount due. Individual spaces are separately metered for gas and electricity. Water and sewer are included in the Common Area Maintenance.

7. **Use.** (a) The Premises shall be used for office and warehouse purposes only. Lessee shall not permit any liens to attach or exist as against the Premises or the Project, nor commit any waste. The Premises shall not be used for any illegal purposes, nor in any manner shall Lessee allow, suffer, or permit any vibration, noise, odor, light or other effect that could constitute a nuisance or trespass for Lessor or any other lessee, their customers, agents, or invitees. Upon notice by Lessor to Lessee that any of the aforesaid is occurring, Lessee agrees to forthwith remove or control the same.

(b) Lessee will not in any way violate any law, ordinance, or restrictive covenant affecting the Premises or the Project, nor use the Premises in any manner as would cause cancellation of, prevent the use of, or increase the rate of the standard form of fire and extended coverage insurance policy to be carried by Lessor on the Project.

(c) In the event said insurance rate is increased over the least hazardous rate due to the nature of the use of the Premises by Lessee, the entire amount of such increase shall be paid by Lessee as additional rental on the first day of the month following receipt of notification of the payment thereof by Lessor.

(d) Lessee shall be entitled to up to ten (10) parking spaces to be used in common with other Lessees. There will be no assigned parking unless Lessor determines that allocation of parking spaces among Lessees is appropriate. Lessee shall not park vehicles at the Project overnight. Lessee shall not store trailers or any other items outside the Building or at the Project.

8. **Repairs by Lessor.** (a) Lessee accepts the Premises in its present condition and as suited for the uses intended by Lessee, subject only to Lessor's agreement to complete the Lessor's Work described in Exhibit "C". Except as otherwise expressly provided in this Lease, Lessor shall not be required to make any repairs or improvements to the Premises, except repairs to the foundation, exterior walls or roof of the Building as necessary for safety and leasability, and then only if not brought about by any act or neglect of Lessee, its agents, employees, contractors, invitees, licensees or assignees. Without limiting the generality of the foregoing limitation, Lessor specifically shall have no obligation to repair any interior or exterior glass or doors (including loading doors) located in or on or constituting a part of the Premises.

(b) Lessor shall be responsible for the maintenance of those areas around the Building, including parking areas, planted areas, sidewalks, exterior lighting, drainage facilities and landscaping areas which are from time to time designated by Lessor as open for the joint use by lessees of the Building, Project and/or the public.

9. **Repairs by Lessee.** Lessee shall repair, maintain, replace as necessary, and keep in good, clean, and safe repair all portions of the Premises and all equipment, fixtures and systems therein which are not specifically set forth as the responsibility of Lessor in Paragraph 8 of this Lease. Lessee's repairs and replacements shall include, without limitation, all electrical, plumbing, heating and air-conditioning systems, parts, components and fixtures. In connection therewith, Lessee shall maintain in force at all times a maintenance contract for the heating, ventilation and air conditioning equipment (a) acceptable in form and content to Lessor, (b) with a service organization acceptable to Lessor and (c) providing for at least semi-annual maintenance of such equipment, and shall provide Lessor with a true copy of such maintenance contract. Lessee shall also promptly repair or replace all partitions and all glass and plate glass within or constituting a part of the Premises immediately when cracked or broken, unless caused by Lessor or Lessor's employees or agents, and Lessee shall be liable for and shall hold Lessor harmless against all loss, cost and damage (including reasonable attorneys' fees) arising from any damage or injury to the Premises or the Project or to any person or property caused or contributed to by any act or negligence of Lessee, any invitee, agent, affiliate, customer or client of Lessee or anyone in Lessee's control or employ. Lessor gives to Lessee exclusive control of the Premises and shall be under no obligation to inspect the Premises. Lessee shall promptly report in writing to Lessor any defective conditions known to Lessee which Lessor is required to repair, and failure to promptly report such defects shall make Lessee liable to Lessor for any liability incurred by Lessor by reason of such defects, and Lessee indemnifies and holds Lessor harmless from and against all loss, costs and damage (including reasonable attorneys' fees) arising from or related to Lessee's failure to so report such defective conditions. In no event shall Lessee cause or allow any outside storage of trash, refuse, debris, or anything else on the Premises, whether in the area of the dumpster or otherwise. All personal property of Lessee or Lessee's employees, agents, affiliates or invitees located in or brought upon the Premises or any part of the Building shall be at risk of Lessee only, and Lessor shall not be liable to Lessee or any other party for any damage thereto or theft thereof resulting from any cause.

10. **Lessor's Work.** (a) Lessor agrees that it will finish out the Premises as depicted and described on Exhibit "C" attached hereto and by this reference made a part hereof (the "Plans and Specifications"), which were submitted, reviewed and approved by Lessor and Lessee prior to the execution hereof, and in accordance with all currently applicable laws, ordinances, codes and regulations. In the event that Lessee shall desire, or Lessor shall find it necessary to make, any modifications or changes to the Plans and Specifications, the party desiring or requiring said changes shall give the other party written notice thereof. No change to the Plans and Specifications shall be effective unless and until it has been approved in writing by Lessor and Lessee. The Plans and Specifications, as amended, shall thereafter, for all purposes, be considered the "Plans and Specifications" hereunder. Notwithstanding the foregoing, Lessee acknowledges that in the course of construction, certain changes, deviations or omissions may be required by governmental authorities or job conditions and Lessee agrees to such changes, deviations or omissions, provided that such changes, deviations or omissions do not materially alter the value or appearance of the Premises or materially reduce the quality of materials used in the construction thereof. Lessee understands and agrees that any plans, renderings or drawings or similar documents which purport to depict any of the improvements which comprise the Premises are merely an approximation of, and may not necessarily reflect, actual, as-built conditions. Lessee agrees to such modifications, provided that any such modifications to the Plans and Specifications do not materially affect the value or appearance of the Premises.

(b) Provided the Premises are substantially completed, in the event Lessee does not occupy the Premises in accordance with Paragraph 2.2 above, all costs incurred by Lessor in finishing out the Premises as set forth in this Paragraph 10 and on Exhibit "C" attached hereto shall become due and payable by Lessee upon billing therefor by Lessor. The remedy provided in this subparagraph 10(b) is in addition to, and not in lieu of, any other remedies available to Lessor at law, in equity or otherwise.

11. **Right of Entry.** Lessor and Lessor's agents and representatives shall have the right to enter and inspect the Premises at any reasonable time during business hours after reasonable notice to Lessee, for the purpose of ascertaining the condition of the Premises or in order to make such repairs as may be required or permitted to be made by Lessor under the terms of this Lease. In the event Lessor or Lessor's agents or representatives enter the Premises for any of such purposes, they shall use best efforts to minimize interference with the conduct of business on the Premises by Lessee. During the period that is six (6) months prior to the end of the Term hereof, Lessor and Lessor's agent and representatives shall have the right to enter the Premises at any reasonable time during business hours for the purpose of showing the Premises after reasonable notice to Lessee and shall have the right to erect on the Premises a suitable sign indicating the Premises are available. Lessee shall give written notice to Lessor at least sixty (60) days prior to vacating the Premises and shall arrange to meet with Lessor for a joint inspection of the Premises prior to vacating. In the event of Lessee's failure to give such notice or arrange such joint inspection, Lessor's inspection at or after Lessee's vacating the Premises shall be conclusively deemed correct for purposes of determining Lessee's responsibility for repairs and restoration.

For each of the aforesaid purposes, Lessor shall at all times have and retain a key with which to unlock all of the doors in, upon, and about the Premises, and Lessor shall have the right to use any and all means which Lessor may deem necessary or proper to open said doors in an emergency, in order to obtain entry to any portion of the Premises, and any entry to the Premises, or portions thereof obtained by Lessor by any of said means, or otherwise, shall not under any circumstances be construed or deemed to be a forcible or unlawful entry into, or a detainer of the Premises, or an eviction, actual or constructive, of Lessee from the Premises or any portions thereof; Lessor shall also have the right at any time, without the same constituting an actual or constructive eviction and without incurring any liability to Lessee therefor, to change the arrangement and/or location of entrances or passageways, doors and doorways, and corridors, elevator, stairs, toilets, or other public parts of the Building and to change the name, number of designation by which the Building is commonly known, provided such changes are required by any applicable code or regulation. Lessor does reserve the right to change the name of the project without Lessee's consent

12. **Lessor's Right to Act for Lessee.** If Lessee fails to pay any additional rent or make any other payment (except Base Rent) or take any other action when and as required under this Lease, Lessor may, without demand upon Lessee and without waiving or releasing Lessee from any duty, obligation or liability under this Lease, pay any such additional rent, make any such other payment or take any such other action required of Lessee. The actions which Lessor may take shall include, but are not limited to, the performance of maintenance or repairs and the making of replacements to the Premises, the payment of insurance premiums which Lessee is required to pay under this Lease and the payment of taxes and assessments which Lessee is required to pay under this Lease. Lessor may pay all incidental costs and expenses incurred in exercising its rights hereunder, including, without limitation, reasonable attorneys' fees and expenses, penalties, re-instatement fees, late charges and interest. All amounts paid by Lessor pursuant to this Paragraph 12, and all costs and expenses incurred by Lessor in exercising Lessor's rights under this Paragraph 12, shall bear interest at the lesser of (i) eighteen (18%) percent per annum or (ii) the highest rate permitted under applicable law (the "Default Rate of Interest"), from the date of payment by Lessor and shall be payable by Lessee to Lessor upon demand.

13. **Default.** (a) Each of the following events shall constitute an "Event of Default" by Lessee under this Lease:

(i) If Lessee shall fail to pay when due any rent or other payment to be made by Lessee hereunder and shall not cure such failure within five (5) days after the due date (as to the scheduled monthly rental payments) or within five (5) days after written notice thereof from Lessor (as to nonscheduled payments), as the case may be; or

(ii) If Lessee shall violate or breach, or shall fail fully and completely to observe, keep, satisfy, perform and comply with, any agreement, term, covenant, condition, requirement, restriction or provision of this Lease (other than the payment of rent or any other payment made by Lessee), and shall not cure such failure within ten (10) days after Lessor gives Lessee written notice thereof; or

(iii) If the Premises are deserted or abandoned; or

(iv) If the Premises or Lessee's interest therein is levied upon and not satisfied or dissolved within fifteen (15) days after such levy upon or attachment.

For the purposes of the Events of Default specified in clause 13(a) above, the word "Lessee" shall include, without limitation: (i) any party comprising Lessee, should more than one person or entity execute this Lease as Lessee, or any general partner or going venturer of Lessee or any such party; and (ii) any person or entity now or hereafter liable, whether primarily, secondarily or contingently, for the performance of the duties and obligations of Lessee under this Lease, including without limitation any principal, maker, endorser, guarantor or surety.

(b) Upon the occurrence of any Event of Default, Lessor may pursue any one or more of the following remedies, in addition to any other remedies provided under this Lease, at law or in equity, separately or concurrently or in any combination, without any notice (except as specifically provided herein) or demand whatsoever and without prejudice to any other remedy which it may have for possession of the Premises or for arrearages in rent or other amounts payable by Lessee:

(i) Revoke Lessee's right to pay Rent reserved in this Lease in monthly installments; require immediate payment of the balance of Rent for the then-current Lease Year in full; and require payment of Rent for each subsequent Lease Year in full in advance on the first day of such Lease Year.

(ii) Terminate this Lease, in which event, unless Lessor has previously taken possession of the Premises, Lessee shall immediately surrender the Premises to Lessor. If Lessee fails to do so, Lessor may, without prejudice to any other remedy which Lessor may have for possession or recovery of Rent or other sums due, enter upon and take exclusive possession of the Premises, or, at Lessor's election, by writ of possession. In addition to the payment of Rent or other sums then due, Lessee shall pay to Lessor on demand the amount of all loss and damage which Lessor suffers by reason of such event of default, together with, at Lessor's election, either (1) Rents which accrue after termination prior to reletting and any deficiency between Rent obtained upon reletting and the Rent due under the Lease, calculated as each month expires, or (2) the difference between the then present value of the Rent payable over the Term less the then present fair rental value of the Premises over the Term. Lessee and Lessor recognize and agree that it is difficult or impossible to determine the then present fair rental value at this time, because future market conditions (including future rental value and the probability of reletting for the remaining term) are difficult or impossible to foresee. Therefore, Lessee agrees to pay, and Lessor agrees to accept, as liquidated damages, the then present value of the Rent payable over the Term discounted at a rate of 5% per annum. In calculating the amount of agreed liquidated damages, the parties have taken into account a reasonable estimate of Lessor's loss and damage which Lessor may suffer by reason of such default to the extent such loss and damage has not been actually determined at the time of this calculation. Lessee agrees that such payment shall not constitute a penalty but shall be construed as liquidated damages. Upon making such payment Lessee shall receive from Lessor all Rents received by Lessor on account of the Premises during the original term of the Lease. However, Lessee shall in no event be entitled to payment of or credit for any surplus of Rents obtained on reletting of the Premises over Rent or other sums due under this Lease. No such termination or taking possession shall relieve Lessee of Lessee's liability for Rent or other sums which have accrued or which thereafter accrue except as provided in this subparagraph 13(b).

(iii) Without terminating this Lease, enter upon and take exclusive possession of the Premises, if necessary, and, at Lessor's election, by writ of possession, and if Lessor so elects at any time prior to termination of this Lease, relet the Premises on Lessee's account on such terms as Lessor may deem advisable and receive and credit to Lessee's account any rent from reletting. In addition to the Rent or other sums which have accrued or which accrue prior to reletting, Lessee shall pay to Lessor on demand Lessor's loss and damage by reason of Lessee's event of default, together with any deficiency between the rents obtained under such payment of or credit for any surplus of rents obtained on reletting over the rent or other sums due under the Lease. No such taking of possession or reletting shall relieve Lessee of the liability for rent or other sums then accrued or which thereafter accrued except as provided in this subparagraph 13(b).

(iv) Without terminating this Lease, enter upon the Premises, if necessary, and, at Lessor's election, under any available process, and do whatever Lessee is obligated to do under the terms of this Lease. Lessee shall pay Lessor promptly upon invoice any expenses, including fifteen percent (15%) reasonable attorney's fees, which Lessor incurs in thus effecting compliance with Lessee's obligations under this Lease, but Lessor shall not be liable for any damages resulting to Lessee from such action, whether caused by the negligence of Lessor or otherwise. No such entry or action by Lessor shall relieve Lessee of the liability for Rent or other sums then accrued or which thereafter accrue.

(v) Pursue any other available remedies provided or permitted by law.

(c) Pursuit of any remedy shall not constitute a forfeiture or waiver of any Rent or other sums due to Lessor or of any loss or damages accruing to Lessor by reason of any violation of this Lease theretofore accrued or which thereafter accrue except as provided in this Lease. Forbearance by Lessor to enforce a remedy available upon an event of default shall not be a waiver of such default or of the right to pursue any remedy during the continuance of such event of default or upon any subsequent or other event of default.

(d) Lessor's loss and damage by reason of any event of default shall include the expense of taking possession, the unamortized cost of any improvements or contribution or allowance for such improvements to the Premises made by Lessor to the extent such improvements are not used by any Lessee upon reletting, the cost of any repairs or remodeling by Lessor following repossession made for the purposes of reletting except that such cost shall be amortized on a straight line basis over the term of the reletting and only the part thereof allocable to the remaining Term, calculated without regard to the termination of this Lease by reason of the event of default, shall be chargeable to Lessee, and legal fees and broker's commissions incident to reletting, except that such legal fees and broker's commissions, if not otherwise allocated, shall be amortized over the term of the reletting and only the part thereof allocable to the remaining Term, calculated without regard to the termination of this Lease by reason of an event of default, shall be chargeable to Lessee.

(e) If Lessor is permitted to retake possession of the Premises, Lessor may enforce such right by summary proceedings or otherwise.

(f) The term "reserved" as applied to Base Rent or Additional Rent herein means any and all payments to which Lessor is entitled during the Term.

14. **Rights Cumulative.** All rights, remedies, powers and privileges conferred under this Lease on Lessor shall be cumulative of and in addition to, but not restrictive of or in lieu of, those conferred by law.

15. **Liens.** Lessee hereby indemnifies Lessor against, and shall keep the Premises, the Building and the Project free from liens for any work performed, material furnished or obligations incurred by Lessee. Should any liens or claims be filed against the Premises, the Building or the Project by reason of Lessee's acts or omissions, Lessee shall cause the same to be discharged by bond or otherwise within ten (10) days after filing. If Lessee fails to cause any such lien or claim to be discharged, then Lessor may make any payment that Lessor, in its sole judgment, considers necessary, desirable or proper in order to do so. All amounts paid by Lessor shall bear interest at the Default Rate of Interest from the date of payment by Lessor and shall be payable by Lessee to Lessor upon demand.

16. **Lessee's Property; Alterations to the Premises.** (a) Lessee shall not remove any personal property, fixtures or equipment from the Premises at any time during which Lessee is in default under this Lease. Upon any termination of this Lease at a time at which Lessee shall be liable in any amount to Lessor under this Lease, Lessor shall have a lien upon the personal property and effects of Lessee within the Premises, and Lessor shall have the right, at Lessor's election, without notice to Lessee, to sell at a private, commercially reasonable sale all or part of said property and to apply the proceeds thereof against any amounts due under this Lease from Lessee to Lessor, including the expenses of such sale. If Lessee shall not remove all of Lessee's effects from the Premises at any expiration or other termination of this Lease, all property and effects of Lessee remaining on the Premises shall be deemed conclusively abandoned and may be removed by Lessor, and Lessee shall reimburse Lessor for the cost of removing the same.

(b) Lessee shall not make any alterations, additions or improvements to the Premises, exterior or interior, without the prior written consent of Lessor, except for unattached movable fixtures which may be installed without drilling, cutting or otherwise defacing the Premises. If any such alterations, additions or improvements are made, then at the expiration of the Term of this Lease, Lessee agrees to restore the Premises to the condition prior to making same, at Lessee's sole cost and expense, reasonable wear and tear excepted, provided that if Lessor does not require removal, then all such alterations, additions or improvements shall become the sole property of Lessor. Lessee may not use or penetrate the roof of the Premises for any purpose whatsoever without Lessor's prior written consent. All construction work done by Lessee in the Premises shall be performed in a good and workmanlike manner, in compliance with all governmental requirements, and at such times and in such manner as will cause a minimum of interference with other construction in progress and with the transaction of business in the Building. Lessee shall and hereby agrees to indemnify and hold harmless Lessor from and against any and all loss, cost, damage, expense or liability (including, without limitation, court costs and attorneys' fees) ever suffered or incurred by Lessor as a result of any penetration of the roof, including, without limitation, costs of repair, loss of income, claims for damages from other Lessees of the Building and damages which result if any warranty held or maintained by Lessor is voided or impaired by such penetration. The provisions hereof shall survive the expiration or any termination of this Lease.

17. **Subletting and Assignment.** (a) Lessee shall not, without the prior written consent of Lessor, assign this Lease or any interest hereunder, or sublet the Premises or any part thereof, or permit the use of Premises by any party other than Lessee. Lessor will charge an application fee of \$500.00 for each application for subletting and assignment. The fee is non-refundable and shall not be returned in the event Lessor declines to consent to the subletting or assignment or if Lessor consents to the subletting or assignment. Consent to any assignment or sublease shall not destroy this provision, and all later assignments or subleases shall be made likewise only on the prior written consent of Lessor. The assignee of Lessee, at option of Lessor, shall become directly liable to Lessor for all obligations of Lessee hereunder, but no sublease or assignment by Lessee shall relieve Lessee of any liability hereunder.

(b) Should Lessor consent to a subletting of the Premises, Lessor shall be entitled to fifty percent (50%) of any "profits" realized by Lessee with respect to such subletting. For purposes hereof, "profits" shall mean any monies paid to Lessee by any sublessee over and above any monies paid by Lessee under this Lease. In no event shall "profits" be deemed to be less than zero (0).

18. **Damage or Destruction.** (a) If the Building or Premises are rendered partially or wholly unfit for occupancy by fire, the elements, act of God or other casualty (fire, the elements, acts of God or other casualties hereinafter referred to as a "Casualty"), and if such damage cannot, in Lessor's reasonable estimation, be materially restored within one hundred and twenty (120) days after such Casualty, then Lessor may, at its sole option, terminate this Lease as of the date of such Casualty and the Term shall end on such date as if that date had been originally fixed in this Lease for the expiration of the Term. Lessor shall exercise its election to terminate provided herein by written notice to Lessee within ninety (90) days after such Casualty. For purposes hereof, the Building or Premises shall be deemed "materially restored" if they are in such condition as would not prevent or materially interfere with Lessee's use of the Premises for the purpose for which it was then being used.

(b) If this Lease is not terminated pursuant to subsection (a) above, then Lessor shall proceed with all due diligence to repair and restore the Building or Premises, as the case may be (except that Lessor may elect not to rebuild, and thus terminate this Lease, if such Casualty occurs during the last year of the Term exclusive of any renewal or extension option that is unexercised at the date of such Casualty). If Lessor shall fail to complete such repairs and material restoration within one hundred fifty (150) days after the date of the Casualty, then Lessee may at its option and as its sole remedy terminate this Lease by delivering written notice to Lessor, whereupon the Lease shall end on the date of such notice as if the date of such notice were the date originally fixed in this Lease for the expiration of the Term hereof; provided, however, that if construction is delayed because of changes, deletions, or additions in construction requested by Lessee, or because of strikes, lockouts, casualties, acts of God, war, material or labor shortages, governmental regulation or control, or other causes beyond the reasonable control of Lessor, then the period for restoration, repair or rebuilding shall be extended for the amount of time Lessor is so delayed. In no event shall Lessor be required to rebuild, repair or replace any part of the partitions, fixtures, additions, or other property and improvements that may have been placed in or about the Premises by Lessee.

(c) If this Lease shall not be terminated by Lessor pursuant to this Paragraph 18 and if the Premises is unfit for occupancy in whole or in part following such Casualty, then the Base Rent payable during the period in which the Premises is unfit for occupancy shall abate in proportion to the percentage of the rentable area of the Premises rendered unfit by such Casualty; provided, however, that no such abatement shall be made under the provisions of this subsection (c) if such Casualty shall have been caused through the negligence or willful misconduct of Lessee, its agents, employees, contractors, invitees, licensees, Lessees, or assignees.

(d) Notwithstanding anything herein to the contrary, if, following any Casualty, the holder of any indebtedness secured by a mortgage or deed to secure debt or similar instrument covering the Premises or Building requires that any insurance proceeds resulting from the Casualty be paid to it rather than to Lessor for the rebuilding or restoration of the Premises or the Building, then Lessor shall have the right to terminate this Lease by delivering written notice of termination to Lessee within fifteen (15) days after such requirement is made by any such person, whereupon the Lease shall end on the date of the Casualty as if the date of such Casualty were the date originally fixed in this Lease for the expiration of the Term.

(e) If any Casualty described in this Paragraph 18 occurs, then Lessor shall not be liable to Lessee for any inconvenience, annoyance, loss of profits, expenses, or any other type of injury or damage resulting from the repair of any such Casualty, or from any repair, modification, arranging or rearranging of any portion of the Premises or any part or all of the Building or for termination of this Lease as provided in this Paragraph 18, except to the extent of any bodily injury to persons or damage to property resulting solely from Lessor's negligence or intentional misconduct in performing such work.

19. **Condemnation.** (a) If all or any substantial part of the Building or Premises should be taken for any public or quasi-public use under governmental law, ordinance, or regulation, or by right of eminent domain, or by purchase in lieu thereof, and the taking would prevent or materially interfere with the use of the Premises for the purpose for which it is then being used, then this Lease shall terminate effective when the physical taking shall occur in the same manner as if the date of such taking were the date originally fixed in this Lease for the expiration of the Term.

(b) If part of the Building or Premises is taken for any public or quasi-public use under any governmental law, ordinance, or regulation, or by right of eminent domain, or by private purchase in lieu thereof, and this Lease is not terminated as provided in subsection (a) above, then this Lease shall not terminate but the rent payable hereunder during the unexpired portion of this Lease shall be reduced to such extent, if any, as may be fair and reasonable under all the circumstances, and Lessor shall undertake to restore the Building and Premises to a condition suitable for Lessee's use, as near to the condition thereof immediately prior to such taking as is reasonably feasible under all circumstances; provided, however, that (i) if the part of the Building so taken or purchased in lieu of taking shall contain more than twenty-five percent (25%) of the rentable area of the Premises immediately prior to such taking or purchase in lieu of taking, or (ii) if by reason of such taking or purchase in lieu of taking Lessee no longer has a reasonable means of access to the Premises, then Lessee may, at Lessee's option, terminate this Lease by delivering to Lessor written notice of Lessee's election so to terminate at least five (5) days in advance, and this Lease shall terminate as if the date of such election were the date originally fixed in this Lease for the expiration of the Term.

(c) Lessee shall not share in any condemnation award or payment in lieu thereof or in any award for damages resulting from any grade change of adjacent streets, the same being hereby assigned to Lessor by Lessee; however, Lessee may separately claim and receive from the condemning authority (but not from Lessor), if legally payable, compensation for Lessee's removal and relocation costs and for Lessee's loss of business and/or business interruption, provided that such claim and recovery in no way diminishes Lessor's recovery.

(d) Notwithstanding anything to the contrary contained in this Paragraph 19, if during the Term the use or occupancy of any part of the Building or Premises shall be taken or appropriated temporarily for any public or quasi-public use under any governmental law, ordinance, or regulation, or by right of eminent domain, or by private agreement in lieu thereof, then this Lease shall be and remain unaffected by such taking or appropriation and Lessee shall continue to pay in full all rent payable hereunder by Lessee during the Term of this Lease; in the event of any such temporary appropriation or taking, Lessee shall be entitled to receive that portion of any award which represents compensation for the loss of use or occupancy of the Premises during the term of this Lease, and Lessor shall be entitled to receive that portion of any award which represents the cost of restoration and compensation for the loss of use or occupancy of the Premises, after the end of the Term, and of the Building.

20. **Indemnity and Hold Harmless.** Lessee shall indemnify, and hold harmless the Lessor and the Premises, at Lessee's expense, against (i) any default by Lessee, or any assignee or sublessee permitted hereunder; (ii) any act of negligence of Lessee or its agents, contractors, employees, invitees, guests or licensees; and (iii) all claims, losses, damages, costs, expenses (including, but not limited to, reasonable attorney's fees and costs of litigation actually incurred) or liability incurred or suffered by persons or property by reason of the use or occupancy of the Premises. Notwithstanding the forgoing, Lessee will not indemnify Lessor to the extent of Lessor's own misconduct or negligence.

21. **Insurance and Waiver of Subrogation.** Lessee agrees to purchase, at its own expense, and to keep in force during the term of this Lease the following insurance coverage:

(a) **Business Personal Property** – Business Personal Property insurance in an amount equal to the full replacement cost, including increased cost of construction due to operation of building laws and demolition, Business Personal Property and the replacement of any improvements that are the property of Lessee or that Lessee has agreed to replace as well as coverage for Loss of Use.

(b) **Boiler and Machinery (if operated by Lessee)** – This insurance will provide protection for “accidental damage” as defined in the policy to boilers, air conditioning similar equipment, and to other property. The coverage will provide Replacement Cost and include the Loss of Rental Income. The amount of coverage should be large enough to cover any damage to the building that could be caused by the equipment.

The insurance will be for at least the perils of “All Risk of Physical Loss” as defined by the Insurance Service Office. The addition of broader coverage including flood and earthquake will be considered. An agreed value clause will be used if possible.

(c) **Commercial General Liability (Occurrence Form)**

\$1,000,000	Per Occurrence Limit
\$1,000,000	Personal and Advertising Injury Limit
\$1,000,000	Fire Damage Limit
\$5,000	Medical Expense Limit
\$2,000,000	General Aggregate
\$1,000,000	Products/Completed Operations Occurrence and Aggregate

(i) The policy will include a “Per Location General Aggregate and Cross Liability”.

(ii) The Lessor, Lenox Towers Property Services, LLC and Goddard Investment Group, LLC will be named as Additional Insureds for Operations and Product/Completed Operations and that thirty (30) days notice will be given in the event of termination.

(d) **Automobile Liability** – Automobile Liability insurance including Owned, Hired, and Non-Owned vehicles with a combined single limit of \$1,000,000.

(e) **Workers' Compensation** – Workers' Compensation policy to provide Statutory coverage including employers Liability with a combined single limit of \$1,000,000.

(f) **Independent Contractors** – The Employer of any Independent Contractors will require that they provide the same insurance coverages as required of Lessee as listed above.

(g) **Certificates** – Lessee agrees to furnish Lessor a Certificate of Insurance as evidence of the above coverages prior to Lessee's occupancy of the Premises and within thirty (30) days of any changes in Lessee's insurance coverage. The policy shall be endorsed to provide thirty (30) days notice to the certificate holder prior to termination. The policy will be issued in an insurance company licensed in the state of Georgia and must be rated "Secure" by A.M. Best Company or Standard and Poors.

(h) **Waiver of Subrogation** - Lessor and Lessee each agree to waive their right of recovery and subrogation against the other, to the extent that they are covered or would have been covered by the Property Insurance coverages required by the terms of this Lease. Each party is responsible for confirming that their property insurance coverage provides for such a waiver.

22. **Signage.** Lessee shall not install any signs visible from outside the Premises except with the prior written consent of Lessor, which consent may be withheld or conditioned in Lessor's sole reasonable judgment. Any signs permitted by Lessor shall be maintained in compliance with applicable governmental rules and regulations governing such signs, and Lessee shall be responsible to Lessor for any damage caused by the installation, use or maintenance of said signs. Lessee agrees, upon removal of said signs, to repair all damage incident thereto.

23. **Attorneys' Fees.** If any amounts owing under this Lease are collected, directly or indirectly, by or through an attorney at law, Lessee shall pay as Additional Rent all actual and reasonable attorney's fees, but not less than fifteen percent (15%) of all principal, interest and late charges due and owing. Lessee shall also pay all actual and reasonable attorney's fees incurred by Lessor as a result of any nonmonetary breach or default by Lessee under this Lease.

24. **Time of Essence.** Time is of the essence of this Lease.

25. **Lessor and Lessee Relationships.** This Lease shall create the relationship of Lessor and Lessee between Lessor and Lessee; no estate shall pass out of Lessor; Lessee has only an usufruct not subject to levy or sale; and Lessee may not assign this Lease, or any interest hereunder, or sublet the Premises, or any part thereof, without Lessor's prior written consent.

26. **Holding Over.** If Lessee remains in possession of the Premises after expiration of the Term of the Lease, with Lessor's acquiescence and without any express written agreement of the parties, Lessee shall be a lessee on a month-to-month basis at a rental rate equal to 200% of the rate in effect at the end of this Lease. There shall be no renewal of this Lease by operation of law.

27. **Sale by Lessor.** In the event of any sale, conveyance, transfer, or assignment by Lessor of its interest in and to the Premises, all obligations under this Lease of the party selling, conveying, transferring, assigning or otherwise disposing shall cease and terminate and Lessee releases said party from same, and Lessee shall thereafter look only and solely to the party to whom or which the Premises were sold, conveyed, transferred, assigned or otherwise disposed of for performance of all of Lessor's duties and obligations under this Lease.

28. **Surrender of the Premises.** At the termination of this Lease, Lessee shall surrender the Premises and keys thereto to Lessor in at least as good a condition as on the Commencement Date, natural wear and tear and casualty only excepted.

29. **Notices.** All notices required or permitted to be given with respect to this Lease shall be in writing and shall be deemed to have been given (a) when hand delivered, (b) three (3) days after deposited, postage prepaid, with the United States Postal Services (or its official successor), certified, return receipt requested, properly addressed as set out below, or (c) two (2) days after deposited with Federal Express or other similar overnight courier service, properly addressed as set out below:

To Lessee:

Applied Optoelectronics, Inc.
3025 Breckinridge Boulevard, Suite 130
Duluth, GA 30096
Attn: Office Manager

With a copy to:

Applied Optoelectronics, Inc.
13115 Jess Pirtle Blvd.
Sugar Land, TX 77478
Attn: Stefan Murry

To Lessor:

GIG VAOI Breckinridge, LLC
c/o Goddard Investment Group, LLC
3390 Peachtree Road, N.E., Suite 1200
Atlanta, Georgia 30326
Attn: Thomas K. Dotzenrod, Esq.

With a copy to:

GIG VAOI Breckinridge, LLC
c/o Goddard Investment Group, LLC
3390 Peachtree Road NE, Suite 1200
Atlanta, GA 30326
Attn.: Asset Manager – Breckinridge Center

Such addresses may be changed from time to time by either party by notice to the other in accordance herewith. Lessee hereby appoints as its agent for service of all summons or other process of law, the person who is in charge of the Premises at the time of such service of summons. Process may also be served by any other means allowed by law.

30. **Parties.** "Lessor" as used in this lease shall include Lessor's assigns and successors in title to the Premises. "Lessee" shall include Lessee, and if this Lease shall be validly assigned or the Premises sublet, shall include such assignee or sublessee, its successors and permitted assigns. "Lessor" and "Lessee" shall include male and female, singular and plural, corporation, partnership or individual, as may fit the particular parties.

31. **Subordination and Attornment.** (a) This Lease shall be subordinate to the right, title and interest of any lender or other party holding a security interest in or a lien upon the Premises under any and all mortgage instruments or deeds to secure debt presently encumbering the Premises or the Building and to any and all other deeds to secure debt or mortgage instruments hereafter encumbering the Premises or the Building.

(b) Lessee shall at any time hereafter, on demand of Lessor or the holder of any such deed to secure debt or mortgage instrument, execute any instruments which may reasonably be required by such party for the purpose of evidencing the subordination of this Lease to the lien or security interest of such party.

(c) Lessee shall, upon demand, at any time or times, execute, acknowledge and deliver to Lessor or the holder of any such instruments or deeds to secure debt, without expense, any and all documents that may be necessary to make this Lease superior to the lien of any of the same.

(d) If the holder of any of said instruments or deeds to secure debt shall hereafter succeed to the rights of Lessor under this Lease, Lessee shall, at the option of such holder or a purchaser at any foreclosure or sale under power, attorn to and recognize such successor as Lessee's Lessor under this Lease and shall promptly execute, acknowledge and deliver any instrument that may be necessary to evidence such attornment. Upon such attornment, this Lease shall continue in full force and effect as a direct lease between each successor Lessor and Lessee, subject to all of the terms, covenants and conditions of this Lease.

(e) If Lessee fails at any time to execute, acknowledge and deliver any of the documents provided for by this Paragraph 31 within ten (10) days after Lessor's notice so to do, in addition to the remedies allowed in Paragraph 13 hereof, or otherwise, Lessor may execute, acknowledge, and deliver any and all such documents as the attorney-in-fact of Lessee in its name, place, and stead, and Lessee hereby appoints Lessor, its successors and assigns as such attorney-in-fact, such power of attorney being coupled with an interest and being irrevocable by death, dissolution or merger of Lessee.

32. **Estoppel Certificate.** At any time and from time to time, Lessee, on or before the date specified in a request therefor made by Lessor, which date shall not be earlier than ten (10) days from the making of such request, shall execute, acknowledge, and deliver to Lessor and to such assignee, mortgagee or other party as may be designated by Lessor, a certificate (in a form to be specified by Lessor) stating: (i) that by such certificate the Lease is ratified; (ii) the Commencement Date and the date on which Lessee entered into occupancy of the Premises; (iii) the amount of the monthly portion of Base Rent and Additional Rent payable hereunder; (iv) that the Lease (unmodified or as modified, as the case may be, with all amendments or modifications so specified) represents the entire agreement between the parties as to the Premises (or if such is not the case, the certificate shall so state, specifying the particulars of any other applicable agreement or state of facts) and is in full force and effect; (v) the Expiration Date; (vi) that, as of the date of the certificate, there are no defaults by Lessor or Lessee under the Lease, and there are no existing defenses or offsets which Lessee has against the enforcement of the Lease by Lessor (or, if such is not the case, the certificate shall so state specifying particulars); (vii) the amount of Base Rent and Security Deposit which has been deposited with Lessor; (viii) the month and year through which Base Rent and Additional Rent have been paid; (ix) that no actions, voluntary or involuntary, are pending against Lessee under the bankruptcy laws of the United States or any State thereof (or, if such is not the case, the certificate shall so state specifying particulars); (x) that the person executing the certificate is duly authorized to execute the same on behalf of Lessee, and that the certificate is and shall be binding on Lessee, its successors and assigns; (xi) that Lessee has not requested any repairs or replacements to the Premises or any other part of the Project that are Lessor's responsibility under the Lease and that have not been completed (or, if such is not the case, the certificate shall so state specifying particulars); and (xii) such other matters relating to the Lease as may reasonably be requested by Lessor. In the event that Lessee fails to provide such certificate within ten (10) days after written request by Lessor therefor, Lessee shall be deemed to have approved the contents of the certificate as submitted to Lessee by Lessor at the time of the written request therefor, and Lessor is hereby authorized to so certify. Lessee hereby expressly acknowledges and agrees that Lessor, any such assignee, mortgagee or other party shall be entitled to rely upon the certificate so certified by Lessor or any certificate delivered by Lessee hereunder.

33. **Governmental Regulations.** Lessee agrees, at its sole expense, to promptly comply with all requirements of any legally constituted public authority made necessary by reason of Lessee's use or occupancy of the Premises.

34. **Successors and Assigns.** The provisions of this Lease shall inure to the benefit of and be binding upon Lessor and Lessee and their respective successors, heirs, legal representatives and assigns, subject; however, in the case of the Lessee, to the restrictions on assignment and subletting contained in this Lease.

35. **Limitation of Liability.** Lessor's obligation and liability to Lessee with respect to this Lease shall be limited solely to Lessor's interest in the Building, and neither Lessor, nor any joint venturer, partner, officer, director or shareholder of Lessor or any of the joint venturers of Lessor shall have any personal liability whatsoever with respect to this Lease.

36. **Brokerage Commissions.** Lessee represents and warrants to Lessor that (except with respect to any broker(s) identified on the Lease Summary attached hereto) no broker, agent, commission salesman, or other person has represented Lessee in the negotiations for and procurement of this Lease and of the Premises and that no commissions, fees or compensation of any kind are due and payable in connection herewith to any broker, agent, commission salesman, or other person. Lessee agrees to indemnify Lessor against and hold Lessor harmless from any and all claims, suits or judgments (including, without limitation, reasonable attorneys' fees and court costs incurred in connection with any such claims, suits or judgments or in connection with the enforcement of this indemnity) for any fees, commissions or compensation of any kind which arise out of or are in any way connected with any claimed agency relationship with Lessee (except with respect to the broker(s) and other person(s) or firm(s) excluded above from Lessee's representation and warranty of no broker). Lessee further agrees that, if (i) this Lease shall terminate prior to the Expiration Date as a result of any default hereunder by Lessee, or (ii) Lessor shall exercise any of Lessor's rights and remedies pursuant to Paragraph 13 as a result of Lessee's default, whether or not this Lease is terminated, then in any of such events Lessee shall reimburse Lessor for the Applicable Portion (as hereinafter defined) of any leasing commission(s) or similar brokerage fee(s) paid or to be paid by Lessor to any broker or brokers with respect to this Lease. The "Applicable Portion" of any such leasing commission(s) or brokerage fee(s) shall be determined by dividing (a) the total amount of such leasing commission(s) and brokerage fee(s) paid or to be paid by Lessor by (b) the total number of months in the term of this Lease for which Lessee is obligated to pay Base Rent, and then multiplying the resulting sum by (c) the number of months or fractions thereof remaining in the then unexpired Term of this Lease. Lessee promises to pay Lessor the Applicable Portion of such leasing commission(s) or brokerage fee(s) within ten (10) days after receipt of Lessor's written request therefor.

37. **Rules and Regulations.** Lessee accepts the Premises subject to and hereby agrees with Lessor to abide by the Rules and Regulations attached to this Lease and incorporated herein by reference, together with such additional Rules and Regulations or amendments thereto as may hereafter from time to time be reasonably established by Lessor, and such additions or amendments shall be binding on Lessee upon receipt of same by Lessee.

38. **Hazardous Substances.** The term "Hazardous Substances", as used in this Lease, shall mean pollutants, contaminants, toxic or hazardous wastes, or any other substances, the removal of which is required or the use of which is restricted, prohibited or penalized by any "Environmental Law", which term shall mean any existing or future federal, state or local law or ordinance relating to pollution or protection of the environment. Lessee hereby represents and warrants and covenants with Lessor that:

(a) Lessee has obtained and shall maintain in good standing all local, state and federal government licenses necessary in order to conduct its operations at the Premises;

(b) No activity shall be conducted on the Premises that will produce any Hazardous Substance, except for such activities that (i) are part of the ordinary course of Lessee's business activities; (ii) have been approved in advance by Lessor in writing; and (iii) are conducted in accordance with all Environmental Laws (the "Permitted Activities");

(c) The Premises shall not be used in any manner for the storage of any Hazardous Substances except for the temporary storage of such materials that (i) are used in the ordinary course of Lessee's business; (ii) have been approved in advance by Lessor in writing; and (iii) are properly stored in a manner and location meeting the requirements of all Environmental Laws (the "Permitted Materials");

(d) No portion of the Premises shall be used as a landfill or a dump;

(e) Lessee shall not install any underground tanks of any type on the Premises;

(f) Lessee shall not allow any surface or subsurface conditions to exist on the Premises or come into existence on the Premises that constitute, or with the passage of time may constitute, a public or private nuisance;

(g) Lessee shall not permit any Hazardous Substances to be brought onto the Premises, except for the Permitted Materials, and if so brought or found thereon, the same shall be immediately removed, with proper disposal, and all required cleanup procedures shall be diligently undertaken pursuant to all Environmental Laws. If, at any time during or after the Term of the Lease, the Premises are found to be contaminated or subject to said conditions, Lessee agrees to indemnify and hold Lessor harmless from all claims, demands, actions, liabilities, costs, expenses, damages and obligations of any nature arising from or as a result of the use of the Premises by Lessee. The foregoing indemnification shall survive the termination or expiration of this Lease; and

(h) Should Lessee cause or permit any intentional or unintentional release of Hazardous Substances into the air, or the surface or into the subsurface of the Project (or any part thereof) or any adjacent properties, Lessee shall immediately notify Lessor and the appropriate jurisdictional and governmental agencies.

39. **Quiet Enjoyment.** If Lessee is not in default under any provision of this Lease, Lessee shall during the Term of this Lease, subject to the terms of this Lease, have the peaceable and quiet enjoyment and possession of the Premises without any manner of hindrance from Lessor or any persons lawfully claiming through Lessor.

40. **Miscellaneous.** This Lease contains the entire agreement of Lessor and Lessee and no representations or agreements, oral or otherwise, between the parties not embodied herein shall be of any force or effect. No failure of Lessor to exercise any power given Lessor hereunder, or to insist upon strict compliance by Lessee of any obligations hereunder, and no custom or practice of the parties at variance with the terms hereof shall constitute a waiver of Lessor's right to demand exact compliance with the terms hereof. If any clause of this Lease is illegal, invalid or unenforceable under applicable present or future laws or regulations effective during the Term of this Lease, the remainder of this Lease shall not be affected. In lieu of each clause or provision of this Lease which is illegal, invalid, or unenforceable, there shall be added as a part of this Lease a clause or provision as nearly identical as may be possible and so may be legal, valid and enforceable. This Lease shall be governed by, construed under and interpreted and enforced in accordance with the laws of the State of Georgia. Neither this Lease, nor any memorandum of this Lease or reference hereto, shall be recorded by Lessee without Lessor's consent endorsed hereon or thereon. Lessor shall be excused from the performance of any of its obligations under this Lease for the period of any delay resulting from any cause beyond its control, including, without limitation, all labor disputes, governmental regulations or controls, fires or other casualties, inabilities, inability to obtain any material or services or acts of God. A facsimile or scanned copy of signatures hereto shall operate as an original and any counterpart signature pages shall be attached to and shall form one agreement.

41. **Special Stipulations.** In the event any Special Stipulations are attached to this Lease as Exhibit "D", the terms thereof shall control in the event of a conflict between the provisions of this Lease and the provisions thereof.

IN WITNESS WHEREOF, the parties hereto have caused this Lease to be executed, under seal, in their respective names and on their behalf by their duly authorized officials, the day and year first above written.

LESSOR:

GIG VAOI BRECKINRIDGE, LLC,
a Georgia limited liability company

By: GODDARD VALUE-ADD OFFICE FUND I, L.P.,
its sole member

By: GODDARD VAO FUND I GP, LLC,
a Delaware limited liability company, its general partner

By: GODDARD INVESTMENT GROUP, LLC,
a Georgia limited liability company, its sole member

By: /s/ Robert C. Goddard, III
Name: Robert C. Goddard, III
Title: Chairman and CEO

LESSEE:

APPLIED OPTOELECTRONICS, INC.,
a Delaware corporation

By: /s/ Stefan Murry

Printed Name: Stefan Murry

Title: CFO
(Corporate Seal)

RULES AND REGULATIONS

1. **Sign Display.** Lessor will provide, at Lessee's expense, signage for the Premises. Such signage will be coordinated throughout the Project for uniformity and attractiveness. No sign, tag, label, picture, advertisement or notice shall be displayed, distributed, inscribed, painted or affixed by Lessee on any part of the outside or inside of the Building or of the Premises without the prior written consent of the Lessor.
2. **Drives and Parking Areas.** All parking shall be within the property boundaries and within marked parking spaces. There shall be no on-street parking and at no time shall Lessee obstruct drives and loading areas intended for the use of all lessees. The drives and parking areas are for the joint and non-exclusive use of Lessor's lessees, and their agents, customers and invitees, unless specifically marked. Lessor shall have the right to restrict Lessee, its agents, customers, and/or invitees to certain parking areas. Lessee shall not permit any fleet trucks to park overnight in the Building's parking areas.
3. **Storage and Loading Areas.** Unless specifically approved by Lessor in writing, no materials, supplies or equipment shall be stored anywhere except inside the Premises. Trash receptacles may not be placed in the service area except by Lessor.
4. **Locks.** No additional locks shall be placed on the doors of the Premises by Lessee nor shall any existing locks be changed unless Lessor is immediately furnished with two keys for each lock on the entrance doors when Lessee assumes possession, with the understanding that at the termination or expiration of the Term of the Lease the keys shall be returned.
5. **Contractors and Service Maintenance.** Lessee will refer all contractors, contractor's representatives and installation technicians rendering any service on or to the Premises for Lessee to Lessor for its approval and supervision before performance in the Building, including, but not limited to, installation of electrical devices and attachments and installations of any nature affecting floors, walls, woodwork, trim, windows, ceilings, equipment or any other physical portion of the Building.
6. **Lodging.** Lessee shall not at any time occupy any part of the Building as sleeping or lodging quarters.
7. **Regulation of Operation and Use.** Lessee shall not place, install or operate on the Premises or in any part of the Building any engine, stove or machinery, or conduct mechanical operations or cook thereon or therein, or place or use in or about the Premises any explosives, gasoline, kerosene, oil, acids, caustics or any other flammable explosive or hazardous material without the prior written consent of Lessor.
8. **Window Coverings.** Windows facing the Building exterior shall at all times be wholly clear and uncovered (except for such blinds or curtains or other window coverings Lessor may provide or approve) so that a full unobstructed view of the interior of the Premises may be had from outside the Building.
9. **Exterior Installations.** Lessee shall not install any radio or television antenna, loudspeaker, or any other device on the roof or exterior walls of the Building.
10. **Animals.** Lessee shall not allow or keep any animals or pets of any kind on the Premises, except those seeing-eye dogs which are for the direct purposes of aiding and assisting the visually impaired.
11. **Waivers.** Lessor may waive any one or more of these Rules and Regulations for the benefit of any particular Lessee in the Building, but no such waiver by Lessor shall be construed as a general waiver of such Rules and Regulations or of Lessor's right to enforce such Rules and Regulations against Lessee or any other Lessee in the Building.
12. **Additions to Lease.** These Rules and Regulations are in addition to, and shall not be construed to in any way modify or amend, in whole or in part, the terms, covenants, agreements and conditions of the Lease or any other lease of premises in the Building.
13. **Access to Roof.** Neither Lessee nor any employee, contractor or invitee of Lessee shall go upon the roof of the Building without the prior written consent of Lessor.
14. **Sales from Premises.** Lessee shall not allow a fire or bankruptcy sale or any auction to be held on the Premises or allow the Premises to be used for the sale at retail of merchandise to the general public.
15. **Modifications.** Lessor shall have the right from time to time to modify, add to or delete any of these Rules and Regulations at Lessor's sole discretion.

EXHIBIT "A"
FLOOR PLAN OF THE PREMISES

Suite No.: 130
Rentable Square Feet: 2,983



EXHIBIT "B"
LEGAL DESCRIPTION OF PROJECT

TRACT 1:

ALL THAT TRACT OR PARCEL OF LAND lying and being in Land Lots 205 and 206 of the 6th Land District and Land Lots 77 and 78 of the 7th Land District, Gwinnett County, Georgia, being more particularly described as follows:

TO FIND THE TRUE POINT OF BEGINNING, commence at the intersection of the southeasterly right-of-way line of Breckinridge Boulevard (having a varying right-of-way at this point) with the northeasterly right-of-way line of Old Norcross Road (having a varying right-of-way); running thence North 32 degrees 31 minutes 42 seconds East, a distance of 82.49 feet to a one-half inch rebar iron pin found on the southeasterly right-of-way line of Breckinridge Boulevard, said one-half inch rebar iron pin found being the TRUE POINT OF BEGINNING; from the TRUE POINT OF BEGINNING, as thus established, run in a generally northeasterly direction along the southeasterly and southerly right-of-way of Breckinridge Boulevard the following courses and distances: North 32 degrees 41 minutes 42 seconds East, a distance of 113.45 feet to a one-half inch rebar iron pin found; run thence North 24 degrees 09 minutes 51 seconds East a distance of 202.24 feet to a one-half inch rebar iron pin found on the land lot line and district line common to Land Lot 206 of the 6th Land District, Gwinnett County, Georgia and Land Lot 78 of the 7th Land District of Gwinnett County, Georgia; run thence along the arc of a curve to the right having a radius of 904.92 feet and arc distance of 965.87 feet to a capped one-half inch rebar set (said arc being subtended by a chord lying to the Southeast of said arc and having a bearing of North 63 degrees 16 minutes 21 seconds East a chord distance of 920.67 feet); thence leaving said southeasterly and southerly right-of-way line of Breckinridge Boulevard running South 03 degrees 38 minutes 23 seconds West, a distance of 246.71 feet to a one-half inch rebar iron pin found on the land lot line common to Land Lots 77 and 78 of the 7th Land District, Gwinnett County, Georgia run thence along said land lot line common to Land Lots 77 and 78 of the 7th Land District, Gwinnett County, Georgia South 59 degrees 33 minutes 26 seconds West a distance of 594.70 feet to a one-half inch rebar iron pin found; thence leaving said land lot line common to Land Lots 77 and 78, aforesaid district and county, run South 70 degrees 31 minutes 34 seconds East a distance of 287.60 feet to a capped one-half inch rebar iron pin set; run thence South 17 degrees 16 minutes 26 seconds West, a distance of 525.86 feet to a one-half inch rebar iron pin found on the northeasterly right-of-way line of Old Norcross Road; run thence along said northeasterly right-of-way of Old Norcross Road in a generally northwesterly direction with the following courses and distances: North 64 degrees 46 minutes 21 seconds West, a distance of 81.72 feet to a drill hole found in concrete curb; run thence along the arc of a curve to the right having a radius of 1,362.40 feet and an arc distance of 221.57 feet to a capped one-half inch rebar iron pin set (said arc being subtended by a chord lying to the Northeast of said arc and having a bearing of North 60 degrees 10 minutes 51 seconds West a distance of 221.33 feet); run thence North 52 degrees 43 minutes 35 seconds West, a distance of 200.25 feet to a one-half inch rebar iron pin found; run thence North 55 degrees 35 minutes 20 seconds West a distance of 126.14 feet to a one-half inch rebar iron pin found; run thence North 11 degrees 26 minutes 49 seconds West, a distance of 118.39 feet to a one-half inch rebar iron pin found on the southeasterly right-of-way line of Breckinridge Boulevard, said one-half inch rebar iron pin found being the TRUE POINT OF BEGINNING.

Containing within said bounds 12.722 acres (551,156 square feet) more or less.

TOGETHER WITH all rights, title, easements and interests of Grantor under and by virtue of (1) that certain slope Easement between Bossomer Securities Corporation ("Bossomer"); and Breckinridge 2A2B, Ltd. ("Breckinridge") dated October 4, 1985, filed for record October 4, 1985 at 3:25 p.m., recorded in Deed Book 3173, Page 196, Records of Gwinnett County, Georgia. (II) that certain Sanitary Sewer Easement between Bessemer and Breckinridge, dated October 4, 1985, filed for record October 4, 1985 at 3:26 p.m., recorded in Deed Book 3173, Page 204, aforesaid records.

The above described property and is the same property as surveyed hereon and described in First American Title Insurance Company Commitment Number NCS-440475-DC72, with an effective date of April 30, 2010 at 7:30 a.m.

TRACT 2:

All that tract or parcel of land lying and being in Land Lot 77 of the 7th district Gwinnett County, Georgia and being more particularly described as follows:

To find the True Point of Beginning, begin at a Point formed by the intersection of land Lots 77, 78, 205 & 206; THENCE from said point and following along the Common Land Lot Line of Land Lots 77 & 78, North 60 degrees 03 minutes 55 seconds East for a distance of 185.90 feet to a Rebar Found with cap marked HMB, said Point being the TRUE POINT OF BEGINNING.

THENCE from said Point as thus established and continuing along said Land Lot Line, North 60 degrees 03 minutes 55 seconds East for a distance of 595.61 feet to a Rebar Found with cap marked HMB; THENCE leaving said Land Lot Line, South 04 degrees 09 minutes 22 seconds West for a distance of 333.72 feet to a Rebar Found with cap marked HMB; THENCE South 84 degrees 34 minutes 56 seconds West for a distance of 137.62 feet to a Point; THENCE South 59 degrees 33 minutes 38 seconds West for a distance of 97.51 feet to a Rebar Found with cap marked HMB; THENCE North 70 degrees 01 minutes 02 seconds West for a distance of 287.69 feet to a Rebar Found with cap marked HMB, said point being THE TRUE POINT OF BEGINNING.

Said property contains 2.265 acres.

EXHIBIT "C"
LESSOR'S WORK

Construction of Premises. At Lessee's sole cost and expense, with such expenses including the cost of construction, architectural fees, and construction management fees, Lessor shall construct the Premises in accordance with plans and specifications to be prepared by Hughes Turner Phillips based on the drawing in Exhibit "A" as agreed upon and approved by Lessor and Lessee. Lessee may elect to vary from the plans and specifications; however, such changes shall be confirmed by a work change order prior to the performance of such changes. Lessor will not be responsible for delays in the completion of the Premises resulting from changes made at the request of the Lessee after final construction documents are issued. Lessee shall pay Lessor for such changes which result in increased construction costs prior to the Commencement Date. During the course of construction of the Premises, any changes made by Lessee will not delay the Commencement Date. However, in the event of any delays in completion of construction caused by Lessor, the Commencement Date shall be postponed accordingly. Lessor's failure to deliver possession due to Lessee's failure to pay any such cost shall not be a breach of this Lease.

EXHIBIT "D"
SPECIAL STIPULATIONS

Lease Agreement between GIG VAOI Breckinridge, LLC, as Lessor, and Applied Optoelectronics, Inc. as Lessee, dated October ____, 2015 for 2,983 rentable square feet.

These Special Stipulations are made and entered into contemporaneously with the Lease Agreement described above. In the case of any conflict between the Special Stipulations and the Lease, these Special Stipulations shall control. All terms used herein shall be the same as defined in the Lease.

1. **Due Upon Execution.** Upon (i) Lessor's receipt from Lessee of the total sum required per Paragraph 3(b) of this Lease, (ii) full execution of the Lease by Lessee and Lessor and (iii) Lessee's receipt of a fully executed copy of this Lease, Lessee shall have the right to move in furniture and set up its telephone and computer system before the Lease Commencement Date ("Early Occupancy Period"), provided that if Lessee takes such early occupancy, all rules, terms, and conditions of this Lease (except for obligation for Base Rent and Additional Rent during the Early Occupancy Period) are in full force and effect.

2. **Rental Payments.** All rental payments shall be made payable to GIG VAOI Breckinridge, LLC and addressed as follows:

GIG VAOI Breckinridge, LLC
Breckinridge Property Accountant
c/o Goddard Investment Group, LLC
3390 Peachtree Road, Suite 1200
Atlanta, GA 30326

3. **Surrender.** Notwithstanding the foregoing, at the end of the Term, Lessor shall have the right, but not the obligation, to require that Tenant pay for (i) the costs to demo the Lab Area (including but not limited to the Lab Area's interior walls, VCT, supplemental HVAC, millwork, etc.) that is to be added as part of the Tenant Improvements, and (ii) the costs to re-carpet the Premises with building standard roll-out carpet (collectively, the "Surrender Costs"). Within thirty (30) days after the Expiration Date, Lessor shall inform Lessee of the Surrender Costs, which shall be the lowest of three proposals received from at least three (3) independent general contractors, each of whom must have at least five years of commercial experience in the Atlanta MSA. Within fifteen (15) days of Lessor's written notice of the Surrender Costs, Lessee shall remit payment.

EXHIBIT E
LEASE COMMENCEMENT LETTER

Re: Lease Agreement dated _____, 2015 (the "Lease") between GIG VAOI Park Creek, LLC ("Lessor") and Applied Optoelectronics, Inc., a Delaware corporation ("Lessee") for the Premises, located at 3025 Breckinridge Boulevard, Suite 130, Duluth, GA 30096. Unless otherwise specified, all capitalized terms used herein shall have the same meanings as in the Lease.

Lessor and Lessee agree that:

Lessor has delivered the Premises and Substantial Completion occurred _____.

Subject to the terms and conditions of the Lease including without limitation Lessor's obligations thereunder: (a) Tenant has accepted possession of the Premises; (b) the Premises are usable by Tenant as intended and (c) Landlord has no further obligation to perform any construction.

The Commencement Date of the Lease is _____, 20__.

The Expiration Date of the Lease is _____, 20__.

All other terms and conditions of the Lease are ratified and acknowledged to be unchanged.

EXECUTED as of _____, 20__.

{ATTACH APPROPRIATE SIGNATURES}

Certification

I, Chih-Hsiang (Thompson) Lin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Applied Optoelectronics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of , and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made know to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2015

/s/ CHIH-HSIANG (THOMPSON) LIN

CHIH-HSIANG (THOMPSON) LIN

President and Chief Executive Officer

Certification

I, Stefan J. Murry, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Applied Optoelectronics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of , and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2015

/s/ STEFAN J. MURRY
STEFAN J. MURRY
Chief Financial Officer

Certification

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Section 1350 of Chapter 63 of Title 18 of the U.S. Code (18 U.S.C. § 1350), Chih-Hsiang (Thompson) Lin, President and Chief Executive Officer of Applied Optoelectronics, Inc. (the “Company”), and Stefan J. Murry, Chief Financial Officer and Senior Vice President of the Company, each hereby certifies that, to the best of his knowledge;

1. The Company’s Quarterly Report on Form 10-Q for the period ended September 30, 2015, to which this Certification is attached as Exhibit 32.1 (the “Quarterly Report”) fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and
2. The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of the operation of the Company.

In Witness Whereof, the undersigned have set their hands hereto as of the 9th day of November, 2015.

/s/ CHIH-HSIANG (THOMPSON) LIN
CHIH-HSIANG (THOMPSON) LIN
President and Chief Executive Officer

/s/ STEFAN J. MURRY
STEFAN J. MURRY
Chief Financial Officer

This certification accompanies the Quarterly Report to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Applied Optoelectronics, Inc. under the Securities Act of 1933, as amended, or the Securities Act of 1934, as amended (whether made before or after the date of the Quarterly Report), irrespective of any general incorporation language contained in such filing.