



Related Party Transactions Policy

Policy

It is the policy of the Board of Directors of Applied Optoelectronics, Inc. (the “*Company*”) that all Interested Transactions with Related Parties, as those terms are defined in this policy, shall be subject to review and approval in accordance with the procedures set forth below.

The Audit Committee (the “*Committee*”) of our Board of Directors has approved this policy. The Committee may review and amend this policy from time to time.

Definitions

An “*Interested Transaction*” is any transaction, arrangement or relationship or series of similar transactions, arrangements or relationships (including, without limitation, any indebtedness or guarantee of indebtedness) in which (1) the aggregate amount involved is expected to exceed \$120,000, (2) the Company (including any of its subsidiaries) is a participant, and (3) any Related Party has or will have a direct or indirect material interest (other than solely as a result of being a director or a less than 10 percent beneficial owner of another entity).

A “*Related Party*” is any person who is (a) an executive officer, director or nominee for election as a director of the Company (or was an executive officer, director or nominee since the end of the last fiscal year for which the Company has filed a Form 10-K and proxy statement, even if they do not presently serve in that role), (b) the beneficial owner of 5 percent of more of any class of the Company’s capital stock, or (c) immediate family member of any of the foregoing.

An “*Immediate family member*” means a person’s spouse, parents, stepparents, children, stepchildren, siblings, mothers- and fathers-in-law, sons- and daughters-in-law, and brothers- and sisters-in-law and anyone residing in such person’s home (other than a tenant or household employee).

Procedures

1. Identification of Interested Transactions

All directors, executive officers and nominees should report any proposed Interested Transaction of which they are aware to the Corporate Secretary for review by the Committee (unless the Interested Transaction has previously been approved by the Committee). To facilitate the identification of Interested Transactions, the Company shall solicit written responses to a questionnaire from each director and executive officer (on an annual basis), from each nominee for director (prior to nomination) and from each newly-appointed director or executive officer (prior to or promptly following appointment). Conflicts of interest that do not constitute Interested Transactions or are below the dollar thresholds set forth in this Policy are subject to the Company’s Code of Business Conduct and Ethics.

2. Approval Procedure.

Except as set forth herein, the Committee shall review the material facts of all Interested Transactions and either approve or disapprove of the entry into the Interested Transaction. If advance Committee approval of an Interested Transaction is not feasible, then the Interested Transaction shall be considered and, if the Committee determines it to be appropriate, ratified at the Committee’s next regularly scheduled meeting. In determining whether to approve or ratify an Interested Transaction, the Committee will take into account, among other factors it deems appropriate, whether the Interested Transaction is on terms no more favorable to the counterparty than terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the Related Party’s interest in the transaction.

The Chairman of the Committee is hereby delegated the authority to approve or ratify (as applicable) any Interested Transaction in which the aggregate amount involved is expected to be less than \$[1] million per year. In connection with each regularly scheduled meeting of the Committee, a summary of any new Interested Transaction described in paragraph 3 under “Pre-Approved Transactions” below and each new Interested Transaction approved or ratified by the Chairman in accordance with this paragraph shall be provided to the Committee for its review.

No director shall participate in the approval of an Interested Transaction with respect to which he or she has a direct or indirect material interest, except that the director shall provide all material information concerning the Interested Transaction and such director's interest to the Committee. In the event that all members of the Committee have a direct or indirect material interest in an Interested Transaction, such Interested Transaction shall be subject to approval by our Board of Directors. If an Interested Transaction will be ongoing, the Committee may establish guidelines for the Company's management to follow in its ongoing dealings with the Related Party. Thereafter, the Committee, on approximately an annual basis, shall review and assess such ongoing Interested Transaction to assess compliance with the Committee's guidelines and re-evaluate the Interested Transaction.

3. Pre-Approved Transactions

The Committee has reviewed the types of transactions described below and determined that each of the following transactions shall be deemed to be pre-approved by the Committee, even if the aggregate amount involved will exceed \$120,000.

- a. Employment of executive officers. Any employment by the Company of an executive officer of the Company if:
 - i. the related compensation is required to be reported in the Company's proxy statement under Item 402 of the Securities and Exchange Commission's ("SEC's") compensation disclosure requirements (generally applicable to "named executive officers"); or
 - ii. (1) the executive officer is not an Immediate family member of a Related Party, (2) the related compensation would be reported in the Company's proxy statement under Item 402 of the SEC's compensation disclosure requirements if the executive officer was a "named executive officer," and (3) the Company's Compensation Committee approved (or recommended that the Board approve) such compensation.
- b. Director compensation. Any compensation paid to a director if the compensation is required to be reported in the Company's proxy statement under Item 402 of the SEC's compensation disclosure requirements.
- c. Certain transactions with other companies. Any transaction with another company in which a Related Party's interest arises only as a director and/or beneficial owner of less than 10% of that company's equity interests.
- d. Transactions where all shareholders receive proportional benefits. Any transaction where the Related Party's interest arises solely from the ownership of the Company's equity securities and all holders of such class of equity securities receive the same benefit on a *pro rata* basis (e.g. dividends).
- e. Transactions involving competitive bids. Any transaction involving a Related Party where the rates or charges involved are determined by competitive bids.
- f. Regulated transactions. Any transaction with a Related Party involving the rendering of services as a common or contract carrier, or public utility, at rates or charges fixed in conformity with law or governmental authority.
- g. Certain banking-related services. Any transaction with a Related Party involving services as a bank depository of funds, transfer agent, registrar, trustee under a trust indenture, or similar services.
- h. Certain Company charitable contributions. Any charitable contribution, grant or endowment by the Company to a charitable organization, foundation or university with respect to which a Related Party's only relationship is (i) as an employee (other than an executive officer) if the aggregate amount involved does not exceed the greater of \$200,000 per year or 5% of the recipient's gross receipts per year or (ii) as a director.
- i. Non-discretionary charitable contributions. Any non-discretionary contribution made pursuant to a Company matching contribution program.

Disclosure

All Related Party Transactions that are required to be disclosed in the Company's filings with the Securities and Exchange Commission, as required by the Securities Act of 1933 and the Securities Exchange Act of 1934 and related rules and regulations, shall be so disclosed in accordance with such laws, rules and regulations.

The material features of this policy shall be disclosed in the Company's annual report on Form 10-K or in the Company's proxy statement, as required by applicable laws, rules and regulations.