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As confidentially submitted to the Securities and Exchange Commission on April 4, 2013

Registration Statement No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-1

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Applied Optoelectronics, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**3674**	**76-0533927**
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

13115 Jess Pirtle Blvd.
Sugar Land, TX 77478
(281) 295-1800
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Chih-Hsiang (Thompson) Lin
President and Chief Executive Officer
13115 Jess Pirtle Blvd.
Sugar Land, TX 77478
(281) 295-1800
(Name, Address Including Zip Code, and Telephone Number, Including Area Code, of Agent For Service)

Copies of All Communications to:

Frank S. Wu, Esq. **Philip Russell, Esq.** **DLA Piper LLP (US)** **1000 Louisiana Street** **Suite 2800** **Houston, TX 77002** **(713) 425-8400**	**David Kuo, Esq.** **Assistant General Counsel** **Applied Optoelectronics, Inc.** **13115 Jess Pirtle Blvd.** **Sugar Land, TX 77478** **(281) 295-1800**	**J. Robert Suffoletta, Esq.** **Wilson Sonsini Goodrich & Rosati, PC** **900 South Capital of Texas Highway** **Las Cimas IV, Fifth Floor** **Austin, TX 78746** **(512) 338-5400**

Approximate date of commencement of proposed sale to the public: **As soon as practicable after this Registration Statement becomes effective.**

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer ☒ (Do not check if a smaller reporting company)	Smaller reporting company o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Proposed Maximum Aggregate Offering**	**Amount of Registration Fee(3)**

	Price(1)(2)	
Common Stock, $0.001 par value per share	$50,000,000	$6,820.00

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended (the "Securities Act").

(2) Includes shares which the underwriters have the option to purchase to cover over-allotments, if any.

(3) Calculated pursuant to Rule 457(o) under the Securities Act based on the proposed maximum offering price.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and we are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, Dated April 4, 2013

PRELIMINARY PROSPECTUS

shares

APPLIED OPTOELECTRONICS, INC.

Common stock

This is our initial public offering of common stock. We are offering shares and the selling stockholders identified in this prospectus are offering shares. We will not receive any of the proceeds from the sale of the shares being sold by the selling stockholders. Prior to this offering, no public market has existed for our common stock. We currently estimate that the initial public offering price will be between $ and $ per share. We will apply to list our common stock on the NASDAQ Global Market under the symbol "AAOI."

Investing in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 13.

	Per share	Total
Initial public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds to us, before expenses	$	$
Proceeds to selling stockholders, before expenses	$	$

We and the selling stockholders have granted the underwriters an option for a period of 30 days to purchase up to additional shares of common stock to cover over-allotments.

We are an "emerging growth company" as defined under the federal securities laws and, as such, have elected to comply with certain reduced public company reporting requirements.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to purchasers on or about , 2013.

RAYMOND JAMES **PIPER JAFFRAY**

COWEN AND COMPANY **ROTH CAPITAL PARTNERS**

The date of this prospectus is , 2013

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You should rely only on the information contained in this prospectus and any free writing prospectus prepared by or on behalf of us in connection with this offering. We have not, the selling stockholders have not and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, the selling stockholders are not and the underwriters are not, making an offer to sell these securities in any jurisdiction where an offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus only. Our business, financial condition, results of operations and prospects may have changed since that date.

Until , 2013 (25 days after the commencement of this offering), all dealers that buy, sell or trade shares of our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This delivery requirement is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

No action is being taken in any jurisdiction outside the United States of America, or U.S., to permit a public offering of the common stock or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in jurisdictions

outside the U.S. are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus applicable to that jurisdiction.

"Applied Optoelectronics, Inc.," "AOI" and our logo are registered trademarks of Applied Optoelectronics, Inc. This prospectus contains additional trade names, trademarks and service marks of ours and of other companies.

Unless the context otherwise requires, we use the terms "AOI," "we," "us" and "our" in this prospectus to refer to Applied Optoelectronics, Inc. and its subsidiaries.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus and does not contain all of the information that you should consider in making your investment decision. Before investing in our common stock, you should carefully read this entire prospectus, including our consolidated financial statements and the related notes thereto and the information set forth under the sections "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," in each case appearing elsewhere in this prospectus.

Overview

We are a leading, vertically integrated provider of fiber-optic networking solutions, primarily for three networking end-markets: cable television, or CATV, fiber-to-the-home, or FTTH, and internet data centers. We design and manufacture a range of optical communications solutions at varying levels of integration, from components, subassemblies and modules to complete turn-key equipment. We are primarily focused on the higher-performance segments within all three of our target markets, which increasingly demand faster connectivity and innovation. Based upon data prepared by research firm Ovum, Inc., or Ovum, we estimate these markets represented an annual revenue opportunity of $2.2 billion in 2012.

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. According to Cisco Systems' 2012 Visual Networking Index, global network traffic is expected to grow at a compound annual growth rate, or CAGR, of 29% from 2011 to 2016. 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. According to a 2012 forecast by Crehan Research, 10 gigabit ethernet port shipments were 13.5 million in 2012 and are projected to grow to 42.9 million in 2015, representing a 46.9% CAGR. 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.

The CATV market is our largest and most established market, for which we supply a broad array of products including lasers, transmitters and turn-key equipment. In 2012, we were the leading provider of optical components and the second largest provider of subsystems to the CATV industry, according to Ovum. Sales of headend, node and distribution equipment have contributed significantly to our growth in recent years as a result of our ability to meet the needs of CATV equipment vendors who have begun to outsource both the design and manufacture of this equipment. While equipment vendors have relied upon third parties to assemble products for some time, only recently have they started to shift the design of equipment to other parties due in part to the sophisticated engineering expertise needed to perform this work. We believe that our extensive high-speed optical, mixed-signal semiconductor and mechanical engineering capabilities position us well to benefit from these industry dynamics.

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. The lasers we manufacture are proven to be extremely reliable

over time and highly tolerant of changes in temperature and humidity, making them exceptionally well-suited to the CATV and FTTH markets where networking equipment is often installed outdoors.

In 2012, our products were used by the five largest CATV equipment OEMs consisting of Arris Group Inc., Aurora Networks, Inc., Cisco Systems, Inc., Harmonic Inc. and Motorola Mobility Holdings, Inc. Our other key customers included Genexis B.V. in the FTTH market and Microsoft Corporation in the internet data center market. In 2010, 2011 and 2012, Cisco Systems accounted for 18.9%, 26.8% and 33.2%, respectively, of our revenue and Biogenomics Corp., a distributo accounted for 13.8%, 11.7% and 11.2%, respectively, of our revenue. Our revenue in 2012 was $63.4 million, our gross margin was 29.8% and our net loss was $0.9 million. We have grown our revenue at a CAGR of 36.4% since 2009.

Industry Background

Our three target markets of CATV, FTTH and internet data centers share a common trend of a significant growth in bandwidth consumption, and the corresponding need for network infrastructure improvement to support it. According to the Akamai State of the Internet report for the third quarter of 2012, the number of 10 megabit or faster broadband connections in the U.S. rose 73% year-over-year. Akamai reported that, globally, the average connection speed increased 22% for this period, including growth in seven out of the top ten countries.

The prevailing themes in our target markets include:

- ***Trends in the CATV Market.*** CATV service providers have been upgrading their hybrid fiber coaxial networks, which use a combination of optical fiber and coaxial cable, to support high speed, two-way communications. According to Infonetics, CATV service providers have spent approximately $41 billion in the past five years on upgrades and extensions to their networking infrastructure, including $25 billion spent in North America. Outside of the U.S., the opportunity for CATV growth is significant. For instance, nearly half of China's 190 million cable television subscribers are served by relatively low capacity, one-way cable networks today. According to Infonetics, China has implemented a $30 billion government stimulus program to support the construction of critical networking infrastructure and promote the delivery of enhanced voice, video and data services over a 10-year period. As a result, we believe that Chinese CATV service providers will invest significantly in coming years.

  Consolidation among CATV equipment companies has continued in recent years, putting pressure on the largest companies to streamline their operations, improve profitability and focus their resources. In response, many of these CATV equipment companies have begun to outsource not only the manufacturing of equipment, but more important to us, they have begun to outsource the system design function as well. This decision by a major CATV equipment company to outsource design and manufacturing to a third party is made carefully, and once an outsourced design partner is selected CATV equipment companies are typically very reluctant to change vendors. Moreover, once the design function is outsourced to a third party, the reallocation of internal resources previously performing that function makes it difficult for the equipment company to return to internally designing equipment.

- ***Trends in the FTTH Market.*** The FTTH market generally refers to the Passive Optical Networks, or PONs, that telecommunications service provider are deploying. A PON supports significantly greater bandwidth than does the legacy copper wire network. In

the U.S., Verizon's FIOS service and AT&T's uVerse offering are examples of PON deployments, and PONs have been widely deployed in Japan, Korea and selected cities in Europe as well.

At present, the most commonly deployed PON technology is Gigabit PON, or GPON, which delivers up to 2.5 gigabits per second of data downstream However, due to the splitting of the bandwidth among multiple users—often as many as 32—the actual bandwidth delivered to an individual subscribe is far less than the 2.5 gigabits per second supported by the GPON equipment. One approach that does support true 1 gigabit per second service to the home is wavelength division multiplexing PON, or WDM-PON. Well-proven in other areas of the network for decades, WDM technology enables the transmission of multiple wavelengths of data over a single fiber-optic strand, thus significantly increasing the bandwidth of the physical fiber connection at a lower cost and higher quality than GPON.

- ***Trends in the Internet Data Center Market.*** To support the substantial increase in bandwidth consumption, internet data center operators are increasing the scale of their internet data centers and accelerating data transmission rates. As a result, there is an ongoing transition from the use of copper cable to optical fiber as a transport medium. Legacy copper cables can carry signals at distances adequate to meet most requirements at speeds up to about 1 gigabit per second. At speeds of 10 gigabits per second and above, the signals sent over copper cables experience increasing attenuation and dispersion over distances common in large internet data center environments, making copper cable much less effective as a transmission medium.

  In recent years, a number of leading Internet companies such as Amazon.com Inc., Facebook, Inc., Google, Inc. and Microsoft Corporation have begu to adopt more open internet data center architectures, using a mix of systems and components from a variety of vendors, and in some cases designing their own equipment. For these companies, compatibility of new networking equipment with legacy infrastructure is not as important, and as a consequence, these companies are more willing to work with non-traditional equipment vendors. Non-traditional equipment vendors generally permit companies to source optical modules from any vendor, thus creating an open and growing opportunity for optical device vendors.

We experience certain challenges within our target markets, including continuous pressure to innovate and deliver highly integrated solutions that perform reliab in harsh, demanding environments and to produce high-quality devices in large volumes.

Our Solutions

By addressing the challenges in our target markets, we provide the following benefits to our customers:

- ***Enable customers to deliver innovative products.*** We leverage our deep expertise in high-speed optical, mixed-signal semiconductor and mechanical engineering and our proprietary MBE laser fabrication process to deliver technologically advanced solutions to our customers.

- ***Enhance efficiency and cost effectiveness of our customers' supply chain.*** We design and sell products at the level of integration desired by a customer, from components to turn-key equipment, providing our customers a more dependable, cost-effective and

simplified supply chain. By leveraging our vertical integration, proprietary expertise and our broad range of products, we can often design and manufacture new solutions rapidly and cost-effectively for our customers.

- ***Deliver high quality, reliable products in high volume.*** As a vertically integrated supplier, we are able to monitor and maintain quality control throughout the production process, using our internally produced components where possible for our final products. With manufacturing facilities in th U.S., Taiwan and China, we can support high volume production and timely delivery for our customers around the world.

- ***Provide sophisticated design solutions to our customers.*** We believe our in-house expertise in both analog and digital optical engineering enables us to design comprehensive solutions that meet many of the different network architectures and protocols used by our customers.

Our Strengths

Our key competitive strengths include the following:

- ***Industry-leading position in the CATV market.*** We are the leading provider of optical components and the second largest provider of subsystems to the CATV market, according to Ovum. In 2012, our products were used by the five largest CATV equipment OEMs consisting of Arris Group Inc., Aurora Networks, Inc., Cisco Systems, Inc., Harmonic Inc. and Motorola Mobility Holdings, Inc.

- ***Proprietary technological expertise and track record of innovation.*** We continue to develop innovative solutions by leveraging our technological expertise, including our proprietary MBE laser fabrication process. We have achieved 38 design wins since 2010, which collectively account for a significant portion of our revenue today.

- ***Highly customized products.*** Most of our products have some level of customization, making it more difficult for our customers to switch rapidly to another supplier. We believe this element of customization contributes to longer product lifecycles and more stable product pricing relative to the pricing trends experienced in many telecommunications optical component categories.

- ***Proven system design capabilities.*** We have deep expertise and proven design capabilities in high-speed optical, mixed-signal semiconductor and mechanical engineering. As a result of these capabilities, we believe that we are well positioned to take advantage of the continuing shift to outsourced design and manufacturing among CATV equipment vendors.

- ***Vertically integrated, geographically distributed manufacturing model.*** Our vertically integrated design and manufacturing process encompasses various steps from laser design and fabrication to complete optical system design and assembly. Furthermore, we have geographically distributed our manufacturing by strategically locating our operations in the U.S., China and Taiwan to reduce development time and production costs, to better support our customers and to help protect our intellectual property.

Our Strategy

We seek to be the leading global provider of optical components, modules and equipment for each of our three target markets, CATV, FTTH and internet data centers. Our strategy includes the following key elements:

- ***Extend our leadership in CATV networking.*** We intend to maintain our position as the leading producer of optical components used in CATV networks, and to capture an increasing share of the CATV equipment market as the major equipment vendors continue to outsource the design and manufacturing of such products.

- ***Continue to penetrate FTTH and internet data center markets.*** We believe our WDM-PON technology is a cost-effective solution for delivering substantially greater bandwidth to a residence. As the residential access market migrates to higher bandwidth connections, we expect that our solutions will become increasingly attractive. In the internet data center, we target internet data center operators who have adopted an open system architecture–one in which the optical connectivity solutions can be provided by a different vendor than the vendor which provides their servers and switches.

- ***Continue to invest in our capabilities and infrastructure.*** Product and process innovations have been important elements in our growth and commercial success. We intend to continue to invest in new products, new technology and our production infrastructure and facilities to maintain and strengthen our competitive position.

- ***Selectively pursue other opportunities that leverage our existing expertise.*** Our expertise in designing and manufacturing outdoor equipment for the CATV industry positions us well to pursue applications that are also characterized by having varying and demanding environments, including wireless and wireline telecom infrastructure, industrial robotics, aerospace and defense, and oil and gas exploration. We will continue to seek ways to leverage our high-speed optical, mixed-signal semiconductor and mechanical engineering expertise in these and other markets.

- ***Pursue complementary acquisition and strategic alliance opportunities.*** We evaluate and selectively pursue acquisition opportunities or strategic alliances that we believe will enhance or complement our current product offerings, augment our technology roadmap, or diversify our revenue base.

Risk Factors

Our business is subject to numerous risks and uncertainties, such as those highlighted in the "Risk Factors" section immediately following this prospectus summary, including:

- 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 ke customers would adversely impact our revenue and results of operations;

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

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

- 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;
- If the CATV, FTTH and internet data center markets do not continue to develop as we expect, or if there is any downturn in these markets, our busines would be materially adversely affected;
- If we encounter manufacturing problems, we may lose sales and damage our customer relationships;
- 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;
- Given the high fixed costs associated with our vertically integrated business, a reduction in demand for our products could materially adversely impact our gross profits and our results of operations; and
- We face intense competition which could negatively impact our results of operations and market share.

Corporate Information

We were incorporated in the State of Texas in 1997. In March 2013, Applied Optoelectronics, Inc., a Texas corporation, converted into a Delaware corporation. Our principal executive offices are located at 13115 Jess Pirtle Blvd., Sugar Land, TX 77478, and our telephone number is (281) 295-1800. Our website address is www.ao-inc.com. Information contained on our website is not incorporated by reference into this prospectus, and you should not consider information contained on our website as part of this prospectus or in deciding whether to purchase shares of our common stock.

We have registered the trademarks APPLIED OPTOELECTRONICS, INC., AOI and its respective logo with the U.S. Patent and Trademark Office. These mark are also registered in, or have applications for registration pending in, various foreign trademark offices. Other trademarks and trade names appearing in this prospectus are the property of their respective owners.

THE OFFERING

Common stock offered by us	shares
Common stock offered by selling stockholders	shares
Over-allotment option	shares
Total common stock to be outstanding after this offering	shares
Use of proceeds	We estimate that the net proceeds of the sale of our common stock in this offering will be approximately $ million, based on an assumed initial public offering price of $ per share, which is the midpoint of the range listed on the cover page of this prospectus. We intend to use approximately $ million of the net proceeds to repay a portion of our outstanding indebtedness. We intend to use the remaining net proceeds from this offering for working capital and other general corporate purposes. See "Use of Proceeds." We will not receive any of the proceeds from the sale of shares of common stock offered by the selling stockholders.
Proposed symbol on the NASDAQ Global Market	AAOI

The number of shares of our common stock to be outstanding after this offering is based on 268,230,466 shares of our common stock outstanding as of December 31, 2012, assuming conversion of all outstanding shares of preferred stock into common stock. This number of shares does not include:

- 12,579,650 shares of common stock subject to outstanding options as of December 31, 2012, with a weighted average exercise price of $0.198 per share;
- 300,000 shares of common stock issuable upon the exercise of outstanding warrants, with a weighted average exercise price of $0.20 per share;
- 2,186,000 shares of Series F preferred stock issuable upon the exercise of outstanding warrants, with a weighted average exercise price of $0.29003 pe share;
- 382,442 shares of Series G preferred stock issuable upon the exercise of outstanding warrants, with a weighted average exercise price of $0.469261 pe share; and
- shares of common stock available for future sale or issuance under our stock option plans.

Unless otherwise indicated, this prospectus reflects and assumes the following:

- the automatic conversion of all of our outstanding shares of preferred stock into 260,252,874 shares of our common stock upon the closing of this offering;
- the filing of our amended and restated certificate of incorporation and the adoption of our amended and restated bylaws immediately prior to the closin of this offering; and
- no exercise of the underwriters' over-allotment option.

SUMMARY CONSOLIDATED FINANCIAL DATA

The following tables summarize the consolidated financial and operating data for the periods indicated. This summary consolidated financial data should be rea together with our consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this prospectus. The consolidated statements of operations data for the years ended December 31, 2010, 2011 and 2012 are derived from our consolidated financial statements appearing elsewhere in this prospectus. Our historical results are not necessarily indicative of our future results. You should read th summary financial data presented below in conjunction with our consolidated financial statements and related notes and the sections of this prospectus titled "Selecte Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Years ended December 31,		
	2010	2011	2012
	(in thousands, except percentages, share and per share data)		
Consolidated Statements of Operations Data:			
Revenue	$ 40,489	$ 47,840	$ 63,421
Cost of goods sold (1)	27,539	34,468	44,492
Gross profit	$ 12,950	$ 13,372	$ 18,929
Gross margin	32.0%	28.0%	29.8%
Operating expenses:			
Research and development (1)	5,176	6,451	7,603
Sales and marketing (1)	1,993	2,412	3,135
General and administrative (1)	8,382	8,243	8,012
Asset impairment charges	492	—	—
Total operating expenses	$ 16,043	$ 17,106	$ 18,750
Income (loss) from operations	(3,093)	(3,734)	179
Interest and other income (expense), net	(287)	(1,594)	(1,124)
Income (loss) before income taxes	$ (3,380)	$ (5,328)	$ (945)
Benefit from (provision for) income taxes	—	—	—
Net income (loss)	$ (3,380)	$ (5,328)	$ (945)
Net income (loss) attributable to common stockholders	$ (3,380)	$ (5,328)	$ (945)
Net income (loss) per share attributable to common stockholders:			
Basic and diluted	$ (0.02)	$ (0.03)	$ (0.00)
Weighted average shares used to compute net income (loss) per share attributable to common stockholders:			
Basic and diluted	168,369,885	197,654,931	251,406,466
Pro forma net income (loss) per share attributable to common stockholders (2):			
Basic and diluted			$ (0.00)
Weighted average shares used to compute pro forma net income (loss) per share attributable to common stockholders (2):			
Basic and diluted			251,406,466
Additional Financial Data:			
Non-GAAP gross profit (3)	$ 13,011	$ 13,405	$ 18,936
Non-GAAP income (loss) from operations (3)	(1,923)	(3,000)	441
Non-GAAP net income (loss) (3)	(1,780)	(5,027)	(503)
Adjusted EBITDA (3)	2,881	(638)	3,734

(1) These expenses include stock-based compensation expense. Stock-based compensation expense is accounted for at fair value, using the Black-Scholes option-pricing model. Stock-base compensation expense is recognized over the vesting period of the stock options and was included in cost of goods sold and operating expenses as follows:

	Years ended December 31,		
	2010	2011	2012
	(in thousands)		
Cost of goods sold	$ 61	$ 35	$ 7
Research and development	60	50	8
Sales and marketing	80	58	9
General and administrative	579	420	137
Total stock-based compensation expense	$ 780	$ 563	$ 161

(2) The pro forma basic and diluted net loss per share attributable to our common stockholders calculations assume the conversion of all outstanding shares of preferred stock into shares o common stock using the as-if-converted method as though the conversion had occurred at the beginning of the period presented and the resulting reclassification of the preferred stock warrant liability to additional paid-in capital.

(3) We prepare Adjusted EBITDA and our other non-GAAP measures to eliminate the impact of items that we do not consider indicative of our overall operating performance. To arrive at our non-GAAP gross profit, we exclude stock-based compensation expense from our GAAP gross profit. To arrive at our non-GAAP income (loss) from operations, we exclude all amortization of intangible assets, stock-based compensation expense and non-recurring consulting fees, if any, from our GAAP net income (loss) from operations. To arrive at Adjusted EBITDA, we exclude these same items and, additionally, exclude asset impairment charges, loss (gain) from disposal of idle assets, unrealized exchange loss (gain), interest (income) expense, on a net basis, provision for (benefit from) income taxes and depreciation expense, from our GAAP net income (loss).

We believe that our non-GAAP measures are useful to investors in evaluating our operating performance for the following reasons:

- We believe that elimination of items such as stock-based compensation expense, depreciation and amortization, income tax expense and other income, net, is appropriate because treatment of these items may vary for reasons unrelated to our overall operating performance;
- We use non-GAAP measures in conjunction with our GAAP financial measures for planning purposes, including the preparation of our annual operating budget, as a measure of operating performance and the effectiveness of our business strategies and in communications with our board of directors concerning our financial performance;
- We believe that non-GAAP measures provide better comparability with our past financial performance, facilitates better period-to-period comparisons of operational results and also facilitates comparisons with our peer companies, many of which also use similar non-GAAP financial measures to supplement their GAAP reporting; and
- We anticipate that, after consummating this offering, our investor presentations and those of securities analyst will include non-GAAP measures to evaluate our overall operating performance.

Adjusted EBITDA and other non-GAAP measures should not be considered as an alternative to gross profit, income (loss) from operations, net income (loss) or any other measure of financial performance calculated and presented in accordance with GAAP. Our Adjusted EBITDA and other non-GAAP measures may not be comparable to similarly titled measures of other organizations because other organizations may not calculate Adjusted EBITDA or such other non-GAAP measures in the same manner. You are encouraged to evaluate these adjustments and the reason we consider them appropriate.

The following table reflects the reconciliation of U.S. GAAP financial measures to non-GAAP financial measures:

	Years ended December 31,		
	2010	2011	2012
	(in thousands)		
Gross profit	$ 12,950	$ 13,372	$ 18,929
Non-GAAP adjustment:			
Stock-based compensation expense	61	35	7
Non-GAAP income (loss) from gross profit	$ 13,011	$ 13,405	$ 18,936
Income (loss) from operations	$ (3,093)	$ (3,734)	$ 179
Non-GAAP adjustments:			
Amortization of intangible assets	41	46	60
Stock-based compensation expense	780	563	161
Non-recurring consultant fee	350	125	41
Non-GAAP income (loss) from operations	$ (1,923)	$ (3,000)	$ 441
Net income (loss)	$ (3,380)	$ (5,328)	$ (945)
Non-GAAP adjustments:			
Amortization of intangible assets	41	46	60
Stock-based compensation expense	780	563	161
Non-recurring consultant fee	350	125	41
Loss (gain) from disposal of idle assets	23	(80)	(37)
Unrealized exchange loss (gain)	406	(352)	217
Non-GAAP net income (loss)	$ (1,780)	$ (5,027)	$ (503)
Net income (loss)	$ (3,380)	$ (5,328)	$ (945)
Non-GAAP adjustments:			
Amortization of intangible assets	41	46	60
Stock-based compensation expense	780	563	161
Asset impairment charges	492	—	—
Depreciation expense	3,299	3,066	2,882
Non-recurring consultant fee	350	125	41
Loss (gain) from disposal of idle assets	23	(80)	(37)
Unrealized exchange loss (gain)	406	(352)	217
Interest (income) expense, net	872	1,323	1,355
Provision for (benefit from) income taxes	—	—	—
Adjusted EBITDA	$ 2,881	$ (638)	$ 3,734

	December 31, 2012		
	Actual	Pro forma (4)	Pro forma as adjusted (5)
		(in thousands)	
Consolidated Balance Sheet Data:			
Total cash (1)	$ 11,226	$	$
Working capital (2)	13,669		
Total assets	65,748		
Total debt (3)	24,584		
Preferred stock	105,367		
Common stock and additional paid-in capital	5,542		
Total stockholders' equity (deficit)	(81,917)		

(1) Total cash is defined as cash, cash equivalents and restricted cash.

(2) Working capital is defined as total current assets less total current liabilities.

(3) Total debt is defined as short-term loans, notes payable and total long-term debt.

(4) On a pro forma basis to give effect to the automatic conversion of all of our outstanding shares of preferred stock into 260,252,874 shares of common stock using the as-if-converted method as though the conversion had occurred at the beginning of the period presented and the resulting reclassification of the preferred stock warrant liability to additional paid-in capital.

(5) On a pro forma as adjusted basis to reflect the pro forma adjustments described in note 4 above and the sale by us of shares of common stock in this offering, at an assumed initial public offering price of $ per share, the midpoint of the price range on the front cover of this prospectus, after deducting underwriting discounts and commissions and estimated offering expenses.

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 prospectus before purchasing our common stock. 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 2010, 2011 and 2012, our top ten customers represented 80.5%, 76.6% and 77.7% of our revenue, respectively. In 2012, Cisco Systems, Inc. represented 33.2% of our revenue and Biogenomics Corp., a distributor, represented 11.2% of our total revenue. 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. For instance, upon the closing of Arris Group Inc.'s acquisition of Motorola Mobility Holdings, Inc., which is expected to occur in the middle of this year, changes in strategy or management may affect purchasing decisions and other strategic objectives involving our products that were pursued prior to that acquisition. 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. 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. 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.

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.

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 2010, 2011 and 2012, the CATV market represented 73.3%, 78.3% 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. 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 and internet data center markets, and our business could be harmed if these markets do not develop as we expect.

We have only recently begun offering products to the FTTH and internet data center markets. Our business in these markets is dependent on the deployment of our optical components, modules and subassemblies. In the FTTH 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. 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. 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, and internet data centers may elect to use larger vendors that require internet data center operators to purchase the optical modules for their systems from such larger vendors. 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 CATV, will gain the most widespread acceptance. In addition, as we enter new markets or expand our product offerings in existing markets, our margins may be adversely affected due to competition in those markets and commoditization of competing products. If our expectations for the growth of these markets are not realized, our financial condition or results of operations will be adversely affected.

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 an MBE fabrication process to make our lasers, rather than Metal Organic Chemical Vapor Deposition, or MOCVD, the technique most commonly used in optical manufacturing by communications optics vendors, and 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.

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.

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 468 of our employees as of December 31, 2012 were employed in manufacturing engineering and manufacturing 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 have a history of losses which may continue in the future.

We have a history of losses and we may incur additional losses in future periods. In the years ended December 31, 2010, 2011 and 2012, we experienced net losses of $3.4 million, $5.3 million and $0.9 million, respectively. As of December 31, 2012, our accumulated deficit was $81.9 million. 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, as a public company, we will incur significant additional time demands and legal, accounting and other expenses that we did not incur as a private company. Our management and other personnel will need to 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;
- 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 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. Certain 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 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 and Asia General Manager, may resign at any time. We do not have key person life insurance policies covering any of our employees. In addition, our current loan agreement with East West Bank requires their prior written approval in connection with certain changes to our executive officers. To implement our business plan, we also intend to hire additional employees, particularly in the areas of engineering and manufacturing. 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.

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 international sales. In 2010, 2011 and 2012, 60.8%, 66.9% and 75.0% of our revenue was derived from sales that occurred outside of the U.S., 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. China does not recognize the sovereignty of Taiwan. Although significant economic and cultural relations have been established during recent years between China and Taiwan, relations have often been strained and the government of China has previously threatened to use military force to gain control over 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. We plan to continue to expand the scope of our operations. 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 in the U.S., and our China subsidiary has a line of credit arrangement. Our loan agreements governing our long-term debt obligations in the U.S. 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, create liens or other encumbrances, change the nature of our business, pay dividends, 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 are secured by substantially all of our U.S. assets, including our intellectual property assets, our Sugar Land facility and our equity interests in our subsidiaries, which limits our ability to provide collateral for additional financing. 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 anticipate that the net proceeds we receive from this offering, together with our current cash, cash provided by operating activities and funds available through our bank loans and credit facilities, will be sufficient to meet our current and anticipated needs for general corporate purposes for the next 12 to 24 months. We operate in a market, however, 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 acquiring shares of our common stock in this offering. 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.

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, 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. While the international reaction to the RMB revaluation has generally been positive, there remains significant international pressure on the Chinese government to adopt an even more flexible currency policy, which may result in a further and more significant appreciation of the RMB against 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 our manufacturing facility in Ningbo, China, has 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. 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 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. In connection with the audit of our financial statements for the period ended December 31, 2012, we identified a material weakness related to the inappropriate recording of certain inventory returned for re-work in China as a reduction in cost of sales. This error arose as a result of the configuration of our ERP system, which lacked an automated control within the system to prevent overrides. In addition, the monitoring controls were not operating with sufficient precision to enable the errors to be detected and corrected by management in a timely manner. We believe we have remediated this material weakness by updating our ERP system with respect to the monitoring of returned inventory, providing additional training to certain personnel and adding management oversight. Also, in connection with the audit of our financial statements for the period ended December 31, 2012, three significant deficiencies were identified related to the reclassification of transactions within current liabilities between accounts payable and accrued liabilities, the cut-off of certain expenses for the December 31, 2012 closing related to our Asian operations, and the allocation of standard costing applied among cost of goods sold and inventory at our China subsidiary for the period ended December 31, 2012.

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 this offering, 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.

Despite the internal controls we have implemented, there can be no assurance that we will be able to avoid accounting errors or material weaknesses in future periods. 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, 2012, we had U.S. accumulated net operating losses, or NOLs, of approximately $66.7 million for U.S. federal income tax purposes. We also had research and development credit carry-forwards totaling $1.5 million as of December 31,2012, which begin to expire in 2024. 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, capital loss carry-forwards 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 by value over a 3-year period. We believe we have experienced ownership changes and may experience additional ownership changes in the future as a result of shifts in our stock ownership, including as a result of our contemplated issuance of shares of common stock pursuant to this offering. If we trigger ownership changes, our ability to use any NOLs and capital loss carry-forwards existing at that time could be limited going forward. We continue to update our analysis to determine if ownership changes occurred in connection with our prior equity financings and, if so, what limitations resulted.

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 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 curtailour 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.

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

As a public company, we will be 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. In addition, various countries regulate the import of certain technologies and have enacted laws that could limit our ability to distribute our products. We may not be successful in obtaining the necessary export and import licenses. Failure to comply with these and similar laws on a timely basis, or at all, or any limitation on our ability to export or sell our products or to obtain any required licenses would 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.

Customer demands and new regulations related to conflict-free minerals may adversely affect us.

The Dodd-Frank Wall Street Reform and Consumer Protection Act imposes new disclosure requirements regarding the use of "conflict" minerals mined from the Democratic Republic of Congo and adjoining countries in products, whether or not these products are manufactured by third parties. These new requirements could affect the pricing, sourcing and availability of minerals used in the manufacture of our products. 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 new and high technology enterprises. The preferential rate applies to calendar years 2012, 2013 and 2014. We have not yet realized benefits from this reduction in tax rate because we have not yet generated taxable income in China. 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 using the proceeds we receive from this offering to make loans or additional capital contributions to our China subsidiary.

In utilizing the proceeds we receive from this offering, we may make loans or additional capital contributions to our China subsidiary. Any loans 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 use the proceeds of this offering and 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 This Offering and Our Common Stock

There is no existing market for our common stock and we do not know if one will develop to provide our stockholders liquidity for the shares they hold or purchase in this offering.

There has not been a public trading market for shares of our common stock prior to this offering. An active trading market may not develop or be sustained after this offering. The initial public offering price for the shares of common stock sold in this offering will be determined by negotiations between us, the selling stockholders and representatives of the underwriters. This price may not be indicative of the price at which our common stock will trade after this offering.

Our principal stockholders, executive officers and directors own a significant percentage of our stock and will continue to have significant control of our management and affairs after the offering, and they can take actions that may be against your best interests.

Following the completion of this offering, our executive officers and directors, and entities that are affiliated with them, will beneficially own an aggregate of approximately % of our outstanding common stock, on an as-converted basis, based on an assumed initial offering price of $ per share, the midpoint of the price range set forth on the front cover of this prospectus. As a result, these stockholders, acting together, may have significant influence over our management and affairs and matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as mergers, consolidations or the sale of substantially all of our assets. Consequently, this concentration of ownership may have the effect of delaying or preventing a change in control, including a merger, consolidation or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if such a change in control would benefit our other stockholders.

Our stock price could decline due to the large number of outstanding shares of our common stock eligible for future sale.

Sales of substantial amounts of our common stock in the public market following this offering, or the perception that these sales could occur, could cause the market price of our common stock to decline. These sales could also make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate.

Upon completion of this offering, we will have an aggregate of shares of common stock outstanding, assuming no exercise of the underwriters' over-allotment option and no exercise of outstanding options or warrants, other than those warrants to purchase shares of common stock that expire upon the completion of this offering. The

shares sold pursuant to this offering will be immediately tradable without restriction. Of the remaining shares:

- shares will be eligible for sale immediately upon completion of this offering; and
- shares will be eligible for sale upon the expiration of lock-up agreements, subject in some cases to volume and other restrictions of Rule 144 and Rule 701 under the Securities Act of 1933, as amended, or the Securities Act.

The lock-up agreements expire 180 days after the date of this prospectus, subject to potential extension in the event we release earning results or material news or a material event relating to us occurs near the end of the lock-up period and in the event that we cease to be an emerging growth company. Raymond James & Associates, Inc. and Piper Jaffray & Co., as representatives of the underwriters, may, in their sole discretion and at any time without notice, release all or any portion of the securities subject to lock-up agreements. After the completion of this offering, we intend to register approximately shares of our common stock that have been issued or reserved for future issuance under our stock incentive plans.

Because our initial public offering price is substantially higher than the pro forma as adjusted net tangible book value per share of our outstanding common stock, new investors will incur immediate and substantial dilution.

The initial public offering price is substantially higher than the pro forma as adjusted net tangible book value per share of our common stock based on the expected total value of our total assets, less our goodwill and other intangible assets, less our total liabilities immediately following this offering. Therefore, if you purchase shares of our common stock in this offering, you will experience immediate and substantial dilution of $ per share in the price you pay for our common stock compared to the pro forma as adjusted net tangible book value as of December 31, 2012. Furthermore, investors purchasing our common stock in this offering will own only % of our shares outstanding even though they will have contributed % of the total consideration received by us in connection with our sales of common stock. To the extent outstanding options to purchase common stock are exercised, there will be further dilution. For a further description of the dilution that you will experience immediately after this offering, see the section titled "Dilution."

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. See "Dividend Policy" for more information. Consequently, your only opportunity to achieve a return on the shares you purchase in this offering 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 after this offering will ever exceed the price that you pay.

Our charter documents 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 to be effective upon the completion of this offering 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; and
- requiring advance notification of stockholder nominations and proposals.

In addition, the provisions of Section 203 of the Delaware General Corporate Law will govern us upon completion of this offering. 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."

Our stock price may be volatile and you may be unable to sell your shares at or above the offering price.

The market price of our common stock could be subject to wide fluctuations in response to, among other things, the risk factors described in this section of this prospectus, 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.

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 prospectus 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.

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.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

This prospectus contains forward-looking statements. All statements other than statements of historical facts contained in this prospectus are forward-looking statements, including statements regarding our future financial position, sources of revenue, business strategy and plans, prospective products, product approvals or products under development, costs, timing and likelihood of success, gross margins, and objectives of management for future operations. In particular, many of the statements under the headings "Prospectus summary," "Risk Factors," "Management's discussion and analysis of financial condition and results of operations" and "Business" constitute forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "continue," the negative of these terms, or by other similar expressions that convey uncertainty of future events or outcomes to identify these forward-looking statements. These statements are only predictions, involving known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. We discuss many of these factors, risks and uncertainties in greater detail under the heading "Risk Factors" and elsewhere in this prospectus. These factors expressly qualify all oral and written forward-looking statements attributable to us or persons acting on our behalf.

You should not rely on forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Actual results may differ materially from those suggested by the forward-looking statements for various reasons, including those discussed under "Risk Factors" in this prospectus. Except as required by law, we assume no obligation to update forward-looking statements for any reason after the date of this prospectus to conform these statements to actual results or to changes in our expectations.

This prospectus contains market data and certain other statistical information based on independent industry publications, governmental publications, reports by market research firms or other independent sources, including those generated by Akamai, Cisco, Crehan Research Inc., Infonetics and Ovum, Inc., as well as our internal research. Some data is also based on our internal estimates. Industry publications, surveys and market research reports generally state that the information contained in them has been obtained from sources believed by the sources' authors to be reliable, but we have not independently verified any of the data from third party sources nor have we investigated the underlying economic assumptions on which such data are based. We commissioned certain Ovum research referenced in the sections "Prospectus Summary" and "Business" in this prospectus and contributed to its preparation. This information involves a number of assumptions and limitations, and you are cautioned not to give undue weight to these estimates. The markets in which we operate are subject to a high degree of uncertainty and risk due to a variety of factors, including those described in the section of this prospectus titled "Risk Factors."

USE OF PROCEEDS

We estimate that the net proceeds of the sale by us of our common stock in this offering will be approximately $ million, based on an assumed initial public offering price of $ per share, which is the midpoint of the range listed on the cover page of this prospectus, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. A $1.00 increase or decrease in the assumed initial public offering price of $ per share would increase or decrease the net proceeds to us from the offering by $ million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the underwriting discounts and commissions and offering expenses payable by us. We may also issue up to shares of common stock in the offering in the over-allotment option. If we sell shares upon exercise of the over-allotment option, we may receive up to an additional $ million of net proceeds in the offering. We will not receive any proceeds from the sale of shares by the selling stockholders.

We intend to use approximately $ million of the net proceeds to repay our outstanding indebtedness to , which matures on and bears interest at % annually. We intend to use the remaining net proceeds from this offering for working capital and other general corporate purposes, including the development of new products, sales and marketing activities, capital expenditures and the costs of operating as a public company. We may use a portion of net proceeds to expand our current business through strategic alliances with, or acquisitions of, other businesses, products or technologies. We currently have no agreements or commitments for any such specific alliances or acquisitions. Pending any use above, we plan to invest the net proceeds in investment-grade, short-term, interest-bearing securities.

Management will have significant flexibility in applying the net proceeds of the offering. The amount and timing of our actual spending for these purposes may vary significantly from our plans and will depend on a number of factors, including our future revenues, cash generated by operations and other factors described under the heading "Risk Factors." We may find it necessary or advisable to use portions of the proceeds for other purposes.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our capital stock, and we do not anticipate paying any cash dividends on our common stock for the foreseeable future. We currently intend to retain all available funds and future earnings for use in the operation and expansion of our business. Any future determination to pay cash dividends will be at the discretion of our board of directors and will depend upon our financial condition, results of operations, terms of financing arrangements, applicable Delaware law, capital requirements and such other factors as our board of directors deems relevant. In addition, the terms of our loan agreements governing our long-term debt obligations prohibit us from paying dividends.

CAPITALIZATION

The following table sets forth our consolidated cash and cash equivalents and capitalization as of December 31, 2012 on:

- an actual basis;
- a pro forma basis to reflect the conversion of all outstanding shares of our preferred stock into an aggregate of 260,252,874 shares of common stock; and
- a pro forma as adjusted basis to reflect the pro forma adjustments described above and the sale by us of shares of common stock in this offering, at an assumed initial public offering price of $ per share, the midpoint of the price range set forth on the front cover of this prospectus, after deducting underwriting discounts and commissions and estimated offering expenses.

The information below is illustrative only and our capitalization following the completion of this offering will be adjusted based on the actual initial public offering price and other terms of this offering determined at pricing. You should read the information in this table together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the accompanying notes appearing elsewhere in this prospectus.

	As of December 31, 2012		
(in thousands, except share data)	Actual	Pro forma	Pro forma as adjusted (7)
Total debt	$ 24,584	$	$
Stockholders' equity (deficit)			
Series A Preferred stock, no par value, 4,900,000 shares authorized and 4,805,871 shares outstanding (1)	$ 7,105	$	$
Series C Preferred stock, no par value, 17,500,000 shares authorized and 17,470,093 shares outstanding (2)	21,802		
Series D Preferred stock, no par value, 11,800,000 shares authorized and 11,413,984 shares outstanding (3)	14,185		
Series E Preferred stock, no par value, 11,000,000 shares authorized and 10,338,654 shares outstanding (4)	28,055		
Series F Preferred stock, no par value, 82,000,000 shares authorized and 79,518,352 shares outstanding (5)	19,278		
Series G Preferred stock, no par value, 45,000,000 shares authorized and 42,857,108 shares outstanding (6)	14,943		
Common stock, no par value: 300,000,000 shares authorized; 7,977,592 shares outstanding	1,074		
Additional paid-in capital	4,468		
Accumulated other comprehensive income	2,016		
Accumulated deficit	(81,917)		
Total stockholders' equity (deficit)	$ 31,008	$ —	$
Total capitalization	$ 55,592	$ —	$

(1) The 4,805,871 shares of our Series A preferred stock outstanding on an actual basis will convert into 15,249,353 shares of common stock upon the closing of this offering.

(2) The 17,470,093 shares of our Series C preferred stock outstanding on an actual basis will convert into 40,366,820 shares of common stock upon the closing of this offering.

(3) The 11,413,984 shares of our Series D preferred stock outstanding on an actual basis will convert into 28,944,936 shares of common stock upon the closing of this offering.

(4) The 10,338,654 shares of our Series E preferred stock outstanding on an actual basis will convert into 37,411,164 shares of common stock upon the closing of this offering.

(5) The 79,518,352 shares of our Series F preferred stock outstanding on an actual basis will convert into 95,423,493 shares of common stock upon the closing of this offering.

(6) The 42,857,108 shares of our Series G preferred stock outstanding on an actual basis will convert into 42,857,108 shares of common stock upon the closing of this offering.

(7) A $1.00 increase (decrease) in the assumed initial public offering price of $ per share, which is the midpoint of the range listed on the cover page of this prospectus, would increase (decrease) each of pro forma as adjusted additional paid-in capital, total stockholders' equity (deficit) and total capitalization by approximately $.

The number of shares of our common stock to be outstanding after this offering is based on 268,230,466 shares of our common stock outstanding as of December 31, 2012. This number of shares does not include:

- 12,579,650 shares of common stock subject to outstanding options as of December 31, 2012, with a weighted average exercise price of $0.198 per share;
- 300,000 shares of common stock issuable upon the exercise of outstanding warrants, with a weighted average exercise price of $0.20 per share;
- 2,186,000 shares of Series F preferred stock issuable upon the exercise of outstanding warrants, with a weighted average exercise price of $0.279955 per share, which are convertible to 2,623,234 shares of common stock;
- 382,442 shares of Series G preferred stock issuable upon the exercise of outstanding warrants, with a weighted average exercise price of $0.469261 per share, which are convertible to 382,442 shares of common stock; and
- shares of common stock available for future sale or issuance under our stock option plans.

DILUTION

If you invest in our common stock, your interest will be diluted to the extent of the difference between the initial public offering price per share of our common stock and the pro forma net tangible book value per share of our common stock after this offering. We calculate pro forma net tangible book value per share by dividing the net tangible book value, tangible assets less total liabilities, by the number of outstanding shares of common stock after giving effect to the assumed conversion of all of our convertible preferred stock. Our pro forma net tangible book value at December 31, 2012, was $, or $ per share.

After giving effect to the sale of the shares of common stock by us at the assumed initial public offering price of $ per share, which is the midpoint of the range listed on the cover page of this prospectus, and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma net tangible book value at December 31, 2012, would be $, or $ per share. This represents an immediate increase in the pro forma net tangible book value of $ per share to existing stockholders and an immediate dilution of $ per share to new investors purchasing shares at the initial public offering price of $ per share. The following table illustrates this per share dilution:

Assumed initial public offering price per share	$
Pro forma net tangible book value per share at December 31, 2012	$
Increase per share attributable to new investors	$
Pro forma net tangible book value per share after this offering	$
Dilution per share to new investors in this offering	$

If the underwriters' over-allotment option were exercised in full, the pro forma net tangible book value per share after the offering would be $ per share, the increase in net tangible book value per share attributable to new investors would be $ per share and the dilution per share to new investors in this offering would be $ per share, in each case assuming an initial public offering price of $ per share.

The following table shows on a pro forma as adjusted basis at December 31, 2012 and after giving effect to this offering the differences between existing stockholders and new investors with respect to the number of shares of common stock purchased from us, the total consideration paid to us and the average price paid per share by existing stockholders and by new investors purchasing common stock in this offering before deducting underwriting discounts and commissions. The calculation below is based on an assumed initial public offering price of $ per share:

	Shares purchased		Total consideration		Average price per share
	Number	Percent	Amount	Percent	
Existing stockholders	268,230,466	%	$	%	$
New investors		%		%	$
Total		%	$	%	$

If the underwriters' over-allotment option is exercised in full, the number of shares held by new investors would increase to , or approximately % of the total number of shares of our common stock outstanding after completion of this offering.

The number of shares of our common stock to be outstanding after this offering is based on 268,230,466 shares of our common stock outstanding as of December 31, 2012. This number of shares does not include:

- 12,579,650 shares of common stock subject to outstanding options as of December 31, 2012, with a weighted average exercise price of $0.198 per share;
- 300,000 shares of common stock issuable upon the exercise of outstanding warrants, with a weighted average exercise price of $0.20 per share;
- 2,186,000 shares of Series F preferred stock issuable upon the exercise of outstanding warrants, with a weighted average exercise price of $0.279955 per share, which are convertible to 2,623,234 shares of common stock;
- 382,442 shares of Series G preferred stock issuable upon the exercise of outstanding warrants, with a weighted average exercise price of $0.469261 per share, which are convertible to 382,442 shares of common stock; and
- shares of common stock available for future sale or issuance under our stock option plans.

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data in this section is not intended to replace our consolidated financial statements and the related notes. You should read this summary consolidated financial data together with the sections titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements and related notes, all included elsewhere in this prospectus. We derived the consolidated statements of operations data for the years ended December 31, 2010, 2011 and 2012 and the consolidated balance sheet data as of December 31, 2011 and 2012 from our consolidated financial statements appearing elsewhere in this prospectus. Our historical results are not necessarily indicative of the results to be expected in the future and results of interim periods are not necessarily indicative of results for the entire year.

	Years ended December 31,				
	2008	2009	2010	2011	2012
	(in thousands, except share and per share data)				
Consolidated Statement of Operations Data:					
Revenue	$ 31,224	$ 24,969	$ 40,489	$ 47,840	$ 63,421
Cost of goods sold (1)	25,562	21,525	27,539	34,468	44,492
Gross profit	$ 5,662	$ 3,444	$ 12,950	$ 13,372	$ 18,929
Operating expenses:					
Research and development (1)	7,117	5,707	5,176	6,451	7,603
Sales and marketing	2,907	2,018	1,993	2,412	3,135
General and administrative	10,171	7,298	8,382	8,243	8,012
Asset impairment charges	3,651	—	492	—	—
Total operating expenses	$ 23,846	$ 15,023	$ 16,043	$ 17,106	$ 18,750
Income (loss) from operations	(18,184)	(11,580)	(3,093)	(3,734)	179
Interest and other income (expense), net:					
Interest income	12	7	34	15	26
Interest expense	(983)	(1,038)	(906)	(1,338)	(1,381)
Other income (expense), net	(187)	68	585	(271)	231
Total interest and other income (expense), net	$ (1,159)	$ (964)	$ (287)	$ (1,594)	$ (1,124)
Income (loss) before income taxes	(19,342)	(12,543)	(3,380)	(5,328)	(945)
Benefit from (provision for) income taxes	(54)	38	—	—	—
Net income (loss) attributable to common stockholders	$ (19,397)	$ (12,505)	$ (3,380)	$ (5,328)	$ (945)
Accretion of redeemable convertible preferred stock	—	—	—	—	—
Net income (loss) attributable to common stockholders	$ (19,397)	$ (12,505)	$ (3,380)	$ (5,328)	$ (945)
Net income (loss) per share attributable to common stockholders:					
Basic and diluted	$ (0.37)	$ (0.09)	$ (0.02)	$ (0.03)	$ (0.00)
Weighted average shares used to compute net income (loss) per share attributable to common stockholders:					
Basic and diluted	52,939,752	141,852,413	168,369,885	197,654,931	251,406,466

(1) These expenses include stock-based compensation expense. Stock-based compensation expense is accounted for at fair value, using the Black-Scholes option-pricing model. Stock-based compensation expense is recognized over the vesting period of the stock options and was included in cost of goods sold and operating expenses as follows:

	Years ended December 31,				
	2008	2009	2010	2011	2012
	(in thousands)				
Cost of goods sold	$ 110	$ 102	$ 61	$ 35	$ 7
Research and development	143	98	60	50	8
Sales and marketing	112	119	80	58	9
General and administrative	668	594	579	420	137
Total stock-based compensation expense	$ 1,033	$ 913	$ 780	$ 563	$ 161

	Years ended December 31,				
	2008	2009	2010	2011	2012
	(in thousands)				
Consolidated balance sheet data:					
Total cash (1)	$ 1,395	$ 2,867	$ 4,643	$ 2,074	$ 11,226
Working capital (2)	(875)	7,511	(2,322)	(1,911)	13,669
Total assets	47,405	45,560	52,934	53,723	65,748
Total debt (3)	23,417	14,300	23,071	22,597	24,584
Redeemable convertible preferred stock	71,145	90,423	90,423	94,373	105,367
Common stock and additional paid-in-capital	3,025	3,939	4,723	5,303	5,542
Total deficit	(59,758)	(72,263)	(75,643)	(80,972)	(81,917)

(1) Total cash is defined as cash, cash equivalents and restricted cash.

(2) Working capital is defined as total current assets less total current liabilities.

(3) Total debt is defined as short-term loans, notes payable and total long-term debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements and the accompanying notes appearing elsewhere in this prospectus. This discussion and other parts of this prospectus contain forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in "Risk Factors."

Overview

We are a leading, vertically integrated provider of fiber-optic networking solutions. We target three networking end-markets: CATV, FTTH and internet data centers. We design and manufacture a range of optical communications solutions at varying levels of integration, from components, subassemblies and modules to complete turn-key equipment. We are primarily focused on the higher-performance segments within the CATV, FTTH and internet data center markets which increasingly demand faster connectivity and innovation. 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.

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. Within the CATV market, we benefit from a number of ongoing trends including the global build-out of CATV infrastructure, the move to higher bandwidth networks among CATV service providers and the outsourcing of system design among CATV networking equipment companies. In the FTTH market, we benefit from continuing PON deployments and system upgrades among telecommunication service providers. Within the internet data center market, we benefit from the increasing use of higher-capacity optical networking technology as a replacement for copper cables, particularly as speeds reach 10 gigabits per second and above, as well as the movement to open internet data center architectures and the increasing use of in-house equipment design among leading internet companies.

We sell our solutions to leading original equipment manufacturers, or OEMs, in the CATV and FTTH markets as well as internet data center operators. In 2012, our products were used by the five largest CATV equipment OEMs consisting of Arris Group Inc., Aurora Networks, Inc., Cisco Systems, Inc., Harmonic Inc. and Motorola Mobility Holdings, Inc. Our other key customers included Genexis B.V. in the FTTH market and Microsoft Corporation in the internet data center market. In 2012, 78.6% of our revenue was attributable to sales of our solutions into the CATV market, 8.3% of our revenue was attributable to sales of our solutions into the internet data center market, 5.8% of our revenue was attributable to sales of our solutions into the FTTH market and the remaining 7.2% was attributable to other markets (including telecom networking).

Our sales model focuses on direct engagement and close coordination with our customers to determine product design, qualifications, performance and price. Our strategy is to use our direct sales force to sell to key accounts and to expand our use of distributors for increased coverage in certain international markets and certain domestic market segments. We have direct sales personnel that cover the U.S., Taiwan and China focusing primarily on major OEM customers and internet data center operators. Throughout our sales cycle, we work closely with our customers to qualify our solutions into their product lines. As a result, we strive to build

strategic and long-lasting customer relationships and deliver solutions that are customized to our customers' requirements.

Our business depends on winning competitive bid selection processes, known as design wins, to develop components, systems and equipment for use in our customers' products. These selection processes are typically lengthy, and as a result, our sales cycles will vary based on the level of customization required, market served, whether the design win is with an existing or new customer and whether our solution being designed in our customers' product is our first generation or subsequent generation product. We do not have any long-term purchase commitments (in excess of one year) with any of our customers, all of whom purchase our products on a purchase order basis. Once one of our solutions is incorporated into a customer's design, however, we believe that our solution is likely to continue to be purchased for that design throughout that product's life cycle because of the time and expense associated with redesigning the product or substituting an alternative solution.

We believe we have an attractive financial profile, with strong revenue performance and control over our manufacturing costs through our vertically integrated manufacturing model. While we have incurred substantial losses since our inception, and as of December 31, 2012 had an accumulated deficit of $81.9 million, we achieved profitability (net income on a GAAP basis) in the fourth quarter of 2012. We have grown our revenue at a 36.4% CAGR between 2009 and 2012, including 32.6% growth year-over-year from 2011 to 2012.

Factors Affecting Our Performance

Increasing Consumer Demand for Bandwidth. Bandwidth demand in all of our target markets is driving service provider investment in new equipment and in turn generating demand for our products. Increasingly, optical networking technologies are being incorporated into networking equipment, replacing legacy copper-based networking technologies. This shift to optical networking solutions benefits us as a provider of those solutions.

Design Wins. Our long-term revenue prospects are based both on the growth in revenue from existing design wins and our ability to generate new design wins with new and existing customers. We use customer demand forecasts and internal sales forecasts when evaluating the expected time to market and associated revenue potential from each design project undertaken. Our design win cycle, or the time from initial concept to volume production, is often 18 to 24 months, with the design win process typically being more extensive when a product incorporates innovative technology that is not yet broadly deployed. Once a design has been awarded and begins to ship in volume, we typically realize revenue from the product from four to up to ten years; however, not all design wins lead to the revenue levels anticipated by us.

Pricing, Product Cost and Margins. Our solution pricing varies depending upon the end market, the complexity of the product and the level of competition. Our product costs also vary with complexity as well as the degree to which we can utilize components designed and manufactured ourselves. We tend to realize higher gross margins on products that incorporate a higher percentage of our own components. We often initially experience lower gross margins on new products, as our pricing is based upon anticipated volume-driven cost reductions over the life of the design win. Thus, if we are unable to realize our expected cost reductions, we may experience declining gross margins on such products.

Our product pricing is established when the product is initially introduced to the market, and thereafter through periodic negotiations with customers. We generally do not agree to periodic automatic price reductions. Furthermore, due to the dynamics in the CATV market and

the value of our outsourced design services to our customers, we believe we face less downward price pressure than many of our competitors. We sell a wide variety of products among our three target markets and our gross margin is heavily dependent in any quarter on the product mix achieved during that period.

Decreasing Customer Concentration within End Markets. Historically, our revenue has been significantly concentrated within the CATV market and among a few customers within this market. Over the past two years, we have developed new products from design wins within the FTTH and internet data center markets. Furthermore, we have developed additional ODM relationships with customers in each of our target markets which should enable us to diversify our revenue. Although we expect the CATV market to remain our largest market for the next several years, we anticipate that sales in the FTTH and internet data center markets will continue to account for a more significant percentage of our total revenue into the future. We believe that our entry into the FTTH and internet data center markets with new customers and with new products will continue to facilitate revenue growth and customer diversification.

Product Development. We invest heavily to develop new and innovative products. The majority of our research and development expense is allocated to product development, usually with a specific customer and customer platform in mind. We believe our close coordination with our customers regarding their future product requirements enhances the efficiency of our research and development expenditures.

Discussion of Financial Performance

Revenue

We generate revenue through the sale of our products to equipment providers for the CATV, FTTH and internet data center 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 FTTH and internet data center markets may increase as a percentage of our revenue as we further penetrate and extend our products into these markets. In 2010, 2011 and 2012, our top ten customers represented 80.5% 76.6% and 77.7% of our revenue, respectively. Our largest customer Cisco Systems, Inc. represented 18.9%, 26.8% and 33.2% of our revenue in 2010, 2011 and 2012, respectively. Biogenomics Corp., a distributor, accounted for 13.8%, 11.7% and 11.2%, of our revenue in 2010, 2011 and 2012, respectively. In 2010, Aurora Networks, Inc. accounted for 10.8% of our revenue and Electroline Systems accounted for 10.2% of our revenue. No other customer represented more than 10.0% of our revenue in 2010, 2011 or 2012.

Revenue is recognized when the product is shipped and title has transferred to the customer. We bear all costs and risks of loss or damage to the goods up to that point. On most orders, our terms of sale provide that title passes to the customer upon placement by us with a common carrier (upon shipment). A majority of our annual sales are denominated in U.S. dollars, but some sales from our Taiwan location and China-based subsidiary are denominated in NT dollars and RMB, respectively. For the year ended December 31, 2012, 18.1% of our total revenue was derived from our China-based subsidiary, with $11.4 million denominated in RMB, and an immaterial amount sold directly by our Taiwan location. We expect a similar portion of our sales to be denominated in foreign currencies in 2013.

During 2012 compared to 2011, our average sales price across our product lines declined less than 8.0%, which is less of a decline than experienced by many of our competitors.

Revenue from period to period is driven by the volume of shipments and may be impacted by pricing pressures, among other factors.

Cost of goods sold and gross margin

Our cost of goods sold consists of material costs, direct labor, allocated overhead and periodic cost variances, including reserves for excess and obsolete inventory, with each representing approximately 69.5%, 9.3%, 16.1%, and 5.1% of our total cost of goods sold, respectively, in 2012.

Our cost of goods sold is impacted by variances arising from changes in yields and production volume. We typically experience lower yields and higher associated costs on new products. In general, our cost of goods sold for a particular product declines over time as a result of increasing efficiencies in the manufacturing processes, or supply cost declines, as well as yield improvements and testing enhancements.

We manufacture our products in all three of our facilities in the U.S., Taiwan and China. Generally, laser chips and optical components are manufactured in our U.S. facility, optical components and subassemblies are manufactured in our Taiwan facility, and equipment is manufactured in our China facility. Because of our vertical integration model, we utilize our own products in our semi-finished and finished goods that we sell between and among our respective manufacturing operations. We base those internal sales upon established transfer pricing methodologies. However, we eliminate all of those internal sales, and cost of goods sold transactions, to arrive at total revenue and cost of goods sold on a consolidated basis.

We have a global set of suppliers to help balance considerations related to product availability, quality and cost. Components of our cost of goods sold are denominated in U.S. or NT dollars or RMB, depending upon the manufacturing location.

Gross profit as a percentage of total revenue, or gross margin, has been and is expected to continue to be affected by a variety of factors, including the introduction of new products, production volumes, the mix of products sold, changes in the cost and volumes of materials purchased from our suppliers, changes in labor costs, changes in overhead costs, reserves for excess and obsolete inventories and changes in the average selling prices of our products. Although our overall gross margins over the past three years have been between 28.0% and 32.0%, our gross margins vary more broadly on a product-by-product basis. Our newer and more advanced products typically have higher average selling prices and higher gross margins; however, until the product volumes scale, the gross margin from newer and advanced products may initially be lower. Our strategy is to improve our gross margins through vertical integration such as utilization of our own laser chips and optical sub-components in our solutions. We expect that our gross margins are likely to continue to fluctuate from quarter to quarter because of the variety of products we sell and the relative product mix within a quarter.

Operating expenses

Our operating expenses consist of research and development, sales and marketing, and general and administrative expenses. Personnel costs are the most significant component of operating expenses and include salaries, benefits, bonuses and stock-based compensation. With regard to sales and marketing expense, personnel costs also include sales commissions.

Research and development. Research and development, or R&D, expense consists primarily of personnel costs, including stock-based compensation for R&D personnel, and R&D work orders

(that include material, direct labor and allocated overhead), as well as allocated development costs, such as engineering services, software and hardware tools, depreciation of capital equipment and facility costs. We record all research and development expense as incurred. Customers rely upon us to assist them with the development of new products and modification of existing products because of our extensive optical design and manufacturing expertise. We work closely with our customers in the critical design phase of product development, and are often reimbursed for those development efforts. By virtue of our overseas R&D operations and by focusing on customer-specific projects, our research and development expenses have tended to represent a lower percentage of revenue compared to some of our competitors. In the future, we expect research and development expense to increase on a dollar basis, but continue to decline as a percentage of revenue, to the extent our revenue increases over time.

Sales and marketing. Sales and marketing expense consists primarily of personnel costs, including stock-based compensation for our sales and marketing personnel, as well as travel and trade show expense, sales commissions and the allocation of overall corporate services and facility costs. We sell our products to customers who either incorporate our products into their offering or resell our products to end customers. Because we sell to a limited number of well-established customers, we employ a limited number of sales professionals who are able to cover large markets. We compensate our sales staff through base salary and commissions, with base salary being the largest component of overall compensation. Total sales commissions to employees amounted to less than one percent of our revenue in 2012. Additionally, we pay commissions to third parties on certain product lines and identified customers, which also amounted to less than one percent of our revenue in 2012. As such, our sales and marketing expense does not directly increase with revenue. In the future, we expect sales and marketing expense to increase on a dollar basis as we incrementally increase our overall sales activities, but expect our sales and marketing expense to decline as a percentage of revenue, to the extent our revenue increases over time.

General and administrative. General and administrative expense consists primarily of personnel costs, including stock-based compensation, primarily for our finance, human resources and information technology personnel and certain executive officers, as well as professional services costs related to accounting, tax, banking, legal and information technology services, depreciation of capital equipment and facility costs. We expect general and administrative expense to increase in the short term, as we develop the infrastructure necessary to operate as a public company, including increased audit and legal fees, costs to comply with the Sarbanes-Oxley Act and the rules and regulations applicable to companies listed on a national stock exchange, as well as investor relations expense and higher insurance premiums. In the future, we expect general and administrative expense to increase on a dollar basis but continue to decline as a percentage of revenue, to the extent our revenue increases over time.

Other income (expense)

Interest income consists of income earned on our cash, cash equivalents and short-term investments. Interest expense consists of amounts paid for interest on our short-term and long-term debt borrowings.

Other income (expense), net is primarily made up of foreign currency transaction gains and losses. The functional currency of our China subsidiary is the RMB and the foreign currency transaction gains and losses of our China subsidiary primarily result from their transactions in U.S. dollars. The functional currency of our Taiwan location is the NT dollar and the foreign currency transaction gains and losses of our Taiwan location primarily result from their transactions in U.S. dollars.

Income taxes

We conduct our business globally. However, our operating income is subject to varying rates of tax in the U.S., Taiwan and China. Consequently, our effective tax rate is dependent upon the geographic distribution of our earnings or losses and the tax laws and regulations in each geographical region. We expect that our income taxes will vary in relation to our profitability and the geographic distribution of our profits. Our effective U.S. federal income tax rate was 0% in the past three years as we have incurred operating losses. At December 31, 2012, our U.S. accumulated net operating loss, or NOL, was $66.7 million. As we earn profits in the U.S., we expect to reduce our cash tax obligations by the utilization of NOL carry-forwards. Our NOL benefits expire over the twelve-year period from 2020 to 2032. 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, capital loss carry-forwards and other pre-change tax attributes to offset its post-change income may be limited going forward. We believe we have experienced ownership changes in the past as a result of our stock financings. As a result, our ability to use any NOLs and capital loss carry-forwards existing at the time of the change in ownership would limit those loss carry-forwards. We continue to update our analysis to determine the extent of the limitations.

In China, our wholly owned China subsidiary has enjoyed preferential tax concessions as a "high-tech enterprise." Pursuant to China's State Council's Regulations on Encouraging Investment in and Development, our China subsidiary is entitled to full exemption from China's Foreign Enterprise Income Tax, or FEIT, for the first two years and a 50% reduction for the next three years, commencing from the first profit making year after offsetting all tax losses carried forward from the previous five years. In March 2007, China enacted the PRC Enterprise Income Tax Law, or EIT Law, under which, effective January 1, 2008, China adopted a uniform income tax rate of 25% for all enterprises (including foreign invested enterprises) and cancelled several tax incentives enjoyed previously by foreign invested enterprises. For foreign invested enterprises like our China subsidiary that were established before the promulgation of the EIT Law, a five-year transition period is provided during which reduced income tax rates will apply but gradually be phased out. The Chinese government has not yet announced implementation measures for the transitional policy concerning such preferential tax rates, so we are unable at this time to estimate the financial impact of the new tax law. We expect that our income tax liability from China profits will vary based upon the implementation of that tax policy and the utilization of our NOL carry-forwards. At December 31, 2012, our accumulated NOLs for our China subsidiary were $9.0 million, which expire over a four year period from 2013 to 2016. As we earn profits in China, we expect to reduce our cash tax obligations by the utilization of NOL carry-forwards. The NOL benefits are available to reduce our tax obligations in future periods.

Results of Operations

The following table set forth our results of operations for the periods presented and as a percentage of our revenue for those periods. The period-to-period comparison of our financial results is not necessarily indicative of our financial results to be achieved in future periods.

	Years ended December 31,		
	2010	2011	2012
	(in thousands, except percentages)		
Consolidated Statements of Operations Data:			
Revenue	$ 40,489	$ 47,840	$ 63,421
Cost of goods sold (1)	27,539	34,468	44,492
Gross profit	$ 12,950	$ 13,372	$ 18,929
Gross margin	32.0%	28.0%	29.8%
Operating expenses:			
Research and development (1)	5,176	6,451	7,603
Sales and marketing (1)	1,993	2,412	3,135
General and administrative (1)	8,341	8,197	7,952
Amortization of intangible assets	41	46	60
Asset impairment charges	492	—	—
Total operating expenses	$ 16,043	$ 17,106	$ 18,750
Income (loss) from operations	$ (3,093)	(3,734)	179
Interest and other income (expense), net	(287)	(1,594)	(1,124)
Income (loss) before income taxes	$ (3,380)	$ (5,328)	$ (945)
Benefit from (provision for) income taxes	—	—	—
Net income (loss)	$ (3,380)	$ (5,328)	$ (945)
Additional Financial Data:			
Non-GAAP gross profit (2)	$ 13,011	$ 13,405	$ 18,936
Non-GAAP income (loss) from operations (2)	(1,923)	(3,000)	441
Non-GAAP net income (loss) (2)	(1,780)	(5,027)	(503)
Adjusted EBITDA (2)	2,881	(638)	3,734

(1) These expenses include stock-based compensation expense, which is accounted for at fair value, using the Black-Scholes option-pricing model. Stock-based compensation expense is recognized over the vesting period of the stock options and was included in cost of goods sold and operating expenses as follows:

	Years ended December 31,		
	2010	2011	2012
	(in thousands)		
Cost of goods sold	$ 61	$ 35	$ 7
Research and development	60	50	8
Sales and marketing	80	58	9
General and administrative	579	420	137
Total stock-based compensation expense	$ 780	$ 563	$ 161

(2) We prepare Adjusted EBITDA and our other non-GAAP measures to eliminate the impact of items that we do not consider indicative of our overall operating performance. To arrive at our non-GAAP gross profit, we exclude stock-based compensation expense from our GAAP gross profit. To arrive at our non-GAAP income (loss) from operations we exclude all amortization of intangible assets, stock-based compensation expense and non-recurring consulting fees, if any, from our GAAP net income (loss) from operations. To arrive at our Adjusted EBITDA, we exclude these same items and, additionally, exclude asset impairment charges, loss (gain) from disposal of idle assets, unrealized exchange loss (gain), interest (income) expense, on a net basis, provision for (benefit from) income taxes and all depreciation expense from our GAAP net income (loss).

We believe that our non-GAAP measures are useful to investors in evaluating our operating performance for the following reasons:

- We believe that elimination of items, such as stock-based compensation expense, adjusted depreciation and amortization, income tax expense and other income, net, is appropriate because treatment of these items may vary for reasons unrelated to our overall operating performance;
- We use non-GAAP measures in conjunction with our GAAP financial measures for planning purposes, including the preparation of our annual operating budget, as a measure of operating performance and the effectiveness of our business strategies and in communications with our board of directors concerning our financial performance;
- We believe that non-GAAP measures provide better comparability with our past financial performance, facilitates better period-to-period comparisons of operational results and also facilitates comparisons with our peer companies, many of which also use similar non-GAAP financial measures to supplement their GAAP reporting; and
- We anticipate that, after consummating this offering, our investor presentations and those of securities analyst will include non-GAAP measures to evaluate our overall operating performance.

Adjusted EBITDA and other non-GAAP measures should not be considered as an alternative to gross profit, income (loss) from operations, net income (loss) or any other measure of financial performance calculated and presented in accordance with GAAP. Our Adjusted EBITDA and other non-GAAP measures may not be comparable to similarly titled measures of other organizations because other organizations may not calculate Adjusted EBITDA or such other non-GAAP measures in the same manner. You are encouraged to evaluate these adjustments and the reason we consider them appropriate. For a reconciliation between GAAP and Non-GAAP measures, see footnote (3) to the table in the section titled "Summary Consolidated Financial Data" on page 10 of this prospectus.

Comparison of Years Ended December 31, 2012 and 2011

Revenue

	Years ended December 31,		Change	
	2011	2012	Amount	%
	(in thousands, except percentages)			
Revenue	$ 47,840	$ 63,421	$ 15,581	32.6%

Total revenue increased by $15.6 million, or 32.6%, from 2011 to 2012. The increase in revenue was attributable to a $11.7 million increase in revenue from our CATV market and a $5.1 million increase from the internet data center market, offset by a $1.2 million decrease from other markets. Our CATV market revenue increased in 2012 primarily due to increased capital expenditures by CATV service providers and increased shipments of our CATV equipment products. Revenues in 2012 were also driven by sales increases from two customers in the internet data center market.

Cost of goods sold and gross margin

	Years ended December 31,					
	2011		2012		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
	(in thousands, except percentages)					
Cost of goods sold	$ 34,468	72.0%	$ 44,492	70.2%	$ 10,024	29.1%
Gross margin		28.0%		29.8%		

Cost of goods sold increased by $10.0 million, or 29.1%, from 2011 to 2012, primarily due to a combination of an $8.5 million increase in direct material costs and a $1.3 million increase in labor and overhead costs, both of which were associated with our increase in revenues. The increase in gross margin was caused by lower direct labor costs and lower overhead from improved efficiency, combined with a reduction in our inventory reserve. The inventory reserves were higher in 2011 primarily due to discontinued products and aging of inventory on hand.

Operating expenses

	Years ended December 31,					
	2011		2012		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
	(in thousands, except percentages)					
Research and development	$ 6,451	13.5%	$ 7,603	12.0%	$ 1,152	17.9%
Sales and marketing	2,412	5.0%	3,135	4.9%	723	30.0%
General and administrative	8,197	17.1%	7,952	12.5%	(245)	(3.0)%
Amortization of intangible assets	46	0.1%	60	0.1%	14	29.4%
Total operating expenses	$ 17,106	35.8%	$ 18,750	29.6%	$ 1,644	9.6%

Research and development expense

Research and development expense increased by $1.2 million, or 17.9%, from 2011 to 2012, $0.7 million of which was attributable to R&D material expenses associated with new product development. The remaining $0.5 million increase was a result of a reallocation of existing personnel costs to R&D work orders and an increase in R&D staffing. Because our R&D staff is integral to new product development, our R&D staff often rotate between R&D work orders (non-production orders) and production orders. As we shift those personnel from production back to R&D, our R&D expenses vary.

Sales and marketing expense

Sales and marketing expense increased by $0.7 million, or 30.0%, from 2011 to 2012. This was due to a $0.5 million increase in personnel costs due to additional sales and marketing staff to better serve our customers, and an increase in sales commissions of $0.2 million because of our revenue growth.

General and administrative expense

General and administrative expense decreased by $0.2 million, or 3.0%, from 2011 to 2012. This was primarily due to a decrease in stock option compensation expense because of the use of a reduced volatility assumption and prior grants becoming fully vested.

Other income (expense), net

	Years ended December 31,					
	2011		2012		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
	(in thousands, except percentages)					
Interest income	$ 15	0.0%	$ 26	0.0%	$ 11	71.3%
Interest expense	(1,338)	(2.8)%	(1,381)	(2.2)%	(45)	3.3%
Other income (expense), net	(271)	(0.6)%	231	0.4%	502	186.0%
Total Other income (expense), net	$ (1,594)	(3.3)%	$ (1,124)	(1.8)%	$ 470	29.5%

Total net other expense decreased by $0.5 million, or 29.5%, from 2011 to 2012. Interest expense remained relatively unchanged from 2011 to 2012. While average loan balances increased from 2011 to 2012 by about $2.0 million, we benefited from a reduction in interest rates in 2012. The net other expense decreased by $0.5 million from 2011 to 2012 primarily due to foreign currency revaluation gains from U.S. denominated accounts in 2012 when the NT dollar appreciated against the U.S. dollar.

Benefit from (provision for) income taxes

	Years ended December 31,		
	2011	2012	Change
	(in thousands, except percentages)		
Benefit from (provision for) income taxes	$ —	$ —	$ —
Effective tax rate	0.0%	0.0%	0.0%

Our effective tax rate was 0.0% for 2011 and 2012, as we did not generate positive taxable income.

Comparison of Years Ended December 31, 2011 and 2010

Revenue

	Years ended December 31,		Change	
	2010	2011	Amount	%
	(in thousands, except percentages)			
Revenue	$ 40,489	$ 47,840	$ 7,351	18.2%

Revenue increased by $7.4 million or 18.2% from 2010 to 2011, primarily due to increased capital expenditures by CATV service providers and the increased shipments of our CATV equipment products.

Cost of goods sold and gross margin

	Years ended December 31,					
	2010		2011		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
	(in thousands, except percentages)					
Cost of goods sold	$ 27,539	68.0%	$ 34,468	72.0%	$ 6,930	25.2%
Gross margin		32.0%		28.0%		

Cost of goods sold increased by $6.9 million, or 25.2%, from 2010 to 2011. The increase was primarily due to higher sales volumes in the CATV market. Cost of goods sold in 2011 was also affected by an increase in inventory reserves of $0.7 million, including a specific write-off of discontinued products in the fourth quarter of 2011.

The decrease in gross margin was primarily the result of an unfavorable product mix in the CATV market in addition to the $0.7 million in higher inventory loss reserve through the application of our inventory reserve policy.

Operating expenses

	Years ended December 31,					
	2010		2011		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
	(in thousands, except percentages)					
Research and development	$ 5,176	12.8%	$ 6,451	13.5%	$ 1,275	24.6%
Sales and marketing	1,993	4.9%	2,412	5.0%	419	21.0%
General and administrative	8,341	20.6%	8,197	17.1%	(145)	(1.7)%
Amortization of intangible assets	41	0.1%	46	0.1%	5	13.3%
Asset impairment charges	492	1.2%	—	0.0%	(492)	(100.0)%
Total operating expenses	16,043	39.6%	17,106	35.8%	1,063	6.6%

Research and development expense

Research and development expense increased by $1.3 million, or 24.6%, from 2010 to 2011. This was primarily due to a $0.6 million increase in personnel costs and a $0.4 million increase in R&D work order and project costs.

Sales and marketing expense

Sales and marketing expense increased by $0.4 million, or 21.0%, from 2010 to 2011. The increase was primarily attributable to a $0.2 million increase in personnel costs from additional sales personnel, and a $0.2 million increase in shipping and samples expense as we expanded our customer base and markets.

General and administrative expense

General and administrative expense decreased by $0.1 million, or 1.7%, from 2010 to 2011. The decrease was due primarily to a change in accounting for stock-based compensation expense and other savings and lower professional service fees, offset by an increase in personnel costs.

Asset impairment charges

In 2010, we recognized a $0.5 million asset impairment charge related to equipment with carrying values lower than the estimated fair values.

Other income (expense), net

	Years ended December 31,					
	2010		2011		Change	
	Amount	% of revenue	Amount	% of revenue	Amount	%
	(in thousands, except percentages)					
Interest income	$ 34	0.1%	$ 15	0.0%	$ (19)	(56.2)%
Interest expense	(906)	(2.2)%	(1,338)	(2.8)%	(431)	47.6%
Other income (expense), net	585	1.4%	(271)	(0.6)%	(857)	(146.3)%
Total Other income (expense), net	$ (287)	(0.7)%	$ (1,594)	(3.3)%	$ (1,307)	455.6%

The increase in interest expense of $0.4 million, or 47.7%, from 2010 to 2011 was due to additional debt in 2011 related to loans for our China subsidiary and loans from stockholders in 2010.

Other income (expense), net decreased by $0.9 million, or 146.4%, from 2010 to 2011 primarily related to an unrealized foreign exchange loss recognized resulting from the depreciation of the NT dollar against the U.S. dollar.

Benefit from (provision for) income taxes

	Years ended December 31,		
	2010	2011	Change
	(in thousands, except percentages)		
Benefit from (provision for) income taxes	$ —	$ —	$ —
Effective tax rate	0.0%	0.0%	0.0%

Our effective tax rate was 0.0% for 2010 and 2011, as we did not generate positive taxable income.

Quarterly Results of Operations

The following tables set forth selected unaudited quarterly statements of operations data for our last eight completed fiscal quarters. The information for each of these quarters has been prepared on the same basis as the consolidated financial statements appearing elsewhere in this prospectus and, in the opinion of management, includes all adjustments necessary for the fair presentation of the results of operations for these periods. These data should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this prospectus. These quarterly operating results are not necessarily indicative of our operating results for any future period.

	Mar. 31, 2011	Jun. 30, 2011	Sep. 30, 2011	Dec. 31, 2011	Mar. 31, 2012	Jun. 30, 2012	Sep. 30, 2012	Dec. 31, 2012
	(in thousands, except percentages)							
Revenue	$ 9,507	$ 11,489	$ 12,094	$ 14,750	$ 12,506	$ 15,638	$ 16,416	$ 18,861
Cost of goods sold (1)	6,844	7,956	8,297	11,371	8,393	10,938	11,743	13,418
Gross profit	$ 2,663	$ 3,533	$ 3,797	$ 3,379	$ 4,113	$ 4,700	$ 4,673	$ 5,443
Gross margin	28.0%	30.8%	31.4%	22.9%	32.9%	30.1%	28.5%	28.9%
Operating expenses:								
Research and development (1)	$ 1,520	$ 1,396	$ 1,758	$ 1,777	$ 1,574	$ 1,708	$ 2,178	$ 2,144
Sales and marketing (1)	492	560	625	736	814	806	759	756
General and administrative (1)	2,043	2,064	2,048	2,087	1,961	1,947	1,892	2,213
Total operating expenses	$ 4,056	$ 4,020	$ 4,431	$ 4,601	$ 4,349	$ 4,460	$ 4,829	$ 5,112
Income (loss) from operations	$ (1,392)	$ (487)	$ (634)	$ (1,221)	$ (236)	$ 240	$ (156)	$ 331
Interest and other income (expense), net	(279)	(334)	(634)	(347)	(287)	(332)	(225)	(280)
Net income (loss)	$ (1,671)	$ (821)	$ (1,268)	$ (1,568)	$ (523)	$ (92)	$ (381)	$ 51
Additional Financial Data:								
Non-GAAP gross profit (2)	$ 2,672	$ 3,542	$ 3,806	$ 3,388	$ 4,115	$ 4,702	$ 4,675	$ 5,445
Non-GAAP income (loss) from operations (2)	(1,160)	(280)	(483)	(1,076)	(203)	278	(108)	474
Non-GAAP net income (loss) (2)	(1,469)	(832)	(1,340)	(1,385)	(443)	(106)	(215)	262
Adjusted EBITDA (2)	(432)	255	(214)	(245)	656	953	851	1,275

(1) These expenses include stock-based compensation expense as follows:

	Mar. 31, 2011	Jun. 30, 2011	Sep. 30, 2011	Dec. 31, 2011	Mar. 31, 2012	Jun. 30, 2012	Sep. 30, 2012	Dec. 31, 2012
	(in thousands)							
Cost of goods sold	$ 9	$ 9	$ 9	$ 9	$ 2	$ 2	$ 2	$ 2
Research and development	13	13	13	12	2	2	2	2
Sales and marketing	16	16	13	12	2	2	2	2
General and administrative	108	108	104	99	12	12	9	104
Total stock-based compensation expense	$ 146	$ 146	$ 139	$ 132	$ 18	$ 18	$ 15	$ 110

(2) See footnote 3 to the table in the section titled "Summary Consolidated Financial Data" on page 10 of this prospectus for further discussion regarding Non-GAAP measures. The following table reflects the reconciliation of U.S. GAAP financial measures to non-GAAP financial measures:

	Mar. 31, 2011	Jun. 30, 2011	Sep. 30, 2011	Dec. 31, 2011	Mar. 31, 2012	Jun. 30, 2012	Sep. 30, 2012	Dec. 31, 2012
	(in thousands)							
Gross profits	$ 2,663	$ 3,533	$ 3,797	$ 3,379	$ 4,113	$ 4,700	$ 4,673	$ 5,443
Non-GAAP adjustment:								
Stock-based compensation expense	9	9	9	9	2	2	2	2
Non-GAAP gross profit	$ 2,672	$ 3,542	$ 3,806	$ 3,388	$ 4,115	$ 4,702	$ 4,675	$ 5,445
Income (loss) from operations	$ (1,392)	$ (487)	$ (634)	$ (1,221)	$ (236)	$ 240	$ (156)	$ 331
Non-GAAP adjustments:								
Amortization of intangible assets	11	11	12	13	15	14	15	16
Stock-based compensation expense	146	146	139	132	18	18	15	110
Non-recurring consultant fee	75	50	—	—	—	6	18	17
Non-GAAP income (loss) from operations	$ (1,160)	$ (280)	$ (483)	$ (1,076)	$ (203)	$ 278	$ (108)	$ 474
Net income (loss)	$ (1,671)	$ (821)	$ (1,268)	$ (1,568)	$ (523)	$ (92)	$ (381)	$ 51
Non-GAAP adjustments:								
Amortization of intangible assets	11	11	12	13	15	14	15	16
Stock-based compensation expense	146	146	139	132	18	18	15	110
Non-recurring consultant fee	75	50	—	—	—	6	18	17
Loss (gain) from disposal of idle assets	—	(9)	(85)	15	(36)	—	(1)	—
Unrealized exchange loss (gain)	(30)	(209)	(138)	24	83	(52)	119	68
Non-GAAP net income (loss)	$ (1,469)	$ (832)	$ (1,340)	$ (1,385)	$ (443)	$ (106)	$ (215)	$ 262
Net income (loss)	$ (1,671)	$ (821)	$ (1,268)	$ (1,568)	$ (523)	$ (92)	$ (381)	$ 51
Non-GAAP adjustments:								
Amortization of intangible assets	11	11	12	13	15	14	15	16
Stock-based compensation expense	146	146	139	132	18	18	15	110
Depreciation expense	763	768	752	783	725	724	721	712
Non-recurring consultant fee	75	50	—	—	—	6	18	16
Loss (gain) from disposal of idle assets	—	(9)	(85)	15	(36)	—	(1)	—
Unrealized exchange loss (gain)	(29)	(209)	(138)	24	83	(53)	119	68
Interest expense	274	319	374	356	374	336	345	301
Adjusted EBITDA	$ (432)	$ 255	$ (214)	$ (245)	$ 656	$ 953	$ 851	$ 1,275

The following table provides the unaudited quarterly results as a percentage of revenue.

	Mar. 31, 2011	Jun. 30, 2011	Sep. 30, 2011	Dec. 31, 2011	Mar. 31, 2012	Jun. 30, 2012	Sep. 30, 2012	Dec. 31, 2012
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	72.0%	69.2%	68.6%	77.1%	67.1%	69.9%	71.5%	71.1%
Gross profit	28.0%	30.8%	31.4%	22.9%	32.9%	30.1%	28.5%	28.9%
Operating expenses:								
Research and development	16.0%	12.2%	14.5%	12.0%	12.6%	10.9%	13.3%	11.4%
Sales and marketing	5.2%	4.9%	5.2%	5.0%	6.5%	5.2%	4.6%	4.0%
General and administrative	21.5%	18.0%	16.9%	14.2%	15.7%	12.4%	11.5%	11.7%
Total operating expenses	42.7%	35.0%	36.6%	31.2%	34.8%	28.5%	29.4%	27.1%
Income (loss) from operations	(14.6)%	(4.2)%	(5.2)%	(8.3)%	(1.9)%	1.5%	(0.9)%	1.8%
Interest and other income (expense), net	(2.9)%	(2.9)%	(5.2)%	(2.3)%	(2.3)%	(2.1)%	(1.4)%	(1.5)%
Net income (loss)	(17.6)%	(7.1)%	(10.5)%	(10.6)%	(4.2)%	(0.6)%	(2.3)%	0.3%
Additional Financial Data:								
Non-GAAP gross profit (1)	28.1%	30.8%	31.5%	23.0%	32.9%	30.1%	28.5%	28.9%
Non-GAAP income (loss) from operations (1)	(12.2)%	(2.4)%	(4.0)%	(7.3)%	(1.6)%	1.8%	(0.7)%	2.5%
Non-GAAP net income (loss) (1)	(15.5)%	(7.2)%	(11.1)%	(9.4)%	(3.5)%	(0.7)%	(1.3)%	1.4%
Adjusted EBITDA (1)	(4.5)%	2.2%	(1.8)%	(1.7)%	5.2%	6.1%	5.2%	6.8%

(1) See footnote 2 to the preceding table.

Quarterly revenue trends and seasonality

Our quarterly results reflect seasonality in the sale of our products. Historically, our revenue has been highest in the fourth quarter and lowest in the first quarter. The first quarter of the year has historically been negatively affected by reduced economic activity due to the Chinese New Year holiday and the lower level of deployment of outdoor CATV equipment in cold weather environments. We expect our first quarter revenue to remain the lowest quarter of the year and be lower than the fourth quarter of the prior year.

Quarterly gross margin trends

Our gross margin varies quarter to quarter but has been within a range of 28.0% and 32.9% over the past eight quarters, except for the fourth quarter of 2011 when we incurred an additional charge to inventory of $0.7 million from the application of our inventory reserve policy. Our gross margin varies primarily due to the product mix in a particular quarter, as well as from the level of manufacturing efficiencies, production yields (particularly in the laser chip fabrication process) and overall supply costs.

Quarterly operating result trends

Our quarterly operating results are likely to fluctuate due to seasonality and other factors such as:

- general economic, industry and market conditions in our target markets;
- our CATV customers' willingness to outsource more of their internal design and manufacturing;
- changes in the mix of products within a quarter or changes in the volume of products sold within a particular target market;
- our ability to obtain new design wins and the timing of such design wins;
- the level of revenues from our design wins;
- pricing policies by us or our competitors;
- our ability to fulfill sales orders in a timely manner within normal lead times or as otherwise demanded by customers;
- our ability to adjust our production in response to quarter-over-quarter variations in revenue;
- our ability to adjust sales, general and administrative costs in response to changes in revenue; and
- our ability to control costs and capital expenditures.

The occurrence of one or more of these factors could cause our revenue and corresponding operating results to vary widely. As such, we believe that our quarterly levels of revenue and expenses may vary significantly in the future, and that period-to-period comparisons of our results may not be meaningful and should not be relied upon as an indication of future performance.

Liquidity and Capital Resources

Since inception, we have financed our operations through private sales of equity securities and cash generated from operations and from various lending arrangements. At December 31, 2012, our cash, cash equivalents and restricted cash totaled $11.2 million. Cash and cash equivalents were held for working capital purposes and were invested primarily in money market 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:

	Years Ended December 31,		
	2010	2011	2012
		(in thousands)	
Net cash provided by (used in) operating activities	$ (3,209)	$ (4,125)	$ (358)
Net cash used in investing activities	(2,914)	(1,571)	(3,290)
Net cash provided by (used in) financing activities	8,975	2,836	12,754
Effect of exchange rates on cash and cash equivalents	(621)	136	(150)
Net increase (decrease) in cash and cash equivalents	$ 2,232	$ (2,724)	$ 8,956

Operating activities

In 2012, net cash used in operating activities was $0.4 million. Cash used in operating activities primarily related to payments to suppliers in excess of cash received from our customers from the sale of our products. During 2012, we recognized a net loss of $0.9 million. However, that net loss incorporated non-cash charges, including depreciation and amortization of $2.9 million, stock-based compensation expense of $0.1 million and non-cash increases to our inventory reserve accounts of $0.9 million. In addition, we spent $0.5 million in 2012 to increase our inventories in anticipation of expected increases in sales volumes.

In 2011, net cash used in operating activities was $4.1 million. Cash used in operating activities primarily related to payments to suppliers in excess of cash received from our customers from the sale of our products. During 2011, we recognized a net loss of $5.3 million. However, that net loss incorporated non-cash charges, including depreciation and amortization of $3.1 million, stock-based compensation expense of $0.6 million and non-cash increases to our inventory reserve accounts of $1.6 million. In addition, we spent $1.6 million in 2011 to increase our inventories in anticipation of expected increases in sales volumes.

In 2010, net cash used in operating activities was $3.2 million. Cash used in operating activities primarily related to payments to suppliers in excess of cash received from our customers from the sale of our products. During 2010, we recognized a net loss of $3.4 million. However, that net loss incorporated non-cash charges, including depreciation and amortization of $3.3 million, asset impairment charges of $0.5 million and stock-based compensation expense of $0.8 million and non-cash increases to our asset reserve accounts of $0.6 million.

Investing activities

Our investing activities consisted primarily of capital expenditures and purchases of intangible assets.

In 2012, we used $3.3 million of cash for investing activities. We used $3.2 million of cash for the purchase of additional machinery and equipment to support our research and development efforts and manufacturing activities, partially offset by $0.1 million of cash provided by the sale of obsolete equipment.

In 2011, we used $1.6 million of cash for investing activities. We used $1.8 million of cash for the purchase of property and equipment, partially offset by $0.4 million of cash provided by the sale of obsolete equipment.

In 2010, we used $2.9 million of cash for investing activities, including $3.0 million of capital expenditures associated with the purchase of machinery and equipment and the expansion of our operations in China.

Financing activities

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

In 2012, our financing activities provided $12.8 million in cash. We received $10.2 million in cash from the issuance of preferred stock, $2.7 million in net borrowings associated with our bank loans and $0.8 million from the issuance of notes payable, offset in part by $0.7 million of payments of principal on our term loans and notes payable and $0.2 million to repay loans from stockholders.

In 2011, our financing activities provided $2.8 million in cash, primarily resulting from $2.9 million of cash from the issuance of preferred stock and $1.6 million in net borrowings associated with our bank loans, offset in part by $0.2 million of payments of principal on our term loans and notes payable and $1.2 million to repay loans from stockholders.

In 2010, our financing activities provided $9.0 million in cash, primarily resulting from $6.1 million of net borrowings associated with our bank loans, $0.4 million from the issuance notes payable and $3.2 million from the proceeds of loans from stockholders. Restricted cash increased during 2010 by $0.5 million due to less compensating balance required for our loan in China. Such proceeds were offset by $0.4 million of payments of principal on our term loans and notes payable.

Loans and commitments

We have lending arrangements with several financial institutions, including a loan and security agreement with East West Bank in the U.S., several lines of credit arrangements for our China subsidiary and a financing agreement for our Taiwan location.

As of December 31, 2012, our loan and security agreement in the U.S. included a $10.5 million revolving line of credit which matures on November 15, 2013. Also included with the same bank are two term loans with monthly payments of principal and interest that mature on May 4, 2014. As of December 31, 2012, we had $8.6 million outstanding under the revolving line of credit and $0.1 and $3.2 million outstanding on the term loans.

Our loan and security agreement requires us to maintain certain financial covenants, including a liquidity ratio, and restricts our ability to incur additional debt or to engage in certain transactions and is secured by substantially all of our U.S. assets. As of December 31, 2012, we were in compliance with all covenants contained in this agreement.

Our China subsidiary has a line of credit facility and bank acceptances with a China bank totalling $12.8 million. As of December 31, 2012, a total of $12.0 million was outstanding under various notes and bank acceptances, each with its own maturity date and each renewing annually from January 2013 to March 2014. Among these loans and bank acceptances, as of

March 15, 2013, a total of $6.0 million of loans had been renewed on the same terms and now mature from January 2014 to March 2014 and a total of $2.1 million of loans and bank acceptances were repaid and extinguished. Of the other $3.8 million that mature beginning in April 2013, such loans are expected to be renewed on the same terms and with new one year terms. These loans have renewed each year for the past three years. While there can be no assurance of renewal as each loan matures, we expect these loans to renew this year as they have over the past periods.

Our Taiwan location had a $0.5 million note payable to a financing company as of December 31, 2012. This note is payable in monthly installments and matures on June 20, 2013.

In 2010, we borrowed $3.2 million from 12 shareholders under the terms of unsecured promissory note agreements. These notes bore an interest rate of 6.0% with maturity dates that were 18 months from their original note date. All of these notes were extended until December 31, 2012. During 2011 or 2012, all of these note holders converted their respective notes into preferred stock, or the notes were paid and extinguished.

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 six 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 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 the vendors upon redemption. We owe the payable balance to the issuing bank. The notes payable are non-interest bearing and are generally due within six 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. As of December 31, 2012, our restricted cash totaled $0.5 million.

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 to 24 months. Our future capital requirements will depend on many factors including our growth rate, the timing and extent of spending to support our development efforts, the expansion of our sales and marketing activities, the introduction of new and enhanced products, the costs to increase our manufacturing capacity and the continuing market acceptance of our products. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, operating results and financial condition would be adversely affected.

Contractual Obligations and Commitments

The following summarizes our contractual obligations as of December 31, 2012:

	Payments due by period				
(in thousands)	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Notes payable and long-term debt (1)	$ 24,584	$ 15,421	$ 9,163	$ —	$ —
Operating leases (2)	635	494	140	—	—
Purchase obligations (3)	62	26	26	9	
Total commitments	$ 25,281	$ 15,941	$ 9,329	$ 9	$ —

(1) We have several loan and security agreements in China and the U.S. that provide various credit facilities, including lines of credit and term loans. 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.

(3) We are obligated to make payments under various arrangements with suppliers for the procurement of goods and services.

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 financial market prices and rates and inflation. Our market risk exposure results primarily from fluctuations in foreign exchange and interest 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 Rates

We are exposed to interest rate fluctuations on our cash and cash equivalents. We had unrestricted cash and cash equivalents of $4.5 million, $1.8 million and $10.7 million at December 31, 2010, 2011 and 2012, respectively. Our cash and cash equivalents are subject to limited interest rate risk and are primarily maintained in money market funds and bank deposits.

We have entered into various loan agreements with East West Bank in the U.S., China Construction Bank and Shanghai Pu-Dong Development Bank in China and Chailease Finance Co LTD in Taiwan. At December 31, 2012:

- the short-term U.S.-based loans had a principal balance of $8.6 million, bearing interest at rates based on the prime rate plus a premium of 1.25% or floor rate of 4.5% whichever is higher,
- the term loan with a U.S. bank had a principal balance of $3.32 million, with monthly payment of principal and interest at prime rate plus 1.25% or swap contract with fixed 5%, maturing May 3, 2014,

- the Chinese-based loan had a principal balance of $10.5 million, bearing interest at 110%-125% of LIBOR,
- the Chinese bank acceptance notes issued to vendors had a balance of $1.5 million, bearing no interest rate, and
- the Taiwanese-based loan had $0.4 million principal balance outstanding, with monthly payment of principal and interest at interest rate of 3.3%, maturing on June 30, 2013.

With respect to our interest expense for the year ended December 31, 2012, an increase or decrease of 1.0% in each of our interest rates would have resulted in an increase or decrease of $0.2 million in our interest expense for such period.

Foreign Exchange Rates

We operate on an international basis with a portion of our revenue and expenses being incurred in currencies other than the U.S. dollar. Fluctuations in the value of these foreign currencies in which we conduct our business relative to the U.S. dollar affects our results and will cause U.S. dollar translation of such currencies to vary from one period to another. We cannot predict the effect of exchange rate fluctuations upon our future operating results. The effect on our results of operations from currency fluctuations is reduced, however, because we have revenue and expenses in each of these foreign currencies.

We maintain certain assets, including certain bank accounts, accounts receivables, land and building, in RMB and the NT dollar, which are sensitive to foreign currency exchange rate fluctuations. Additionally, certain of our current and long-term liabilities are denominated in these currencies. As of December 31, 2012, currency changes resulted in assets and liabilities denominated in these currencies being translated into $0.3 million more U.S. dollars than at December 31, 2011.

Additionally, the value of the RMB against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in political and economic conditions in China. The conversion of RMB into foreign currencies, including U.S. dollars, has been based on rates set by the People's Bank of China. On July 21, 2005, the Chinese government changed its policy of pegging the value of the RMB to the U.S. dollar and began allowing modest appreciation of the RMB against the U.S. dollar. Fluctuation of the RMB exchange rate is, however, restricted to a rise or fall of no more than 0.5% per day versus the U.S. dollar, and the People's Bank of China continues to intervene in the foreign exchange market to prevent significant short-term fluctuations in the RMB exchange rate. Nevertheless, under China's current exchange rate regime, the RMB may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. The RMB has appreciated 8.63% against the U.S. dollar from Jan. 1, 2010 to December 31, 2012. There remains international pressure on the Chinese government to adopt a substantial liberalization of its currency policy, which could result in a further and more significant appreciation in the value of the RMB against the U.S. dollar.

We use the U.S. dollar as our functional and reporting currency for our financial statements. All transactions in currencies other than the U.S. dollar during the year are re-measured at the exchange rates prevailing on the respective relevant dates of such transactions. Monetary assets and liabilities existing at the balance sheet date denominated in currencies other than the U.S. dollar are re-measured at the exchange rates prevailing on such date. Exchange differences are recorded in our consolidated income statement. The financial records of our China subsidiary and our Taiwan location 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 location, respectively. Assets and liabilities are translated at the 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 year in 2010, 2011 and using quarterly average rate for 2012. 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. Transaction gains and losses are recognized in our statements of operations in other income (expenses).

We incurred approximately 51.1% of our operating expenses in currencies other than the U.S. dollar during 2012. As of December 31, 2012, we held the U.S. dollar equivalent of approximately $1.5 million in RMB and $0.1 million in NT dollars, included in cash and cash equivalents. Fluctuations in exchange rates directly affect our cost of revenues and net income, and have a significant impact on fluctuations in our operating margins. For example, in 2012, 81.9% of our revenues were generated from sales denominated in U.S. dollars, and 25.5% of our operating costs and expenses were denominated in RMB and 25.6% of our operating costs were denominated in NT dollars. Fluctuations in exchange rates also affect our balance sheet. For example, if we need to convert U.S. dollars into RMB or NT dollars for our operations, appreciation of the RMB or the NT dollar against the U.S. dollar would have an adverse effect on the RMB or NT dollar amount that we receive from the conversion. With respect to our cash and cash equivalents as of December 31, 2012, a 1.0% change in the exchange rates between the RMB and the U.S. dollar would result in an immaterial change in our total cash and cash equivalents, and a 1.0% change in the exchange rates between the NT dollar and the U.S. dollar would result in an immaterial change our total cash and cash equivalents.

Fluctuations in currency exchange rates of the above currencies we hold against the U.S. dollar would have a corresponding impact on the U.S. dollar equivalent of such currencies included in the cash and cash equivalents reported in our financial statements from period to period.

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. To the extent we expand our operations in China and Taiwan, such actions may result in inflation having a more significant impact on our operating results in the future.

Off-Balance Sheet Arrangements

During 2010, 2011 and 2012, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. These principles require us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, expenses and cash flows, and related disclosure of contingent assets and liabilities. Our estimates include those related to revenue recognition, stock-based compensation expense, impairment analysis of goodwill and long-lived assets,

valuation of inventory, warranty liabilities and accounting for income taxes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. To the extent that there are material differences between these estimates and our actual results, our future financial statements will be affected.

We believe that of our significant accounting policies, which are described in Note B to our consolidated financial statements appearing elsewhere in this prospectus, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, we believe these are the most critical to fully understand and evaluate our financial condition and results of operations.

Revenue recognition

We recognize revenue from the sale of our products provided that persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectability is reasonably assured. Contracts or customer purchase orders are used to determine the existence of an arrangement. Shipping documents and customer acceptance, when applicable, are used to verify delivery. We assess whether the price is fixed or determinable based on the payment terms associated with the transaction and whether the sales price is subject to refund or adjustment. We assess collectability based primarily on the creditworthiness of the customer as determined by credit checks and the customer's payment history.

Revenue is recognized when the product is shipped and title has transferred to the customer. We bear all costs and risks of loss or damage to the goods up to that point. On most orders, our terms of sale provide that title passes to the customer upon placement by us with a common carrier (upon shipment). In some cases we may provide for title transfer to the customer upon delivery of the goods to the customer. We determine payments made to third party sales representatives are appropriately recorded to sales and marketing expense and not a reduction of revenue. Shipping and handling costs are included in cost of goods sold. We present revenue net of sales returns and allowances, sales taxes and any similar assessments.

Stock-based compensation expense

We issue stock options to employees, consultants and non-employee directors. Stock options are granted at or above fair market value on the date of the grant and generally vest over a four-year period. The fair market value of our stock has been historically determined by our board of directors. To aid in that determination, in January 2013, we engaged an appraisal firm to perform a valuation study to determine the fair market value of our common stock for financial reporting and stock option-pricing purposes. The valuation was to assist with regulations related to Internal Revenue Code 409A, Nonqualified Deferred Compensation and audit requirements related to Accounting Standards Codification, or ASC, 718, Compensation—Stock Compensation. ASC 718 is the new accounting nomenclature for the rules and guidelines previously addressed in Statement of Financial Accounting Standards No. 123R, Share-Based Payment. A detailed report expressing their conclusions of fair market value on a non-controlling, non-marketable basis was issued with a valuation date as of December 31, 2012. Since we contemplated an initial public offering, the appraisal firm utilized the Probability Weighted Expected Return Method for equity allocation, considered more appropriate than the Option-Pricing Method or Current Value Method. The Probability Weighted Expected Return Method estimates the value of the common stock based upon an analysis of future values for the enterprise assuming various future outcomes. The concluded share value is based on the probability weighted present value of expected future investment returns, considering each of

the possible future outcomes available to the enterprise as well as the claims of each share class on our equity value. The valuation utilized the income approach (or discounted cash flow method) and the market approach (the guideline public company method and the similar transactions method). Both approaches capture the total value of our operations, including any goodwill or intangible value that may be present. Based upon our analyses, and the facts and circumstances as of the valuation date, December 31, 2012, the fair market value of our common stock was estimated to be $0.25 per share. Based upon this valuation and other factors, the Board of Directors determined that the exercise price for options granted in January of 2013 to be $0.25 per share.

Our stock-based compensation expense was recorded as follows:

	Years ended December 31,		
	2010	2011	2012
	(in thousands)		
Cost of goods sold	$ 61	$ 35	$ 7
Research and development	60	50	8
Sales and marketing	80	58	9
General and administrative	579	420	137
Total stock-based compensation expense	$ 780	$ 563	$ 161

We follow ASC 718, the authoritative accounting guidance for stock-based compensation expense, which requires companies to measure the cost of employee stock options at the date of the grant.

Our determination of the fair value of stock-based payment awards on the measurement date utilizes the Black-Scholes option-pricing model, which requires the use of assumptions. For the years ended December 31, 2010, 2011 and 2012, we used the following assumptions to calculate the fair value of stock options:

	Years ended December 31,		
	2010	2011	2012
Expected volatility	74%	70%	70%
Risk-free interest rate	1.72%	2.32%	1.01%
Expected term (years)	6.25	6.25	6.25
Expected dividend yield	—	—	—
Estimated forfeitures	13%	13%	10%

As there was no trading value for our common stock prior to this offering, the expected volatility of stock options granted to date was derived from an analysis of reported data for a peer group of companies that issued stock options with similar terms. The expected volatility has been determined using an average of the expected volatility reported by these peer companies during the period. The expected term of the stock options has been determined utilizing the simplified method, which calculated a simple average based on vesting period and option life. We do not anticipate paying dividends in the near future. Estimated forfeitures are based on historical experience and future work force projections. We will revise the estimates, if necessary, in subsequent periods, if actual forfeitures differ from our estimates.

Long-lived assets

Depreciation and amortization of the intangible assets and other long-lived assets is provided using the straight-line method over their respective estimated useful lives, reflecting the pattern of economic benefits associated with these assets. Changes in circumstances such as technological advances, changes to our business model, or changes in our capital strategy could cause the actual useful lives of intangible assets or other long-lived assets to differ from initial estimates. In those cases where we determine that the useful life of an asset should be revised, we depreciate the remaining net book value over the new estimated useful life.

Our long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We obtain appraisals on an asset-by-asset basis and will recognize an impairment loss when the sum of the appraised values is less than the carrying amount of such assets. The appraised values, based on reasonable and supportable assumptions and projections, require subjective judgments. Depending on the assumptions and estimates used, the appraised values projected in the evaluation of long-lived assets can vary within a range of outcomes. The appraisals consider the likelihood of possible outcomes in determining the best estimate for the value of the assets. We did not record any asset impairment charges in 2012 or 2011. During 2010, we recorded an asset impairment charge of $0.5 million related to equipment in China that was no longer useful in the manufacturing process and therefore without value.

Valuation of inventories

Inventories are stated at the lower of cost (average-cost method) or market. Work in process and finished goods includes materials, labor and allocated overhead. We assess the valuation of our inventory on a periodic basis and provide an allowance for the value of estimated excess and obsolete inventory based on estimates of future demand. During the years ended December 31, 2012, 2011 and 2010, we recorded excess and obsolete inventory charges of $0.9 million, $1.6 million, and $0.6 million, respectively. Of the $1.6 million in inventory reserves during 2011, $1.0 million was recorded in the fourth quarter of 2011 and was associated with the application of our inventory reserve policy.

During 2011, we reviewed our inventory policy to determine if the existing reserve for obsolescence and loss was appropriate. The policy at the time provided reserves on a schedule that weighted inventory over a two year period, but the maximum reserve was 80% of inventory value, regardless of the age of inventory. We modified the policy to account for more distinct periods, and to fully reserve any inventory that was over two years old. The policy provides for aging of inventory as follows:

- Less than 360 days—10%
- Between 360 and 540 days—50%
- Between 540 and 720—80%
- Over 720 days—100%

We considered the following factors in our determination of the appropriate reserve level: how often we buy material in bulk that lasts for more than 12 months of supply; changes in material costs over a 24 month period; the overall market value of raw material, semi-finished goods and finished goods across our varied product lines and within markets; changes in expected demand for our products; the change in valuations historically; the determined safety stock for key customers; and the likelihood of postponement in delivery schedules for materials already placed in finished goods inventory.

Accounting for income taxes

We account for income taxes in accordance with the provisions of ASC 740, Income Taxes. The liability method is used to account for deferred income taxes. Under the liability method, deferred tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The ability to realize deferred tax assets is evaluated annually and a valuation allowance is provided if it is unlikely that the deferred tax assets will not give rise to future benefits in our tax returns.

Recent Accounting Pronouncements

ASU 2011-04. In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. This ASU represents the converged guidance of the FASB and the IASB on measuring fair value and for disclosing information about fair value measurements. The amendments in this ASU clarify the Board's intent about the application of existing fair value measurement and disclosure requirements and changes particular principles or requirements for measuring fair value and for disclosing information about fair value measurements. ASU 2011-04 is effective prospectively for interim and annual reporting periods beginning after December 15, 2011. We adopted the provisions of ASU 2011-04 on January 1, 2012, and the adoption of this standard did not have a material impact on our financial position, results of operations, or cash flows.

ASU 2011-05. In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. The amendments in this ASU allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. ASU 2011-05 should be applied retrospectively for interim and annual reporting periods beginning after December 15, 2011 with early adoption permitted. We early adopted the provisions of ASU 2011-05 during the fourth quarter of 2011, and the adoption of this standard did not have a material impact on our financial position, results of operations, or cash flows.

ASU 2011-12. In December 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendment to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income (Topic 220): Presentation of Comprehensive Income*. This ASU defers the guidance on whether to require entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement where net income is presented and the statement where other comprehensive income is presented for both interim and annual financial statements. ASU 2011-12 reinstated the requirements for the presentation of reclassifications that were in place prior to the issuance of ASU 2011-05 and did not change the effective date of ASU 2011-05. ASU 2011-12 should be applied consistently with ASU 2011-05; accordingly, this ASU is to be applied retrospectively for interim and annual reporting periods beginning after December 15, 2011, with early adoption permitted. We early adopted the provisions of ASU 2011-12 during the fourth quarter of 2011, and the adoption of this standard did not have a material impact on our financial position, results of operations, or cash flows.

BUSINESS

Overview

We are a leading, vertically integrated provider of fiber-optic networking solutions. We target three networking end-markets: CATV, FTTH and internet data centers. We design and manufacture a range of optical communications solutions at varying levels of integration, from components, subassemblies and modules to complete turn-key equipment. We are primarily focused on the higher-performance segments within the CATV, FTTH and internet data center markets which increasingly demand faster connectivity and innovation. In 2012, our products were used by the five largest CATV equipment OEMs consisting of Arris Group Inc., Aurora Networks, Inc., Cisco Systems, Inc., Harmonic Inc. and Motorola Mobility Holdings, Inc. Our other key customers included Genexis B.V. in the FTTH market and Microsoft Corporation in the internet data center market.

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. According to Cisco Systems' Visual Networking Index, global network traffic is expected to grow at a compound annual growth rate of 29% from 2011 to 2016. 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 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. According to a 2012 Crehan Research forecast, 10 gigabit ethernet port shipments in 2012 were 13.5 million and are project to grow to 42.9 million in 2015, representing a 46.9% CAGR. 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 required bandwidth.

The CATV market is our largest and most established market, for which we supply a broad array of products including lasers, transmitters and turn-key equipment. Sales of headend, node and distribution equipment have contributed significantly to our growth in recent years as a result of our ability to meet the needs of CATV equipment vendors who have begun to outsource both the design and manufacture of this equipment. While these equipment vendors have relied upon third parties to assemble products for some time, only recently have they started to shift the design of equipment to other parties due in part to the sophisticated engineering expertise needed to perform this work. We believe that our extensive high-speed optical, mixed-signal semiconductor and mechanical engineering capabilities position us well to benefit from it.

Our vertically integrated manufacturing model provides us several advantages, including rapid product development, fast response times to customer requests and better control over product quality and manufacturing costs. We design, manufacture and integrate our own analog and digital lasers using a proprietary MBE fabrication process, which we believe is unique in our industry. The lasers we manufacture are proven to be extremely reliable over time and highly tolerant of changes in temperature and humidity, making them exceptionally well-suited to the CATV and FTTH markets where networking equipment is often installed outdoors. We believe the superior performance of our lasers is evidenced by our leading share of lasers installed in CATV networks today.

We are based in Sugar Land, Texas, where we design and fabricate our lasers, and conduct most of our research and development efforts. At our facilities in Ningbo, China, and Taipei, Taiwan, we complete the assembly of our lasers and photodiodes and also design and assemble

our module and equipment products, utilizing a combination of advanced automation and skilled labor. In addition to our global sales team in the U.S., we also have regional sales teams located in China and Taiwan.

Our revenues in 2012 were $63.4 million, our gross margin was 29.8% and our net loss was $0.9 million. We have grown our revenue at a CAGR of 36.4% from 2009 to 2012.

Industry Background

Our three target markets of CATV, FTTH and internet data centers share a common trend of a significant growth in bandwidth consumption, and the corresponding need for network infrastructure improvement to support it. Within the CATV and FTTH markets, the speed of a broadband connection determines the types and quality of services that can be offered, and competitive pressure among service providers is spurring ever faster broadband connectivity. According to the Akamai State of the Internet report for the third quarter of 2012, the number of 10 megabit or faster broadband connections in the U.S. rose 73% year-over-year. Akamai reported that, globally, the average connection speed increased 22% over the prior year, including growth in seven out of the top 10 countries.

Government encouragement and sponsorship of enhanced broadband service is contributing to investment in access networks. For instance, in January 2013, the U.S. Federal Communications Commission announced the "Gigabit City Challenge," setting a goal of at least one community per state with 1 gigabit per second broadband by 2015. Similarly, according to Infonetics, China's State Agency for Radio, Film, and Television (SARFT) announced a $30 billion Next Generation Broadband (NGB) stimulus program in 2009 to support the construction of critical networking infrastructure and promote the delivery of enhanced voice, video and data services over a 10-year period.

The commercial opportunity to provide ultra-high speed broadband services is also attracting private sector interest. For example, in 2010 Google announced plans to build a network, known as Google Fiber, to deliver up to 1 gigabit per second service to residences, approximately 100 times faster than the current average peak rate in the U.S. The network became operative late in 2012 in Kansas City, and Google has announced that additional cities are to be activated in 2013. To deliver this dramatically greater bandwidth, Google is utilizing very advanced optical networking technology. The Google Fiber network demonstrates the ability to deliver dramatically more bandwidth to an end user, and may prompt traditional network service providers to accelerate investment in advanced optical networking solutions.

Based upon data prepared by Ovum, we estimate that our CATV, FTTH and internet data center target markets represented an annual revenue opportunity of $2.2 billion in 2012.

Trends in the CATV Market

CATV service providers have been upgrading their hybrid fiber coaxial networks, which use a combination of optical fiber and coaxial cable, to support high speed, two-way communications. According to Infonetics, CATV service providers have spent approximately $41 billion in the past five years on upgrades and extensions to their networking infrastructure, including $25 billion spent in North America. Broadcast video services remain the primary offering for CATV service providers, who compete in part on the breadth of high definition, or HD, TV content and on-demand programming they offer. CATV network operators can leverage an upgraded network to deliver additional services such as enhanced voice and broadband connectivity. Enhanced broadcast video and data connectivity services have had a profound

effect on CATV network architecture, as they require substantially greater bandwidth to a home (the "forward path"), and two-way communications (introducing a "return path" from the home). Infonetics estimates 53 million broadband subscribers in North America, or 54% of total North American broadband subscribers, received their service through a CATV network at the end of 2012.

Outside of the U.S., the opportunity for CATV growth is significant. For instance, China's installed cable infrastructure is significantly larger than that of the U.S., with over 190 million cable television subscribers. Nearly half of China's cable television subscribers are served by relatively low capacity, one-way cable networks today, and China has implemented a government stimulus program to upgrade broadband infrastructure. As a result, we believe that the Chinese CATV service providers will invest significantly in coming years.

Consolidation among CATV equipment companies has continued in recent years, putting pressure on the largest companies to streamline their operations, improve profitability and focus their resources. In response, many of these CATV equipment companies have begun to outsource not only the manufacturing of equipment, but more important to us, they have begun to outsource the system design function as well. Outsourcing of system design is significantly more challenging than simply shifting the assembly of equipment to a third party manufacturer. The complex interworking of optical, radio frequency and electrical technologies, as well as the physical challenges imposed by the harsh and unregulated conditions in which the CATV equipment is installed, requires deep technical knowledge of high-speed optical, mixed-signal semiconductor and mechanical engineering. Field failure of equipment is costly and problematic for CATV network operators, so they expect equipment providers to provide extremely reliable and durable solutions. As a result, the decision by a major CATV equipment company to outsource design and manufacture to a third party is made carefully, and once an outsourced design partner is selected, CATV equipment companies are typically very reluctant to change vendors. Moreover, once the design function is outsourced to a third party, the reallocation of internal resources previously performing that function makes it difficult for the equipment company to return to internally designing equipment.

Based upon data prepared by Ovum, we estimate that our CATV target market represented an annual revenue opportunity of $850 million in 2012.

Trends in the FTTH Market

The FTTH market generally refers to the Passive Optical Networks, or PONs, that telecommunications service providers are deploying. PONs take their name from the use of passive splitters to divide the optical signal provided to each residential user over a shared fiber-optic cable from a service provider's central office. The equipment in the service provider's central office is called an optical line terminal, or OLT, and the equipment at the end user is an optical network unit, or ONU. A PON supports significantly greater bandwidth than does the legacy copper wire network, although the connection speed to a user (the "downstream" speed) is higher than the connection speed from the user (the "upstream" speed). In the U.S., Verizon's FIOS service and AT&T's uVerse offering are examples of PON deployments, and PONs have been widely deployed in Japan, Korea and selected cities in Europe as well. According to Infonetics, worldwide FTTH subscribers are expected to grow from 39 million in 2011 to 112 million in 2016, representing a CAGR of 23%, with the growth of higher speed FTTH connections among those subscribers being greater than the overall growth of FTTH connectivity.

Over time, the technology used in PONs has evolved to meet the increased bandwidth demand from users. At present, the most commonly deployed PON technology is GPON, or

Gigabit PON, which delivers up to 2.5 gigabits per second of data downstream, split among subscribers, and 1.5 gigabits per second upstream. Due to the splitting of the bandwidth among multiple users—often as many as 32—the actual bandwidth delivered to an individual subscriber is far less than the 2.5 gigabits per second supported by the GPON equipment. To deliver more bandwidth to a subscriber, a service provider can reduce the split ratio or change the PON technology. Reducing the number of subscribers supported by a single OLT may be less expensive for modest, incremental upgrades, but may not be the most economical solution to deliver the significant increases in bandwidth needed to support 1 gigabit per second service to the home, as encouraged by the FCC's Gigabit Challenge.

One approach that does support 1 gigabit per second service to the home connection is WDM-PON, or wavelength division multiplexing PON. Well-proven in other areas of the network for decades, WDM technology enables the transmission of multiple wavelengths of data over a single fiber-optic strand, thus significantly increasing the bandwidth of the physical fiber connection. Due to this significant increase in bandwidth supported with WDM-PON, the cost per bit delivered to a subscriber is lower than that for GPON—at faster connection speeds. In addition to providing more bandwidth, WDM-PON offers a subscriber superior privacy and the service provider better scalability because each subscriber has a dedicated wavelength rather than a shared one.

Based upon data prepared by Ovum, we estimate that our FTTH target market represented an annual revenue opportunity of $704 million in 2012.

Trends in the Internet Data Center Market

An internet data center is structured in a layered format, with rows of servers within multiple racks, and each server and rack connecting through a switch. These rack switches then connect to each other, and ultimately to the service provider's network. The connections between these top-of-rack switches, and to the service provider's network, are increasingly done with higher-capacity optical networking technology. Legacy copper cables can carry signals at distances adequate to meet most needs within an enterprise or internet data center at speeds up to about 1 gigabit per second. However, at speeds of 10 gigabits per second and above, the signals sent over copper cables experience increasing attenuation and dispersion over distances common in large internet data center environments, making copper much less effective as a transmission medium. According to a 2012 Crehan Research forecast, 10 gigabit ethernet port shipments were 13.5 million in 2012 and are projected to grow to 42.9 million in 2015, representing a 46.9% CAGR.

In recent years, a number of leading internet companies such as Amazon.com Inc., Facebook, Inc., Google Inc. and Microsoft Corporation have begun to adopt more open internet data center architectures, using a mix of systems and components from a variety of vendors, and in some cases designing their own equipment. For these companies, compatibility of new networking equipment with legacy infrastructure is not as important, and as a consequence, these companies are more willing to work with non-traditional equipment vendors. Non-traditional equipment vendors generally permit companies to source optical modules from any vendor, thus creating an open and growing opportunity for optical device vendors.

Based upon data prepared by research firm Ovum, we estimate that our internet data center target market represented an annual revenue opportunity of $639 million in 2012.

Key Challenges in Our Markets

The key challenges that we experience in our markets include:

- ***Continuous pressure for innovation.*** To enhance their competitiveness and improve the financial returns on their infrastructure investments, CATV and FTTH network operators seek to regularly introduce new service offerings, increase the bandwidth provided to each user and reduce their operating costs. These operators work with their equipment and optical device suppliers to develop innovative technology that enables desired enhancements. Within the internet data center market, industry-leading technology companies such as Google, Facebook, Microsoft and Amazon are internally designing and developing internet data centers to deliver cloud-based solutions. These companies are, in many cases, working with third parties to design custom data-center equipment to improve their internet data center performance and differentiate their services from other vendors.

- ***Demand for highly integrated solutions.*** CATV and FTTH network operators are seeking integrated and customized solutions that meet specific design and performance requirements. Furthermore, network equipment manufacturers are seeking to simplify their supply chains and lower their costs by working with optical device vendors who can provide a broad range of products, including integrated modules and subsystems rather than simply supplying discrete optical components.

- ***Need for reliable performance in harsh and demanding environments.*** Unlike optical devices deployed in the long haul and metro segments of the telecom network, optical devices deployed in CATV and FTTH networks are typically installed outdoors, and occasionally in remote locations. As a result, these devices are subject to a wide range of temperatures and highly variable environmental conditions, and maintenance can be difficult. As a result of the difficulties associated with outdoor deployment, product quality and reliability are essential.

- ***Demand for production of high-quality devices in large volumes.*** Due to the high number of optical devices deployed in CATV and FTTH networks as well as in internet data centers, network equipment manufacturers seek vendors that can provide cost-effective and high-quality optical devices in large volumes. As the required bandwidth in CATV and FTTH networks increases and the shift to fiber-optic technologies continues in order to meet the bandwidth needs, the number of optical devices deployed in CATV and FTTH networks should continue to increase.

- ***Need for mixed signal communications expertise.*** As CATV network operators continue to shift from primarily broadcast-video content providers to data-connectivity providers, the networks they utilize to offer these services are evolving. For example, many newer networks are being designed with digital return-path capabilities. In this type of network, signals traveling from the cable office headend to the user residence, including digital video and data services, continue to be transported as analog signals, whereas signals traveling in the opposite direction, from the residence to the cable office headend, may now be carried as digital signals. This combination of analog and digital signaling creates unique challenges, which require high-performance networking equipment and optical technology.

Our Solutions

We are a leading, vertically integrated provider of fiber-optic networking solutions. We are primarily focused on the higher-performance segments within the CATV, FTTH and internet data center markets which increasingly demand faster connectivity and new technologies. Our products include a broad range of optical communications-based solutions at varying levels of integration from components to complete turn-key systems that we design and manufacture for leading networking equipment companies. The key benefits of our solutions include:

- ***Enable customers to deliver innovative products.*** We leverage our deep expertise in high-speed optical, mixed-signal semiconductor and mechanical engineering and our proprietary MBE laser fabrication process to deliver technologically advanced solutions to our customers. Our solutions enable our customers to offer a wide variety of innovative products that meet their desired performance needs and cost requirements. Our comprehensive manufacturing capabilities give us significant time-to-market advantages as well as the flexibility and agility to respond to changing customer needs.

- ***Enhance efficiency and cost effectiveness of our customers' supply chain.*** We design and sell products at the level of integration desired by a customer, from components to turn-key equipment providing our customers a more dependable, cost-effective and simplified supply chain. By leveraging our vertical integration, proprietary expertise and our broad range of products, we can often design and manufacture new solutions rapidly and cost-effectively for our customers. For example, our integration capabilities have enabled us to benefit from the trend of outsourced design and manufacturing among CATV equipment vendors.

- ***Deliver high quality, reliable products in high volume.*** As a vertically integrated supplier, we are able to monitor and maintain quality control throughout the production process, using our internally produced components where possible for our final products. By leveraging this greater degree of control throughout the entire production process, our proprietary MBE laser fabrication process and packaging technology, and our extensive facilities, we are able to deliver high-quality, highly-reliable and stable products in high volume.

- ***Provide sophisticated design solutions to our customers.*** We believe our expertise in analog and digital optical engineering, as well as radio frequency and high-speed electronics differentiates us from many competitors, as other vendors tend to focus on a limited number of these disciplines. Our mixed-signal expertise enables us to design solutions that meet many of the different network architectures and protocols used today. Relative to many of our competitors, we offer our customers an advantage by providing them a more comprehensive solution.

Our Strengths

Our key competitive strengths include the following:

- ***Industry-leading position in the CATV market.*** We are the leading provider of optical components and the second largest provider of subsystems to the CATV market, according to Ovum. In 2012, our products were used by the five largest CATV equipment OEMs consisting of Arris Group Inc., Aurora Networks, Inc., Cisco Systems, Inc., Harmonic Inc. and Motorola Mobility Holdings, Inc. These OEMs are extremely demanding on their suppliers with respect to product performance, reliability, cost and

vendor service level. We believe these customer relationships benefit us with other customers who view our selection by these leading OEMs as validation of our expertise and product excellence.

- ***Proprietary technological expertise and track record of innovation.*** We continue to develop innovative solutions as evidenced by our 38 design wins since 2010 which collectively account for a significant portion of our revenue today. We believe our proprietary laser manufacturing, or MBE process, allows us to produce more reliable and cost-effective solutions than our competitors who typically employ MOCVD processes. We own fundamental IP in MBE technology and the manufacturing process. We have 138 issued and pending patents. In addition we have amassed substantial manufacturing, process, design and testing domain expertise that we retain as documented trade secrets.

- ***Highly customized products.*** Most of our products have some level of customization, and in some cases our product is the only one that can meet our customers' specifications. These factors make it more difficult for our customers to rapidly switch to another supplier, and, we believe, contribute to longer product lifecycles and more stable product pricing relative to the pricing trends experienced in many telecommunications optical component categories.

- ***Proven system design capabilities.*** Our customers rely on us to design their customized, complex and integrated equipment due to our deep expertise in high-speed optical, mixed-signal semiconductor and mechanical engineering. As a result of these capabilities, we believe that we are well positioned to take advantage of the continuing shift to outsourced design and manufacturing among CATV equipment vendors.

- ***Vertically integrated, geographically distributed manufacturing model.*** Our vertically integrated design and manufacturing process encompasses all steps from laser wafer design and fabrication to complete optical system design and assembly. Furthermore, we have geographically distributed our manufacturing model by strategically locating our operations in the U.S., China and Taiwan to reduce development time and production costs and to help protect our intellectual property. Our comprehensive capabilities allow us to offer our customers a dependable supply of quality optical components, modules and equipment. Additionally, these capabilities give us significant time-to-market, time-to-volume and cost advantages as well as the ability to respond more rapidly to changing market and customer requirements. Furthermore, these capabilities allow us to provide fully integrated solutions and capture a larger portion of the bill of materials within the optical value chain.

Our Strategy

We seek to be the leading global provider of optical components, modules and equipment designed for each of our three target markets, CATV, FTTH and internet data centers. All of our target markets are growing due to the increasing demand for bandwidth, but each of our markets is also being driven by independent factors. As a result, our overall growth is not dependent upon a single market or a single trend. Our strategy includes the following key elements:

- ***Extend our leadership in CATV networking.*** We intend to maintain our position as the leading producer of optical components used in CATV networks, and to capture an increasing share of the CATV equipment market as the major equipment vendors continue to outsource the design and manufacturing of such products. We believe that our comprehensive design expertise, proven ability to handle increased system-level

responsibility and vertically integrated manufacturing model position us well to capture a meaningful share of this opportunity.

- ***Continue to penetrate FTTH and internet data center markets.*** We believe our WDM-PON technology is a cost-effective solution for delivering substantially greater bandwidth to a residence. As the residential access market migrates to higher bandwidth connections, we expect that our solutions will become increasingly attractive. In the internet data center market, we target operators who have adopted an open system architecture—one in which the optical connectivity solutions can be provided by a different vendor than the vendor which provides their servers and switches. We believe this segment of the market will grow meaningfully in coming years, and that we are well positioned to capture this business as an independent optics vendor.

- ***Continue to invest in our capabilities and infrastructure.*** Product and process innovations have been important elements in our growth and commercial success. For instance, our leading position in the CATV market is a result of our research and development efforts to address the need for climate-tolerant, low-cost and highly reliable lasers, components and equipment. We believe our vertically integrated manufacturing model and our ability to design and manufacture the fundamental optical devices that are deployed throughout a network give us a significant competitive advantage. We intend to continue to invest in new products, new technology and our production infrastructure and facilities to maintain and strengthen our competitive position.

- ***Selectively pursue other opportunities that leverage our existing expertise.*** The proven performance of our lasers in harsh climate conditions and our expertise in designing and manufacturing outdoor plant equipment for the CATV industry provide us an advantage in pursuing applications that are also characterized by having varying and demanding environments. We have sold and plan to continue to sell products into the telecom networking market, such as for wireless and wireline telecom infrastructure. We have also selectively sold products into the industrial robotics, aerospace and defense, and oil and gas exploration markets. We will continue to seek ways to capitalize on our research and development investments and leverage our high-speed optical, mixed-signal semiconductor and mechanical engineering expertise in these and other markets.

- ***Pursue complementary acquisition and strategic alliance opportunities.*** While we prefer to use our components whenever possible, we will evaluate and selectively pursue acquisition opportunities or strategic alliances that we believe will enhance or complement our current product offerings, augment our technology roadmap, or diversify our revenue base.

Technology

We believe that we have technology leadership in four key areas: semiconductor laser manufacturing, electronic technologies that enhance the performance of our lasers, optical hybrid integration and mixed-signal semiconductor design.

- ***Differentiated semiconductor laser manufacturing.*** We use a MBE fabrication process to make our lasers, rather than MOCVD, the technique most commonly used in optical chip manufacturing by traditional communications optics vendors. Among the differentiators of MBE relative to MOCVD fabrication are a lower process temperature and the use of solid phase materials rather than gaseous sources to grow wafers and the growth of more highly strained crystals. These factors contribute to longer operating lives

of our lasers, improved laser efficiency and threshold current, among other performance attributes that make them well-suited to our target markets. Production yields, and the performance attributes of laser devices, are highly variable and optimizing these characteristics requires numerous enhancements and modifications to standard MBE equipment and the MBE process. To our knowledge, we are unique in using an MBE process to produce communications lasers in high volume, and believe it would be difficult, and time-consuming, for other vendors to replicate our production technology.

- ***Laser enhancement technology.*** Certain properties of the semiconductor lasers predominantly used in traditional communications devices, such as chirp and wavelength drift, negatively affect their ability to transmit signals over long fiber distances or prevent them from transmitting signals with acceptable fidelity in certain applications. We have developed laser enhancement circuitry that can correct many of these deficiencies. We believe that our technology will become more essential with wider deployment of higher capacity CATV and FTTH systems, which place more stringent demands on laser performance.

- ***Optical hybrid-integration technology.*** Reducing the size, power consumption and complexity of optical devices is essential for achieving the price and performance targets of our customers. Our ability to integrate multiple optical networking functions into a single device, and to co-package multiple devices into smaller form factors helps us meet customer requirements and we believe can also create new opportunities. For instance, installing new fiber-optic cable is expensive and difficult, and in some situations prohibitively so for a network service provider. As a consequence, network operators seek to maximize the utilization of their installed fiber plant. In long-haul and metropolitan networks, service providers deployed WDM technology as fiber utilization rose. Fiber utilization in access networks is rising, but the use of WDM technology in the access segment has been problematic due to the relatively high cost and power consumption of the requisite optical devices. We have developed proprietary miniaturized optical packaging, electronic control circuitry and testing algorithms to create a hybrid WDM-PON solution that addresses these historical impediments that we believe will make WDM-PON a cost-effective alternative for deployment.

- ***Mixed-signal design.*** As CATV providers continue to evolve from primarily broadcast-video content providers to a mixture of HD video content together with data-connectivity providers, the networks they utilize to offer these services must evolve as well. Older analog networks are giving way to hybrid networks that incorporate both analog and digital signals. For example, many newer networks are being designed with "digital return-path" capabilities. In this type of network, signals traveling from the head-end to the residence are transported as analog signals, whereas signals traveling in the opposite direction (that is, originating at the residence and being transmitted towards the head-end) are carried as digital signals. This combination of analog and digital signaling creates unique design challenges. Our engineers have many years of experience in developing equipment, modules and components that are well suited to these sorts of mixed-signal architectures. We believe that having deep experience in both digital and analog signaling allows us to offer superior solutions to our customers, compared with companies who have expertise in only one of these signal types.

Our Products

Our products include an array of optical communications solutions at varying levels of integration. We begin from the fundamental building blocks of lasers and laser components. From these foundational products, we design and manufacture a wide range of products from optical modules to complete turn-key equipment. We design our products to target customers in our identified markets to meet their needs and specifications.

Our components often incorporate one or more of our optical laser chips inside a precision housing that provides mechanical protection as well as standardized electrical contacts. More complex optical components may also include optical filters (for example, for use in WDM) or other optical elements by which optical signals are routed internally within the component. These more advanced components may also include coolers, heaters and sensors that allow the temperature of the laser chip to be measured and controlled. We manufacture the majority of the laser chips and optical components that are used in our own products.

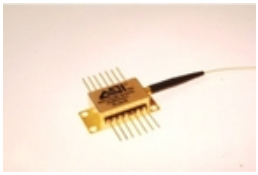
At the next level of integration, our module or sub-assembly products typically contain one or more of our optical components and some additional control circuitry. Examples of modules include our transceiver line primarily used in internet data center markets and FTTH markets.

At the highest level of integration and complexity, our equipment products typically contain one or more optical components, modules and additional electronic control circuitry required to enable these subsystems to operate independently. For example, our CATV transmitter equipment requires utilization of our optical components and assembly onto a circuit board and to an external housing. Examples of equipment include our CATV transmitter and CATV nodes.

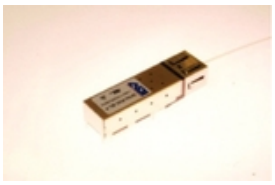
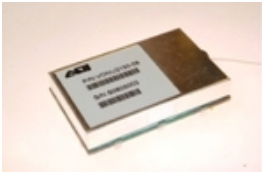
Our products mainly differ from each other by their end market, intended use and level of integration. We have over 12,800 product stock-keeping units, or SKUs, including approximately 6,500 component product SKUs, approximately 3,600 module product SKUs and approximately 2,700 equipment product SKUs. The following tables provide a view of our some of our various components, modules and equipment grouped by the markets they serve.

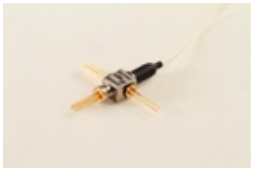
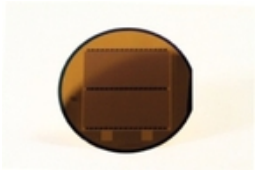
Selected CATV Products

Representative Picture	Product Family	Product Level	Description
	CATV transmitters	Equipment	Equipment for transmitting data and video signals from the office or hub site of an MSO to the consumer. Compliant with the emerging DOCSIS 3.1 standard.
	CATV nodes	Equipment	Equipment used for receiving optical signals and re-transmitting them over the coaxial cable portion of an CATV network. May also include return-path functions for receiving signals from the consumer and re-transmitting them as optical signals. Compliant with the emerging DOCSIS 3.1 standard.
	CATV return-receivers	Equipment	Equipment used in the office or hub site of an MSO to receive signals transmitted from a node.
	Ethernet over Coax Access Points	Equipment	Used primarily in China for deployment of fiber-to-the-home services over the CATV infrastructure.
	SFP Transmitter/Receiver	Module	Pluggable transmitter or receiver for digital return-path CATV architecture. Up to 90° Celsius operating temperature.

Representative Picture	Product Family	Product Level	Description
	Cooled laser diodes	Component	Laser diodes incorporating integrated coolers to maintain consistent performance over wide ambient temperature ranges. Up to 90° Celsius operating temperature.
	Uncooled laser diodes	Component	Laser diodes without coolers. Up to 90° Celsius operating temperature.
	Photodiodes	Component	Used to receive optical signals transmitted from a laser diode or other optical transmitter.

Selected FTTH Products

Representative Picture	Product Family	Product Level	Description
	WDM-PON OLT module	Module	Transmission, multiplexing, demultiplexing and reception of multiple WDM optical signals. 16 Gbps transceiver modules.
	Gigabit Ethernet SFF	Module	Small Form Factor transmit/receive module for Gigabit Ethernet FTTH.
	Video receiver modules	Module	Reception of video signals in an FTTH network.

Representative Picture	Product Family	Product Level	Description
	Bi-directional and tri-port optical blocks	Component	Optical devices incorporating wavelength division multiplexing functionality allowing multiple signal types on a single optical fiber.
	Laser chips	Component	Standard GPON optical chips used by other manufacturers in specialized applications.

Selected Internet Data Center Products

Representative Picture	Product Family	Product Level	Description
	10 gigabit small form factor pluggable, or SFP+, transceivers	Module	Used for 10 Gigabit Ethernet optical interconnections.
	Small form-factor pluggable, or SFP, transceivers	Module	Used for Gb Ethernet, or GbE, SONET OC-3 to OC-48, FiberChannel.
	Active Optical Cable	Module	10 and 40 Gbps fiber-optic cable incorporating laser diode drive electronics into the cable assembly.

Intellectual Property

We rely on a combination of patent, copyright, trademark and trade secret laws, as well as confidentiality and licensing arrangements, to establish and protect our intellectual property. We employ various methods to protect these intellectual property rights, including maintaining a technological infrastructure with significant security measures, limiting disclosure and restricting access to only those individuals with an operational need for such information, and having employees, consultants and suppliers execute confidentiality agreements with us. While we expect our intellectual property to provide competitive advantages, we also find meaningful value from unpatented proprietary process knowledge, know-how and trade secrets.

Patents

As of December 31, 2012, we owned 56 issued patents in the U.S., 20 issued patents in China and 27 issued patents in Taiwan and had 34 additional patents pending, of which 20 were pending in the U.S., three were pending in China and 11 were pending in Taiwan, in addition to various counterpart applications pending pursuant to the Patent Cooperation Treaty and in Europe.

Our portfolio of patents and patent applications covers several different technology families including:

- laser structure and design;
- optical signal conditioning and laser control;
- laser fabrication;
- photodiode and optical receiver design and fabrication;
- optical device and module designs;
- optical device packaging equipment and techniques; and
- optical network enhancements.

Trademarks

We have registered the trademarks APPLIED OPTOELECTRONICS, INC., AOI and our logo with the U.S. Patent and Trademark Office on the Principal Register. These marks are also registered in, or have applications for registration pending in, various foreign trademark offices.

Research and Development

To maintain our growth and competitiveness, we engage in an active research and development program to develop new products and enhance existing products. As a result of these efforts, we anticipate releasing various new or enhanced products over the next several years. Over the past three years, we released an average of over 1,000 product SKUs per year. Our research and development expenses were approximately $5.2 million, $6.5 million and $7.6 million for the years 2010, 2011 and 2012, respectively.

As of December 31, 2012, we had a total of 147 engineers working in production and R&D, including 13 with Ph.D. degrees. We had 68 of those engineers dedicated to R&D, with 15 located in the U.S. and 53 located in Asia. We continue to recruit talented engineers to further enhance our research and development capabilities. We have research and development departments in our facilities in Texas, China and Taiwan. Our research and development teams collaborate on joint projects, and by co-locating with our manufacturing operations enable us to achieve an efficient cost structure and improve our time to market.

A key factor in our research and development success is our highly collaborative process for new product development. Particularly in our equipment and module businesses, we often collaborate very closely with our customers from a very early stage in product development. By

purposefully fostering this close collaboration, we believe that we can more rapidly develop leading solutions meeting the needs of our customers.

Manufacturing and Operations

We have three manufacturing sites: Sugar Land, Texas, Ningbo, China and Taipei, Taiwan. Our research and development functions are partnered with our manufacturing locations. In our U.S. facility, we manufacture laser chips (utilizing our MBE process), sub-assemblies and components. The sub-assemblies 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 U.S. 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, sub-assemblies and components manufactured within our U.S. facility. In addition, in our Taiwan location, we manufacture transceivers for the FTTH, internet data center 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 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 9001:2000.

Our products are sold to our customers worldwide and also supply our internal component needs for the transceivers and equipment we manufacture. With a vertically integrated manufacturing process, we produce many of our own laser chips and other parts required to manufacture our optical components. Through this model, we are able to reduce development time and product costs as well as enhance quality control. We incorporate our own components into our transceivers, subsystems and equipment products wherever possible. In instances where we do not produce components ourselves, we source them from external suppliers and regularly evaluate these relationships in an attempt to reduce risk and lower cost.

We depend on a limited number of suppliers for certain raw materials and components used in our products. We regularly review our vendor relationships in an attempt to mitigate risks and lower costs, especially where we depend on one or two vendors for critical components or raw materials. While maintaining inventories that we believe are sufficient to meet our near-term needs, we strive not to carry significant inventories of raw materials. Accordingly, we maintain ongoing communications with our vendors in order to help prevent any interruptions in supply, and have implemented a supply-chain management program to maintain quality and lower purchase prices through standardized purchasing efficiencies and design requirements. To date, we generally have been able to obtain sufficient quantities of quality supplies in a timely manner.

Customers

Our customers are primarily CATV and telecommunications equipment manufacturers and internet data center operators. We generally employ a direct sales model in North America and in the rest of the world we use both direct and indirect sales channels. In 2010, 2011 and 2012, we obtained 82.9%, 84.3% and 85.4% of our revenue, respectively, through our direct sales efforts and the remainder of our revenue through our indirect sales channels. Our sales channel partners provide logistical services and day-to-day customer support. Where we sell through an indirect sales channel, we work with the end customer to establish technological specifications for our products. Our equipment customers typically offer our equipment under their brand-name and our equipment is often customized with unique design or performance criteria by each of these customers. We also from time to time offer design or manufacturing services to

customers to assist them in more effectively using our products and realizing time-to-market advantages.

In 2012, our products were used by the five largest CATV equipment OEMs consisting of Arris Group Inc., Aurora Networks, Inc., Cisco Systems, Inc., Harmonic Inc. and Motorola Mobility Holdings, Inc. Our other key customers included Genexis B.V. in the FTTH market and Microsoft Corporation in the internet data center market.

We support our sales efforts by attendance at industry trade shows, technical conferences, advertising in various trade journals and magazines and other promotional efforts. These efforts are aimed at attracting new customers and enhancing our existing customer relationships.

Backlog

We generally make sales pursuant to short-term purchase orders without deposits and subject to rescheduling, revision or cancellation on short notice. We accordingly believe that purchase orders are not an accurate indicator of our future sales and any backlog of purchase orders is not a reliable indicator of our future revenue.

Competition

The optical networking market is intensely competitive. Because of the broad nature of our product offerings, we do not believe that we face a single major competitor across all of our markets. We do, however, experience intense competition in each product area from a number of manufacturers and we anticipate that competition will increase. Our major competitors in one or more of our markets include Avago, Inc., EMCORE Corporation, Finisar Corporation, JDS Uniphase Corporation, Mitsubishi, NeoPhotonics Corporation, Oclaro, Inc. and Sumitomo Electric Industries, Ltd.

Many of our competitors are larger than we are and have significantly greater financial, marketing and other resources. In addition, several of our competitors have large market capitalizations or cash reserves and are much better positioned to acquire other companies to gain new technologies or products that may displace our products. Network equipment providers, who are our customers, and network service providers, who are supplied by our customers, may decide to manufacture the optical subsystems incorporated into their network systems in-house. We also encounter potential customers that, because of existing relationships, are committed to the products offered by these competitors.

We believe the principal competitive factors in our target markets include the following:

- use of internally manufactured components;
- product breadth and functionality;
- timing and pace of new product development;
- breadth of customer base;
- technological expertise;
- reliability of products;

- product pricing; and
- manufacturing efficiency.

We believe that we compete favorably with respect to the above factors based on our MBE processes, our vertically integrated model, the performance and reliability of our product offerings and the compelling value we offer to our customers.

Employees

As of December 31, 2012, we employed 744 full-time employees, of which 22 held Ph.D. degrees in a science or engineering field. Of our employees, 172 are located in the U.S., 406 are in China, and 166 are in Taiwan. None of our employees are represented by any collective bargaining agreement, but certain employees of our China subsidiary are members of a trade union. We have never suffered any work stoppage and believe that we have satisfactory relations with our employees.

Facilities

We maintain manufacturing, research and development, sales and administrative offices in the U.S., China and Taiwan. Our corporate headquarters is located at our facility in Sugar Land, Texas. The table below provides information regarding our facilities.

Location	Owned or Lease Expiration Date	Approximate Square Footage	Use
Sugar Land, Texas (1)	Owned	23,850	Administration, sales, manufacturing, research and development
Sugar Land, Texas	May 31, 2014	6,062	Research and development
Ningbo, China	Owned (2)	458,849	Administration, sales, manufacturing, research and development
Taipei, Taiwan	March 31, 2014 (3) April 9, 2014 (3)	42,903	Administration, sales, manufacturing, research and development

(1) The property is subject to a mortgage in favor of East West Bank, securing our long-term debt obligations.

(2) Our China subsidiary acquired the land use rights to the real property on which our new facility is located from the Chinese government. The land use rights expire on March 8, 2054. Our China subsidiary owns the facility located on the property.

(3) Leases covering two floors expire on March 31, 2014 and the lease covering the other floor expires on April 9, 2014.

We believe that our existing facilities are adequate to meet our current needs and that we will be able to obtain additional commercial space as needed.

Environmental Matters

Our research and development and manufacturing operations and our products are subject to a variety of federal, state, local and foreign environmental, health and safety laws and regulations, including those governing discharges of pollutants to air and water, the use, storage, handling and disposal of hazardous materials, employee health and safety, and the hazardous material content in our products. Our environmental management systems in our facilities in Ningbo and Taipei are both certified to meet the requirements of ISO14001:2004. However, there

can be no assurance that violations of applicable laws at any of our facilities will not occur in the future as a result of human error, accident, equipment failure or other causes. We use, store and dispose of hazardous materials in our manufacturing operations and hazardous materials are present in our products. We incur costs to comply with environmental, health and safety requirements, and any failure to comply, or the identification of contamination for which we are found liable, could cause us to incur substantial costs, including cleanup costs, monetary fines, or civil or criminal penalties, and subject us to property damage and personal injury claims, and result in the suspension of production, alteration of our manufacturing processes, redesign of our products, or curtailment of sales and adverse publicity. 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.

We expect that our operations and products will be affected by new environmental requirements on an ongoing basis. Environmental, health and safety requirements have become more stringent over time, and changes to existing requirements could restrict our ability to expand our facilities, require us to acquire costly pollution control equipment, or cause us to incur other significant expenses or to modify our manufacturing processes or the hazardous material content of our products. 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.

We face increasing complexity in our product design and procurement operations as we adjust to new and upcoming requirements relating to the materials composition of our products. Some jurisdictions in which our products are sold have enacted requirements regarding the hazardous material content of certain products. For example, member states of the European Union and China are among a growing number of jurisdictions that have placed restrictions on the use of lead, among other chemicals, in electronic products, which affect the composition and packaging of our products. The passage of such requirements in additional jurisdictions, or the tightening of standards or elimination of certain exemptions in jurisdictions where our products are already subject to such requirements, could cause us to incur significant expenditures to make our products compliant with new requirements, or could limit the markets into which we may sell our products. Other governmental regulations may require us to reengineer our products to use components that are more environmentally compatible, resulting in additional costs to us.

Legal Proceedings

We anticipate that we will from time to time be subject to various claims and legal actions during the ordinary course of our business. We are not aware of any material claims or legal actions to which we, our properties or our officers or directors are subject.

MANAGEMENT

Executive Officers and Directors

The following table sets forth certain information regarding our executive officers and directors as of March 31, 2013.

Name	Age	Position(s)
Chih-Hsiang (Thompson) Lin	50	President, Chief Executive Officer and Director
James L. Dunn, Jr.	51	Chief Financial Officer
Stefan J. Murry	40	Chief Strategy Officer
Hung-Lun (Fred) Chang	49	Senior Vice President of Optical Component Business Unit
Klaus Alexander Anselm	44	Vice President of Semiconductor Products
Shu-Hua (Joshua) Yeh	47	Senior Vice President of Network Equipment Module Business Unit
Chung-Yao (Ford) Li	51	Senior Vice President, Asia General Manager
Juen-Sheng (Andrew) Kang	62	Director, Chairman of the Board of Directors
William H. Yeh (1)(3)	60	Director, Compensation Committee Chairman
Richard B. Black (1)(2)	79	Director, Audit Committee Chairman
Alan Moore (2)	52	Director
Min-Chu (Mike) Chen (1)(3)	63	Director
Alex Ignatiev (2)(3)	68	Director, Nominating and Corporate Governance Committee Chairman

(1) Member of the compensation committee.

(2) Member of the audit committee.

(3) Member of the nominating and corporate governance.

Chih-Hsiang (Thompson) Lin, Ph.D., founded Applied Optoelectronics, Inc. in February 1997 and has been President and Chief Executive Officer since our inception. He currently serves as a director on our board, and he served as Chairman of our board of directors from May 2000 through September 2002, and again from June 2008 through October 2009. Dr. Lin has also served as a research associate professor and senior research scientist at the University of Houston. Dr. Lin holds a BS degree in Nuclear Engineering from National Tsing Hua University in Taiwan and an MS degree and a Ph.D. in Electrical and Computer Engineering from University of Missouri-Columbia.

James L. Dunn, Jr., has served as our Chief Financial Officer since December 2012. Prior to joining us, Mr. Dunn served as the Chief Financial Officer of GET Enterprises, LLC, a private equity backed distributor of restaurant tableware, from March to December 2012. Mr. Dunn also served as Chief Financial Officer and in-house counsel of Polymics, Ltd., a global manufacturer of high temperature plastics, from 2009 to 2012. Mr. Dunn served as the Chief Financial Officer and General Counsel of iLinc Communications, Inc. (Amex:ILC), a provider of web conferencing software, from 1998 to 2009. Mr. Dunn received a BBA in Accounting from Texas A&M University and a JD from Southern Methodist University School of Law.

Stefan J. Murry, Ph.D., has served as our Chief Strategy Officer since December 2012. Previously, Dr. Murry served as our Vice President of Sales and Marketing from June 2004 until December 2012, our Director of Sales and Marketing from January 2000 to June 2004 and as a Senior Engineer of Device Packaging from February 1997 to January 2000. He also previously served as Research Associate and Mission Control Specialist with the Space Vacuum Epitaxy Center in Houston, TX. Dr. Murry has been issued multiple patents in the optoelectronics industry, as well as in various related and complimentary industries. Dr. Murry received BS and MS degrees in Physics and a Ph.D. in Electrical Engineering from the University of Houston.

Hung-Lun (Fred) Chang, Ph.D., has served as Senior Vice President of our Optical Component Business Unit since October 2012. Previously, Dr. Chang served as Vice President of our Optical Module Division from March 2005 until October 2012, our Director of Manufacturing from June 2002 to March 2004, and as our Deputy Packaging Manager from April 2001 to May 2002. Dr. Chang has held numerous positions in the optoelectronics industry throughout his career. His most recent position prior to joining us was Deputy Manager of the Optical Active Component Group at Hon-Hai Precision Industry Co., Ltd., which is based in Taiwan. He was also a researcher and project manager of the Optoelectronic Module Technology group at Chunghwa Telecom Co., Ltd. from 1996 to 2000. Dr. Chang received a BS degree in Electrophysics and a Ph.D. in Electro-Optical Engineering from National Chiao Tung University in Taiwan.

Klaus Alexander Anselm, Ph.D., has served as our Vice President of Semiconductor Products since 2009. Previously, Dr. Anselm served as our Senior Director of Semiconductor Products from October 2007 to 2009, as our Director of Semiconductor Products from 2004 until September 2007, and as our Processing Department Manager from 1999 to 2004. Dr. Anselm received a BS degree in Electrical Engineering from Rice University, and an MS degree and Ph.D. in Electrical Engineering from the University of Texas at Austin.

Shu-Hua (Joshua) Yeh has served as Senior Vice President of our Network Equipment Module Business Unit since November 2012. Previously, Mr. Yeh served as our General Manager of our Video Equipment Division of Global Technology Inc., our China subsidiary, since its acquisition by us in March 2006 and had served as its President and Chief Executive Officer from April 2002 until the acquisition. From May 1995 to April 2002, Mr. Yeh served as a Vice President of Sales and Marketing of Twoway CATV Technology Inc. Mr. Yeh received a BS degree in Mechanical Engineering and an MS in Automatic Control Science from National Chung Shing University in Taiwan.

Chung-Yao (Ford) Li has served as our Senior Vice President since November 2011 and as our Asia General Manager since July 2011. From 2007 to 2011, Mr. Li served as a general manager in Shanghai, China for Pegatron Corporation, an electronics and computing design and manufacturing company. Mr. Li served in various operational management capacities of Wistron Infocomm Corporation from 2005 until 2007. From 2002 to 2005, Mr. Li also served as an Assistant Vice President of Quanta Computer Inc., in Shanghai, China. Mr. Li received an MS degree in Engineering Manufacturing Management from University of South Australia.

Juen Sheng (Andrew) Kang has served as a director on our board of directors since May 2000 and currently serves as the Chairman of the our board of directors, a position he has held since October 2009. Mr. Kang also served as our Chairman of our board of directors from October 2002 through May 2008. He is the Chairman of Techgains Pacific Century Fund LP, a position he has held since 2006, the Chairman of Techgains Pan Pacific Corporation and Techgains Global Corporation, positions he has held since 2000, and the Managing Director and a co-founder of Technology Associates Management Co. Ltd., a position he has held since 1997, and each such

company is a strategic investment company. Before founding Technology Associates Management Co. Ltd. in 1997, Mr. Kang was the founder and President of a venture capital company, Technology Associates Corporation, in Taiwan from 1990 to 1997. Mr. Kang currently serves as a director of Intelligent Expitaxy Technology, Inc. and Natural Polymer International Corporation, and has held such positions since 1997. Mr. Kang has also served as a director of HelixMicro Inc. from 2007 to March 2013, Techgains International Corporation from 1999 to March 2013, and GobiTech, Inc. from 1998 to 2011. Mr. Kang received an MS in Management from Arthur D. Little School of Management, and BA and MA degrees in Economics from Soochow University in Taiwan.

William H. Yeh has served as a director on our board of directors since May 2000. He is the current Chief Executive Officer and President of Hungyeh Investment, Ltd., a hospitality real estate investment and management company, a position he has held since 2000. Mr. Yeh has also served as president of Gold Star Investment since 1997. He was a Senior Vice President of United Central Bank overseeing the Houston region and Vice Chairman of Central Bancorp, Inc. from 1997 to 2012. He is also currently a director of Central Bancorp, Inc., the holding company of United Central Bank, a position which he has held since 1997. Mr. Yeh received a BS degree from National Cheng Kung University in Taiwan an MS degree from University of Houston–Clear Lake.

Richard B. Black has served as a director on our board of directors since August 2001. He is the President and Chief Executive Officer of ECRM, Incorporated, a worldwide supplier of laser based imaging devices, a position he has held since 2002, and has been the chairman of the board of directors of ECRM, Incorporated since 1983. Beginning in 1989, Mr. Black was a director of Oak Technology, Inc., a manufacturer of semi-conductors for optical storage, and then became President in 1998 and vice chairman of the board of directors in 1999 until its merger with Zoran, Inc. in 2003. Mr. Black has served as President and CEO of AM International from 1980 to 1982 and Maremont Corporation from 1967 to 1979. He served as a director and chairman of the audit committee of GSI Group, a manufacturer of lasers, laser systems, semi-conductor equipment, from 1998 to 2012, and was its chairman of its board of directors from 2006 to 2012. He currently serves as a director and chairman of the audit committee of Alliance Fiber Optics Products, Inc. (Nasdaq: AFOP), a position he has held since 2002, and TREX Enterprises, Inc., a position he has held since 2000. Mr. Black has served as trustee of the Institute for Advanced Study at Princeton since 1990, and became its vice chairman in 2006. He has served as a trustee of the American Indian College Fund, Beloit College, Bard College, and serves on the Visiting Committee for the Physical Sciences Division of the University of Chicago. Mr. Black received a BS degree in Engineering from Texas A&M University, an MBA from Harvard University and an honorary Ph.D. from Beloit College.

Alan Moore has served as a director on our board of directors since March 2013. Since 2007, Mr. Moore has served as Manager of Silver Tree Fund II Management, LLC, a real estate investment fund, since 1999, he has served as the Treasurer of Silver Tree Partners, Inc., a real estate development company, and since 1995, he has served as the President of Red Oak Capital, a private equity company. From May 2004 until December 2011, Mr. Moore served as Manager of Silver Tree Fund Management, LLC, also a real estate investment fund, and from March 1998 to October 1999, Mr. Moore served as the Chief Financial Officer of Window on WallStreet (sold to Trade Station Group, Inc. in 1999). Previously, Mr. Moore was a co-founder of Fossil, Inc. (Nasdaq: FOSL). Mr. Moore received an MS degree in Accounting and a BA degree in Business Control Systems from the University of North Texas.

Min-Chu (Mike) Chen, Ph.D. has served as a director on our board of directors since February 27, 2013. Since January 2013, Dr. Chen has served as a member of the board of

directors of Nanning Baota Biowin Technologies Co. Ltd., a real estate management company, since January 2012, he has served as an executive director of FGel Nanotek, Inc., a food and beverage additive company, since November 2011, he has served as the Asia Pacific Director for U.S. Flow Control Group Pte. Ltd., a petroleum equipment manufacturer and services company, since 2010, he has served as a director of Iecont Technology Inc., and since 2001, he has been a partner and member of the board of directors of EverRich Capital Inc., a consulting company. From September 2008 to April 2010, Dr. Chen served as the Chief Executive Officer of SilverPAC, Inc., a consumer electronics business, and from March 1994 to June 2002, Dr. Chen served as a board member of PCTEL, Inc. (Nasdaq: PCTI). Dr. Chen received a Ph.D. in Ocean Engineering from Oregon State University.

Alex Ignatiev, Ph.D. has served as a director on our board of directors since February 2013, and previously served as a director on our board from June 2008 to October 2009 and from May 2001 to August 2002. Since March 2013, Dr. Ignatiev has served as the Chief Science Officer of Smart Grid Intelligent Management, Inc., which develops operating systems and alternative energy source integration, since February 2009, he has served as the Chief Technology Officer of Quarius Technologies, LP, a renewable energy company, since February 2006, he has served as a vice president and Chief Technology Officer at Nano EnerTex, Inc., a nanomaterials company, since January 2005, he has served as a Vice President of Virtual Vision LLP, which develops artificial retinas, and since May 2002, he has served as the Chief Technology Officer of Metal Oxide Technologies, Inc., which develops, manufactures and sells superconducting wire. Dr. Ignatiev was a director of the Space Vacuum Epitaxy Center at the University of Houston from 1987 until 2002 after which he became director of the Texas Center for Superconductivity and Advanced Materials until 2005. From 2005 until the present he has served as a director of the Center for Advanced Materials at the University of Houston. Dr. Ignatiev has also served a task leader for the Texas Center for Superconductivity from 1987 to 2008. Dr. Ignatiev has served since 2010 as the Hugh Roy and Lillie Cranz Cullen professor of physics, chemistry and electrical and computer engineering at the University of Houston, and has been elected to the International Academy of Astronautics and to the Kazakhstan National Academy of Sciences. Dr. Ignatiev received a Ph.D. in Materials Science from Cornell University.

Our executive officers are elected by, and serve at the discretion of, our board of directors. There are no family relationships among any of our directors or executive officers.

Board Composition

Our amended and restated certificate of incorporation to be in effect upon the completion of this offering will provide that the number of authorized directors will be determined from time to time by resolution of the board of directors and any vacancies in our board and newly created directorships may be filled only by our board of directors. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes, so that, as nearly as possible, each class will consist of one-third of the total number of directors. Our amended and restated certificate of incorporation will further provide for the removal of a director only for cause and by the affirmative vote of the holders of $66^{2}/_{3}\%$ or more of the shares then entitled to vote at an election of our directors. We currently have seven directors.

Following the closing of this offering, our board of directors will be divided into three classes with members of each class of directors serving for staggered three-year terms as follows:

- Class I directors, Alan Moore and Alex Ignatiev, whose initial terms will expire at the annual meetings held in 2014;

- Class II directors, William H. Yeh and Min-Chu (Mike) Chen, whose initial terms will expire at the annual meetings held in 2015; and
- three Class III directors, Chih-Hsiang (Thompson) Lin, Richard B. Black and Juen-Sheng (Andrew) Kang, whose initial terms will expire at the annual meetings held in 2016.

Our classified board could have the effect of making it more difficult for a third party to acquire us. We have determined that each of William H. Yeh, Richard B. Black, Alex Ignatiev, Alan Moore and Min-Chu (Mike) Chen qualify as independent directors under the NASDAQ rules.

Director Compensation

In 2012 non-employee directors were eligible to receive $1,500 for each Board meeting attended in person. In addition, a $300 meeting fee was payable for each board or committee meeting attended by telephone. If a committee meeting occurred at the same site as a scheduled board meeting, no additional compensation was paid. Employee directors did not receive any compensation other than their employee compensation for their service as directors. Directors were reimbursed for out-of-pocket expenses incurred in the course of their service on the board or its committees.

Non-employee directors continuing in office following each annual meeting of stockholders were eligible to receive an option to acquire 40,000 shares. The Chairman of the board of directors was eligible to receive an option for an additional 10,000 shares and each chair of a committee was eligible to receive an option for an additional 5,000 shares. All options granted to directors vest in equal monthly amounts over the first twelve months following the date of grant and expire, subject to early termination in accordance with their terms, on the tenth anniversary of the date of grant.

The table below sets forth, for each person who served as a non-employee director during 2012, information regarding compensation for service on our board of directors during 2012.

NAME	Fees Earned or Paid in Cash	Option Awards (2)	Total
Juen-Sheng (Andrew) Kang	$ 1,500	$ 10,048	$ 11,548
William H. Yeh	1,500	8,792	10,292
Richard B. Black	1,500	6,280	7,780
Nancy T. Chang (5)	1,500	5,861	7,361
Benjamin C M Jen (4)	1,500	5,861	7,361
Chih-Kai (C.K.) Cheng (3)	1,500	5,024	6,524
Hsiang-Teh (Steven) Ho (3)	1,500	—	—

(1) Reflects the aggregate dollar amount of fees earned or paid in cash for services as a non-employee director, including committee service fees, fees for serving as a committee chairperson, and Board and committee meeting fees.

(2) Represents the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. The assumptions used in calculating the grant date fair value of the stock options reported in Note M to the consolidated financial statements included in this prospectus. The amounts reported in this column reflect the accounting cost for these stock options and do not correspond to the actual economic value that may be received by the named executive officers for the stock options.

(3) Resigned as a member of the Board on February 20, 2013.

(4) Resigned as a member of the Board on February 27, 2013.

(5) Resigned as a member of the Board on March 22, 2013.

Board Committees

Our board of directors directs the management of our business and affairs, as provided by Delaware law, and conducts its business through meetings of the board of directors. Upon completion of this offering our board of directors will have three standing committees: an audit committee, a compensation committee and a nominating and corporate governance committee. Our board of directors may establish other committees to facilitate the management of our business.

Audit Committee

Our audit committee currently consists of Richard B. Black, Alan Moore and Alex Ignatiev. Our board of directors has determined that Messrs. Black, Moore and Ignatiev each satisfy the independence and financial literacy requirements under the applicable rules and regulations of the SEC and NASDAQ. Mr. Black serves as the chairman of this committee, and our board of directors has determined that he qualifies as an "audit committee financial expert" as that term is defined in the rules and regulations established by the SEC and has the requisite financial sophistication as defined under the applicable NASDAQ rules. The functions of this committee include, but are not limited to:

- meeting with our management periodically to consider the adequacy of our internal controls and the objectivity of our financial reporting;
- meeting with our independent auditors and with internal financial personnel regarding these matters;
- appointing, compensating, retaining and overseeing the work of our independent auditors;
- pre-approving audit and non-audit services of our independent auditors;
- reviewing our audited financial statements and reports and discussing the statements and reports with our management, including any significant adjustments, management judgments and estimates, new accounting policies and disagreements with management;
- Establishing procedures for the receipt, retention and treatment of complaints we receive regarding accounting, internal accounting controls or auditing matters, as well as for the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters;
- reviewing the independence and quality control procedures of the independent auditor and the experience and qualifications of the independent auditor's senior personnel that are providing us audit services;
- reviewing all related-party transactions for approval; and

- reviewing and reassessing the adequacy of the audit committee's charter at least annually and recommending any changes to our board of directors.

Both our independent auditors and internal financial personnel regularly meet privately with our audit committee and have unrestricted access to this committee.

Compensation Committee

Our compensation committee currently consists of William H. Yeh, Richard B. Black and Mike Chen, each of whom is not an employee and is otherwise "independent" as that term is defined in the current applicable NASDAQ rules. Mr. Yeh serves as the chairman of this committee. Pursuant to its charter, our compensation committee has responsibility for overseeing our compensation policies and programs, including developing compensation policies and providing oversight in the implementation of all applicable policies and benefit plans. Specifically, the compensation committee recommends the compensation payable to our non-employee directors, evaluates and sets compensation for the Chairman of our board of directors and our executive officers and monitors all general compensation programs. In accordance with its charter, the compensation committee's responsibilities include, but are not limited to:

- reviewing and approving all compensation for the Chief Executive Officer, including incentive-based and equity-based compensation;
- reviewing and approving annual performance objectives and goals relevant to compensation for the Chief Executive Officer and evaluating the performance of the Chief Executive Officer;
- reviewing and approving incentive-based or equity-based compensation plans in which our executive officers participate;
- reviewing and approving all compensation for executive officers, including incentive-based and equity-based compensation, and overseeing the evaluation of management;
- approving all employment, severance, or change-in-control agreements, special or supplemental benefits, or provisions including the same, applicable to executive officers;
- periodically reviewing and advising our board of directors concerning both regional and industry-wide compensation practices and trends in order to assess the adequacy and competitiveness of our compensation programs for executive officers relative to comparable companies in our industry;
- reviewing and reassessing the adequacy of the compensation committee charter and recommending any changes to our board of directors; and
- reviewing and evaluating the compensation committee's own performance periodically.

The compensation committee may delegate its authority to a subcommittee to make grants of stock, stock options and other equity securities to executive officers and other employees, provided that these grants are made within established guidelines. In addition, the compensation committee may obtain advice or assistance from consultants, legal counsel, accounting or other advisors to perform its duties, provided that the compensation committee shall periodically

assess the independence of any such compensation consultant as required by NASDAQ rules and applicable law.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee currently consists of William H. Yeh, Alex Ignatiev and Mike Chen. Mr. Ignatiev serves as the chairman of this committee. Our nominating and corporate governance committee oversees and advises the board of directors with respect to corporate governance matters, assists the board of directors in identifying and recommending qualified candidates for nomination to the board of directors, makes recommendations to the board of directors with respect to assignments to committees of the board of directors and oversees the evaluation of the board of directors. The functions of this committee include, but are not limited to:

- making recommendations to the board of directors regarding all nominees for Board membership, whether for the slate of director nominees to be proposed by the board of directors to the stockholders or any director nominees to be elected by the board of directors to fill interim director vacancies;
- considering director candidates submitted by stockholders and determining the procedure to be followed by stockholders in submitting such recommendations;
- recommending board of director committee structure and responsibilities to be included in the charter of each committee of the board of directors to be submitted to full board of directors for consideration;
- recommending directors to serve on each board committee and suggesting rotations for chairpersons of the board committees as the nominating and corporate governance committee deems appropriate;
- recommending corporate governance standards to the board of directors;
- evaluating and recommending any revisions to board of directors and Board committee meeting policies;
- reviewing the effectiveness of the operation of the board of directors and board committees, including the corporate governance and operating practices;
- reviewing and reassessing the adequacy of the nominating and corporate governance committee charter and recommending any changes to the board of directors; and
- periodically reviewing the compensation paid to non-employee directors and make recommendations to our board of directors for any adjustments.

Compensation Committee Interlocks and Insider Participation in Compensation Decisions

None of our executive officers serves as a member of our compensation committee or as a member of the board of directors or any other committee serving an equivalent function of any other entity that has one or more of its executive officers serving as a member of our board of directors or compensation committee.

Code of Business Conduct

Our board of directors has adopted a code of business conduct. The code of business conduct applies to all of our employees, officers and directors. Upon the effectiveness of the registration statement of which this prospectus is a part, the full text of our code of business conduct will be posted on our website at www.ao-inc.com under the Investor Relations section. We intend to disclose future amendments to certain provisions of our code of business conduct, or waivers of such provisions, at the same location on our website identified above and also in public filings.

Risk Assessment of Compensation Programs

We do not believe that our compensation programs create risks that are reasonably likely to have a material adverse effect on our company. We believe that the combination of different types of compensation as well as the overall amount of compensation, together with our internal controls and oversight by the board of directors, mitigates potential risks.

Tax and Accounting Considerations

Section 162(m) of the Internal Revenue Code generally disallows public companies a tax deduction for compensation in excess of $1,000,000 paid to their Chief Executive Officer and certain other executive officers unless certain performance and other requirements are met. As one of the factors in its consideration of compensation matters, the compensation committee also considers the anticipated tax treatment to our company and to the executive officers of various payments and benefits, including the effect of Section 162(m). The compensation committee retains discretion, however, to implement executive compensation programs that may not be deductible under Section 162(m) if the compensation committee believes the programs are nevertheless appropriate to help achieve our primary objective of ensuring that compensation paid to our executive officers is reasonable, performance-based and consistent with the goals of our company and its stockholders. We do not believe that Code Section 162(m) will limit our tax deductions for our last completed fiscal year.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table presents summary information regarding the total compensation awarded to, earned by, and paid to our principal executive officer, principal financial officer and other three most highly compensated executive officers who were serving as executive officers at the end of the fiscal year ended December 31, 2012. These officers are referred to as our named executive officers. The information included in this table reflects compensation for the years ended December 31, 2011 and 2012.

Name and Principal Position	Year	Salary (1) $	Bonus $	Stock Awards $	Option Awards (2) $	Non-Equity Incentive Plan Compensation $	Nonqualified deferred compensation earnings $	All Other Compensation (3) $	Total $
Chih-Hsiang (Thompson) Lin	2012	318,689	—	—	53,733	—	—	4,632	377,054
President and Chief Executive Officer	2011	306,886	—	—	6,879	—	—	4,347	318,112
James L. Dunn, Jr. (4)	2012	3,654		—	—	—	—	113	3,767
Chief Financial Officer	2011	—	—	—	—	—	—	—	—
Stefan J. Murry	2012	201,872	—	—	21,829	—	—	1,540	225,241
Chief Strategy Officer	2011	190,256	—	—	2,635	—	—	1,255	194,146
Hung-Lun (Fred) Chang	2012	177,285	—	—	15,112	—	—	1,540	193,937
Senior Vice President of Optical Module Division	2011	172,033	—	—	1,844	—	—	1,255	175,132
Alexander K. Anselm	2012	161,648	—	—	13,433	—	—	1,491	176,572
Vice President of Semiconductor Products	2011	151,312	—	—	1,120	—	—	1,198	153,630

(1) Includes amounts earned but deferred at the election of the named executive officers, such as salary deferrals under our 401(k) Plan established under Section 401(k) of the Code.

(2) Represents the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. The assumptions used in calculating the grant date fair value of the stock options reported in the Option Awards column are set forth in Note M to the consolidated financial statements included in this prospectus. The amounts reported in this column reflect the accounting cost for these stock options and do not correspond to the actual economic value that may be received by the named executive officers for the stock options.

(3) Includes life insurance premiums paid by us for the benefit of the named executive officers.

(4) Mr. Dunn joined us on December 12, 2012 as Chief Financial Officer. His base annualized salary for 2012 was $192,000.

Outstanding Equity Awards at Fiscal Year-end

The following table sets forth certain information regarding outstanding equity awards at fiscal year-end for our named executive officers for the year ended December 31, 2012.

Name	Number of Shares Underlying Unexercised Options		Option Exercise Price $	Option Expiration Date
	Exercisable	Unexercisable		
Chih-Hsiang (Thompson) Lin	62,500	—	$ 0.165	July 31, 2014
	103,125	—	$ 0.25	June 9, 2015
	20,000	—	$ 0.20	May 29, 2019
	135,417	—	$ 0.20	May 29, 2019
	175,000	—	$ 0.20	February 12, 2018
	131,250	—	$ 0.20	June 5, 2017
	181,664	—	$ 0.20	October 19, 2019
	13,334	—	$ 0.20	June 5, 2017
	114,583	—	$ 0.20	August 3, 2017
	14,999	—	$ 0.20	February 12, 2018
	422,500	422,500	$ 0.20	August 3, 2017
	228,462	293,738	$ 0.20	August 23, 2020
	—	320,000	$ 0.20	March 4, 2021
James L. Dunn, Jr.	—	—	—	—
Stefan J. Murry	27,000	—	$ 0.10	December 31, 2014
	85,000	—	$ 0.15	July 31, 2014
	41,100	—	$ 0.15	December 31, 2014
	43,334	—	$ 0.20	February 12, 2018
	140,000	—	$ 0.20	October 19, 2019
	36,666	—	$ 0.20	February 12, 2018
	115,000	115,000	$ 0.20	August 23, 2020
	87,499	112,501	$ 0.20	March 4, 2021
	—	130,000	$ 0.20	May 22, 2022
Hung-Lun (Fred) Chang	22,518	—	$ 0.10	December 31, 2014
	85,000	—	$ 0.15	July 31, 2014
	12,000	—	$ 0.25	June 9, 2015
	166,000	—	$ 0.20	October 19, 2019
	90,000	90,000	$ 0.20	August 23, 2020
	61,249	78,751	$ 0.20	March 4, 2021
	—	90,000	$ 0.20	May 22, 2022
Alexander K. Anselm	30,000	—	$ 0.20	December 31, 2014
	60,000	—	$ 0.10	December 31, 2014
	30,000	—	$ 0.15	July 31, 2014
	113,500	—	$ 0.20	October 19, 2019
	65,000	65,000	$ 0.20	August 23, 2020
	37,187	47,813	$ 0.20	March 4, 2021
	—	80,000	$ 0.20	May 22, 2022

Agreements with Executive Officers

Change of Control or Separation of Service Agreements with Chief Executive Officer and Other Executive Officers

Each of Mr. Lin, Mr. Murry and Mr. J. Yeh has an agreement regarding change of control or separation of service with our company, which provides that, if the Board terminates his employment for any reason other than Cause or if he resigns for Good Reason before the occurrence of a Change in Control, as defined below, he will be entitled to receive (i) a payment equal to one year's base salary plus $15,000, (which may be used for benefit continuation under COBRA or for any other purpose), and (ii) a payment equal to his target bonus. The severance benefits that may arise as a result of a termination prior to a Change of Control will be paid periodically in installments over the 12 months following his separation from service, subject to certain limitations including his execution of a release agreement. The release agreement would include a reasonable agreement to cooperate for a period of six months following the employment termination date and a mutual non-disparagement clause. In consideration of these benefits, he has agreed to be subject to a non-compete provision for a period of 12 months following his separation from service and would agree to maintain the confidentiality of company information.

Each employment agreement defines "Cause" as, following written notice to the executive and the executive's failure to cure such occurrence(s): (i) conviction or plea of nolo contendre to any felony offense or to a crime of moral turpitude; (ii) commission of willful misconduct or violation of law in connection with the performance of his duties, including (a) misappropriation of funds or property, (b) attempting to secure personally any profit in connection with any transaction entered into on behalf of our company, or (c) making any material misrepresentation to the Board, our company or its affiliates; (iii) material violation or failure to comply with our company policy; (iv) material breach of the employment agreement; or (v) the willful and continued failure or neglect to substantially perform his duties with our company. "Good Reason" is defined to include: (i) the executive's assignment to duties inconsistent with his position or title; (ii) reduction in his base compensation, except as part of an overall cost reduction program that affects all senior executives and does not disproportionately affect executive; (iii) any purported termination of the executive by our company other than for disability or Cause or a voluntary resignation initiated by the executive, except for a voluntary termination for Good Reason; (iv) failure of any successor entity to our company to expressly assume the employment agreement; and (v) material breach by our company of the agreement.

If, within one year of a Change of Control, the executive's employment is terminated by the executive for Good Reason or by our company other than for Cause, the executive will instead be entitled to receive severance benefits consisting of: (i) a lump sum payment equal to one year's base salary plus $10,000 (which may be used for benefit continuation under COBRA or for any other purpose); (ii) a lump sum payment equal to his target bonus; and (iii) accelerated vesting of the executive's stock options, with all vested options becoming exercisable for an extended period following termination of employment. The severance benefits that may arise as a result of termination within one year following a Change of Control will be paid on the later of the 60th day after the effective date of the executive's separation from service or six months and one day after executive's separation from service if the executive is, at the time of termination, a "specified employee" as defined under Section 409A of the Internal Revenue Code, as amended.

A "Change in Control" is deemed to occur if: (i) individuals who constitute the board of directors of our company on the date of the employment agreement (Incumbent Directors) cease to constitute at least a majority of the board; provided, that any individual whose election or

nomination for election by the stockholders was approved by a majority of the then Incumbent Directors shall be considered an Incumbent Director, with certain exceptions; or (ii) the stockholders of our company approve (1) any merger, consolidation or recapitalization of our company or any sale of substantially all of its assets where (a) the stockholders of our company prior to the transaction do not, immediately thereafter, own at least 51% of both the equity and voting power of the surviving entity or (b) the Incumbent Directors at the time of the approval of the transaction would not immediately thereafter constitute a majority of the board of directors of the surviving entity, or (2) any plan of liquidation or dissolution of our company.

Equity Compensation Plans

2013 Long-Term Incentive Plan

Our board of directors and stockholders have adopted and approved our 2013 Long-Term Incentive Plan, which will become effective immediately prior to the date this offering becomes effective. The following is a brief summary of the material terms of our 2013 Plan.

Purpose

The purpose of our 2013 Plan is to attract and retain employees, directors and consultants by providing them with additional incentives, and to promote the success of our company's business.

Administration

Our board of directors or one or more committees appointed by our board of directors will administer the 2013 Plan. For this purpose our board of directors has delegated general administrative authority for the 2013 Plan to the compensation committee. A committee may delegate some or all of its authority with respect to the 2013 Plan to another committee of directors and may delegate certain limited award grant authority to one or more officers of our company. (The appropriate acting body, be it our board of directors, a committee within its delegated authority, or an officer within his or her delegated authority, is referred to in this summary as the "Administrator.") The Administrator determines the number of shares that are subject to awards and the terms and conditions of such awards, including the price (if any) to be paid for the shares or the award. Along with other authority granted to the Administrator under the 2013 Plan, the Administrator may (i) determine fair market value, (ii) select recipients of awards, (iii) determine the number of shares subject to awards, (iv) approve form award agreements, (v) determine the terms and conditions of awards, (vi) reduce the exercise price of outstanding awards without participant consent, (vii) amend outstanding awards, and (viii) allow participants to satisfy withholding tax obligations through a reduction of shares.

Eligibility

Persons eligible to receive awards under the 2013 Plan include our officers, employees, consultants and member of our board of directors. The Administrator determines from time to time the participants to whom awards will be granted.

Authorized shares; limits on awards

The maximum number of common shares that may be issued or transferred pursuant to awards under the 2013 Plan equals , which number includes shares remaining available under our prior plans as described below and shares subject to outstanding awards forfeited back

to our prior plans, all of which may be subject to incentive stock option treatment. The maximum aggregate number of common shares that may be issued pursuant to all awards under the 2013 Plan shall increase annually on the first day of each fiscal year following the adoption of the 2013 Plan by the number of common shares equal to the lesser of (i) shares, (ii) percent of the total issued and outstanding common shares on the first day of such fiscal year, or (iii) such lesser amount determined by our board of directors. Additionally, the maximum number of shares subject to those options and stock appreciation rights that are granted during any calendar year to any individual under the 2013 Plan is shares.

To the extent that an award is settled in cash or a form other than shares, the shares that would have been delivered had there been no such cash or other settlement will not be counted against the shares available for issuance under the 2013 Plan. To the extent that shares are delivered pursuant to the exercise of a stock appreciation right or stock option, or to satisfy the tax withholding obligations under an award, then only the shares actually issued shall be counted against the applicable share limits. Shares that are subject to or underlie awards that expire or for any reason are cancelled or terminated, are forfeited, fail to vest, or for any other reason are not paid or delivered under the 2013 Plan will again be available for subsequent awards under the 2013 Plan. Additionally, shares that are exchanged by a participant or withheld by our company as full or partial payment in connection with any award under the 2013 Plan, as well as any shares exchanged by a participant or withheld by our company to satisfy the tax withholding obligations related to any award under the 2013 Plan, will be available for subsequent awards under the 2013 Plan and are not counted against the applicable share limits.

As is customary in incentive plans of this nature, the number and kind of shares available under the 2013 Plan and the then outstanding stock-based awards, as well as exercise or purchase prices, performance targets under certain performance-based awards and share limits, are subject to adjustment in the event of certain reorganizations, mergers, combinations, consolidations, recapitalizations, dividends, stock splits, a split-up or a spin-off, repurchases or exchange, or other similar events, or extraordinary dividends or distributions of property to the stockholders.

Incentive awards

The 2013 Plan authorizes stock options, stock appreciation rights, or SARs, restricted stock, restricted stock units, performance shares and performance units, as well as other awards (described in the 2013 Plan) that are responsive to changing developments in management compensation. The 2013 Plan retains the flexibility to offer competitive incentives and to tailor benefits to specific needs and circumstances. Any award may be paid or settled in cash. An option or SAR will expire, or other award will vest in accordance with the schedule set forth in the applicable award agreement.

- ***Stock option.*** A stock option is the right to purchase common shares at a future date at a specified price per share generally equal to, but no less than, the fair market value of a share on the date of grant. An option may either be an Incentive Stock Option, or ISO, or a nonstatutory stock option, or NSO. ISO benefits are taxed differently from NSOs, as described under "Federal Income Tax Treatment of Awards under the 2013 Plan," below. ISOs also are subject to more restrictive terms and are limited in amount by the Code and the 2013 Plan. Full payment for shares purchased on the exercise of any option must be made at the time of such exercise in a manner approved by the Administrator.

- ***SAR.*** A SAR is the right to receive payment of an amount equal to the excess of the fair market value of a common share on the date of exercise of the SAR over the base price of the SAR. The base price will be established by the Administrator at the time of grant of the SAR but will not be less than the fair market value of a share on the date of grant. SARs may be granted in connection with other awards or independently.

- ***Restricted stock award.*** A restricted stock award is typically for a fixed number of common shares subject to restrictions. The Administrator specifies the price, if any, the participant must pay for such shares and the restrictions (which may include, for example, continued service and/or performance standards) imposed on such shares. A stock bonus may be granted by the Administrator to any eligible person to reward exceptional or special services, contributions or achievements in the manner and on such terms and conditions (including any restrictions on such shares) as determined from time to time by the Administrator. The number of shares so awarded shall be determined by the Administrator and may be granted independently or in lieu of a cash bonus.

- ***Restricted stock unit.*** A restricted stock unit is similar to a SAR except that it entitles the recipient to receive an amount equal to the fair market value of a common share.

- ***Performance-based award.*** A performance-based award is designed to satisfy the requirements for deductibility under Section 162(m) of the Code (in addition to other awards expressly authorized under the 2013 Plan which may also qualify as performance-based) and may be based on the performance of our company and/or one or more of our subsidiaries, divisions, segments, or units. The business criteria from which performance goals will be established are listed in the 2013 Plan under the term "Performance Goals." Performance goals may be adjusted to reflect certain changes, including reorganizations, liquidations and capitalization and accounting changes, to the extent permitted by Section 162(m). Performance-based awards may be stock-based (payable in stock only or in cash or stock) or may be cash-only awards (in either case, subject to the limits described under the heading "Authorized Shares; Limits on Awards" above). Before any performance-based award is paid, the Administrator must certify that the performance goals have been satisfied. The Administrator has discretion to determine the performance goals and restrictions or other limitations of the individual awards and reserves discretion to reduce payments below maximum award limits.

The Administrator may grant stock unit awards and permit deferred payment of awards, and may determine the form and timing of payment, vesting and other terms applicable to stock units or deferrals.

Acceleration of awards; possible early termination of awards

Upon a change in control of our company, outstanding awards under the 2013 Plan will be assumed or substituted on the same terms. However, if the successor corporation does not assume or substitute the outstanding awards, then vesting of these awards will fully accelerate, and in the case of options or stock appreciation rights, will become immediately exercisable. For this purpose a change in control is defined to include certain changes in the majority of our board of directors, the sale of all or substantially all of our company's assets and the consummation of certain mergers or consolidations.

Transfer restrictions

Subject to certain exceptions, awards under the 2013 Plan are not transferable by the recipient other than by will or the laws of descent and distribution and are generally exercisable, during the recipient's lifetime, only by him or her.

Termination of or changes to the 2013 Plan

Our board of directors may amend or terminate the 2013 Plan at any time and in any manner. Unless required by applicable law or listing agency rule, stockholder approval for any amendment will not be required. Unless previously terminated by our board of directors, the 2013 Plan will terminate on , 2028. Generally speaking, outstanding awards may be amended, subject, however, to the consent of the holder if the amendment materially and adversely affects the holder.

Federal income tax treatment of awards under the 2013 Plan

Federal income tax consequences (subject to change) relating to awards under the 2013 Plan are summarized in the following discussion. This summary is not intended to be exhaustive and, among other considerations, does not describe the deferred compensation provisions of Section 409A of the U.S. Internal Revenue Code to the extent an award is subject to and does not satisfy those rules, nor does it describe state, local, or international tax consequences.

For "NSOs," our company is generally entitled to deduct (and the optionee recognizes taxable income in) an amount equal to the difference between the option exercise price and the fair market value of the shares at the time of exercise. For ISOs, our company is generally not entitled to a deduction nor does the participant recognize income at the time of exercise. The current federal income tax consequences of other awards authorized under the 2013 Plan generally follow certain basic patterns: SARs are taxed and deductible in substantially the same manner as NSOs; nontransferable restricted stock subject to a substantial risk of forfeiture results in income recognition equal to the excess of the fair market value over the price paid (if any) only at the time the restrictions lapse (unless the recipient elects to accelerate recognition as of the date of grant); bonuses and performance share awards are generally subject to tax at the time of payment; cash-based awards are generally subject to tax at the time of payment; and compensation otherwise effectively deferred is taxed when paid. Our company will generally have a corresponding deduction at the time the participant recognizes income. However, as for those awards subject to ISO treatment, our company would generally have no corresponding compensation deduction.

If an award is accelerated under the 2013 Plan in connection with a change in control (as this term is used under the Code), our company may not be permitted to deduct the portion of the compensation attributable to the acceleration ("parachute payments") if it exceeds certain threshold limits under the Code (and certain related excise taxes may be triggered). Furthermore, the aggregate compensation in excess of $1,000,000 attributable to awards which are not "performance-based" within the meaning of Section 162(m) of the Code, or do not fall within any other applicable exception, may not be permitted to be deducted by our company in certain circumstances.

Various Incentive Share Plans

Our board of directors previously adopted, and our stockholders previously approved, the 1998 Share Incentive Plan, the 2000 Share Incentive Plan, the 2004 Share Incentive Plan and the

2006 Share Incentive Plan, which are referred to collectively as our Prior Plans. As of February 28, 2013, we had 22,341,578 shares of common stock subject to outstanding stock options under our Prior Plans with a weighted average exercise price of $0.2212. Following this offering and in connection with the effectiveness of our 2013 Long-Term Incentive Plan, no further awards will be granted under the Prior Plans. However, all outstanding awards under the Prior Plans will continue to exist and will continue to be governed by their existing terms. Upon a change in control of our company, as described in each of the Prior Plans, the vesting of stock options and other outstanding awards under the Prior Plans will be accelerated and all unexercised awards will terminate upon the change in control to the extent the acquirer does not assume the outstanding stock options.

Section 401(k) Plan

We maintain a tax-qualified retirement plan that provides eligible employees with an opportunity to save for retirement on a tax-advantaged basis. All participants' interests in their contributions are 100% vested when contributed. Historically, we have not made any matching contributions to the Section 401(k) plan. Pre-tax contributions are allocated to each participant's individual account and are then invested in selected investment alternatives according to the participants' directions. The retirement plan is intended to qualify under Sections 401(a) and 501(a) of the Code.

Indemnification of Directors and Officers and Limitation of Liability

As permitted by Delaware General Corporation Law, we have adopted provisions in our amended and restated certificate of incorporation and amended and restated bylaws to be in effect at the closing of this offering that limit or eliminate the personal liability of our directors. Consequently, a director will not be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director, except for liability for:

- any breach of the director's duty of loyalty to us or our stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- any unlawful payments related to dividends or unlawful stock repurchases, redemptions or other distributions; or
- any transaction from which the director derived an improper personal benefit.

These limitations of liability do not alter director liability under the federal securities laws and do not affect the availability of equitable remedies such as an injunction or rescission. In addition, our amended and restated bylaws to be in effect at the closing of this offering provide that:

- we will indemnify, to the fullest extent permitted by law, any person who is or was a party or is threatened to be made a party to any action, suit or proceeding by reason of the fact that he or she is or was one of our directors or officers or is or was serving at our request as a director or officer of another corporation, partnership, joint venture, trust, or other enterprise;
- we may indemnify to the fullest extent permitted by law any person who is or was a party or is threatened to be made a party to any action, suit, or proceeding by reason of

the fact that he or she is or was one of our employees or agents or is or was serving at our request as an employee or agent of another corporation, partnership, joint venture, trust, or other enterprise; and

- we must advance expenses incurred by or on behalf of a director or officer in advance of the final disposition of any action or proceeding, subject to very limited exceptions.

Indemnification Agreements

We have entered into agreements that indemnify each of our directors and certain of our executive officers, in addition to the indemnification provided for in our amended and restated certificate of incorporation and amended and restated bylaws that will be in effect upon the completion of this offering. These agreements, among other things, provide for indemnification for judgments, fines, settlement amounts and expenses, including attorneys' fees incurred by the director or executive officer in any action or proceeding, including any action by or in our right, arising out of the person's services as a director or executive officer, or any other company or enterprise to which the person provides services at our request. We believe that these provisions and agreements are necessary to attract and retain qualified persons as directors and executive officers.

The limitations on liability and indemnification provisions in our amended and restated certificate of incorporation and amended and restated bylaws upon our completion of this offering may discourage stockholders from bringing a lawsuit against our directors for breach of their fiduciary duty and may reduce the likelihood of derivative litigation against our directors and officers, even though a derivative action, if successful, might otherwise benefit us and our stockholders. A stockholder's investment in us may be adversely affected to the extent we pay the costs of settlement or damage awards against our directors and officers under these indemnification provisions.

At present, there is no pending litigation or proceeding involving any of our directors or officers in which indemnification is sought, nor are we aware of any threatened litigation that may result in claims for indemnification.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Other than compensation agreements and other arrangements which are described as required under "Management" and the transactions described below, since January 1, 2010, there has not been, and there is not currently proposed, any transaction or series of similar transactions to which we were or will be a party in which the amount involved exceeded or will exceed $120,000 and in which any director, executive officer, holder of five percent or more of any class of our capital stock or any member of their immediate family had or will have a direct or indirect material interest. Our audit committee will be responsible for approving all future transactions between us and our officers, directors and principal stockholders and their affiliates.

Loans from Stockholders

On February 3, 2010, we entered into a promissory note with Lina Yeh in the principal amount of $200,000 at an interest rate of 6%. Lina Yeh is the wife of William Yeh, a member of our board of directors. The principal balance of $200,000 was converted to acquire 571,427 shares of Series G preferred stock in August 2012 at a price of $0.35 per share, and the remaining interest amount of $7,715 under the promissory note was paid off in September 2012. In connection with the promissory note, Lina Yeh was also issued warrants to acquire 96,000 shares of Series F preferred stock at a price of $0.25 per share, and 23,555 shares of Series G preferred stock at a price of $0.60 per share. The warrants expire upon the closing of this offering.

On February 8, 2010, we entered into (i) a promissory note with Techgains Global Corporation in the aggregate principal amount of $150,000 at an interest rate of 6% and (ii) a promissory note with Techgains Pan Pacific Corporation in the aggregate principal amount of $150,000 at an interest rate of 6%. Juen-Sheng (Andrew) Kang, the Chairman of our board of directors, is a shareholder and the chairman of the board of directors of both Techgains Global Corporation and Techgains Pan Pacific Corporation. Techgains Global Corporation and Techgains Pan Pacific Corporation beneficially own more than five percent of our common stock. The remaining principal balance and the remaining interest of $319,159 under the two promissory notes was converted to acquire 911,882 shares of Series G preferred stock in September 2012 at a price of $0.35 per share. In connection with the promissory notes, Techgains Global Corporation and Techgains Pan Pacific Corporation each received warrants to acquire (i) 72,000 shares of Series F preferred stock at a price of $0.25 per share and (ii) 26,666 shares of Series G preferred stock at a price of $0.60. The warrants expire upon the closing of this offering.

On February 11, 2010, we entered into (i) a promissory note with Budworth Investments Limited in the aggregate principal amount of $175,000 at an interest rate of 6% and (ii) a promissory note with Harbinger III Venture Capital Corp. in the aggregate principal amount of $75,000 at an interest rate of 6%. Chih-Kai (C.K.) Chen, a former member of our board of directors, is a shareholder, co-founder and general partner of both Budworth Investments Limited and Harbinger III Venture III Venture Corp. The principal balance and interest owed under the two promissory notes were paid off in September 2011. In connection with the promissory notes, Budworth Investments Limited and Harbinger III Venture III Venture Corp. received warrants to acquire an aggregate of 120,000 shares of Series F preferred stock at a price of $0.25 per share. The warrants expire upon the closing of this offering.

We entered into (i) a promissory note with Robinhood III, LP on February 25, 2010 in the aggregate principal amount of $300,000 at an interest rate of 6% and (ii) a promissory note with Robinhood III, LP on April 21, 2010 in the aggregate principal amount of $550,000 at an interest rate of 6%. Nancy T. Chang, a former member of our board of directors is the sole beneficiary

and the President of the general partner of Robinhood III, LP. Robinhood III, LP and entities affiliated with Robinhood III, LP beneficially own more than five percent of our common stock. The principal balance and interest owed under one promissory note was paid off in August 2011 and the principal balance and interest owed under the other promissory note was paid off in November 2011. In connection with the promissory notes, Robinhood III, LP received warrants to acquire an aggregate of 408,000 shares of Series F preferred stock at a price of $0.25 per share. The warrants expire upon the closing of this offering.

On April 23, 2010, we entered into a promissory note with Helix Micro Inc. the aggregate principal amount of $1,000,000 at an interest rate of 6%. Juen-Sheng (Andrew) Kang, the Chairman of our board of directors, is a shareholder and the former chairman of the board of directors of Helix Micro, Inc. The remaining principal balance of $1,000,000 under the promissory note was converted to acquire 2,857,142 shares of Series G preferred stock in December 2011 at a price of $0.35 per share, and the remaining interest of $102,445 owed under the promissory note was paid off in January 2012. In connection with the promissory note, Helix Micro, Inc. was issued warrants to acquire (i) 480,000 shares of Series F preferred stock at a price of $0.25 per share and (ii) 22,222 shares of Series G preferred stock at a price of $0.60. The warrants expire upon the closing of this offering.

Private Placement of Securities

Between December 31, 2011 and December 31, 2012, we issued and sold an aggregate of 42,857,108 shares of Series G preferred stock at a price of $0.35 for an aggregate price of $15,000,000 in a private placement. Of that amount, we sold 13,492,217 shares of our Series G preferred stock for an aggregate price of $4,722,277.90 to investors that were our affiliates at such time, including entities affiliated with Technology Associates Management Company, Robinhood III, LP, Grand River Capital, Richard B. Black and William H. Yeh. In connection with the closing of this offering, each share of Series G preferred stock will convert into 42,857,108 shares of our common stock. See "Principal and Selling Stockholders" for more detail on shares of our stock held by these purchasers.

Registration Rights

We provided registration rights to our holders of common stock and Series A preferred stock in connection with this offering, including Chih-Hsiang (Thompson) Lin, Stefan J. Murry, Hung-Lun (Fred) Chang, Klaus Alexander Anselm, Richard B. Black and Alex Ignatiev, who are certain of our executive officers and directors, and entities associated with Techgains Global Corporation and Techgains Pan Pacific Corporation. Such rights are subject to conditions and limitations at the sole discretion of our board of directors.

Additionally, we entered into registration rights agreements with our investors in connection with our Series C, D, E, F and G preferred stock private placements. As a result, following the closing of this offering, the holders of approximately shares of our common stock will be eligible to exercise certain rights with respect to the registration of such shares under the Securities Act. See "Description of capital stock—Registration rights."

Stockholders' Agreement

Beginning in 2000, we entered into a shareholders' agreement with stockholders who purchased shares of our preferred stock, which agreement has been amended to include additional investors and to make other changes at the time of each of our preferred stock private placements. The shareholders' agreement was most recently amended on January 14, 2011. The

shareholders' agreement contains rights of first refusal and information rights and will terminate in accordance with its terms upon the closing of this offering.

Indemnification and Change in Control Agreements

We have agreed to indemnify our directors and our executive officers under certain circumstances and have purchased directors' and officers' liability insurance. The indemnification agreements and our amended and restated certificate of incorporation and amended and restated bylaws require us to indemnify our directors and officers to the fullest extent permitted by Delaware law. See "Management—Indemnification of directors and officers and limitation of liability" and "—Indemnification agreements. We have also entered into change in control agreements with our executive officers. See "Management—Agreements with executive officers."

Stock Option Awards

For information regarding stock option awards to our named executive officers and directors in 2012, see "Executive Compensation—Summary Compensation Table" and "Executive Compensation—Outstanding equity awards at fiscal year-end." In addition, on January 18, 2013, our board of directors granted a stock option for 2,740,000 shares of our common stock to Chih-Hsiang (Thompson) Lin, a stock option for 310,000 shares of our common stock to Klaus Alexander Anselm, a stock option for 520,000 shares of our common stock to Stefan J. Murry, a stock option for 380,000 shares of our common stock to Hung-Lun (Fred) Chang and a stock option for 300,000 shares of our common stock to James L. Dunn, Jr. Each of the stock options granted on January 18, 2013 have an exercise price of $0.25 per share and vest over a four year period, with 25% of the shares subject to each such option vesting on the first anniversary of the vesting commencement date and one-sixth of the remaining shares vesting on the first day of each succeeding six-month period, in each case subject to the optionee's continued service. Such vesting is subject to acceleration in the event of our change of control or the optionee's death, disability or retirement.

Review, Approval and Ratification of Transactions with Related Parties

Prior to this offering, our board of directors reviewed and approved transactions with directors, officers and holders of five percent or more of any class of our capital stock, each of whom is a related party. Prior to our board of directors' consideration of a transaction with a related party, the material facts as to the related party's relationship or interest in the transaction were disclosed to our board of directors, and the transaction was approved by our board of directors unless a majority of the directors who were not interested in the transaction approved the transaction. In March 2013, we adopted a new audit committee charter and put into place a related party transactions policy that will require, among other items, that such transactions must be approved by our audit committee.

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth the beneficial ownership information of our common stock as of February 28, 2013, and as adjusted to reflect the sale of the shares of common stock in this offering, for:

- each person known to us to be the beneficial owner of more than 5% of our common stock;
- each named executive officer;
- each of our directors;
- all of our executive officers and directors as a group; and
- each selling stockholder.

We have determined beneficial ownership in accordance with the rules of the SEC. These rules generally attribute beneficial ownership of securities to persons who possess sole or shared voting power or investment power with respect to those securities and include stock options and warrants that are immediately exercisable or exercisable within 60 days. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the table below have sole voting and investment power with respect to all shares of common stock beneficially owned by them, subject to applicable community property laws. This information is not necessarily indicative of beneficial ownership for any other purpose.

In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person, we deemed to be outstanding shares of common stock and preferred stock subject to options or warrants held by that person that are currently exercisable or exercisable within 60 days of February 28, 2013 on an as-converted basis. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person. Beneficial ownership representing less than 1.0% is denoted with an asterisk (*).

Percentage ownership calculations for beneficial ownership before this offering are based on 268,277,953 shares of common stock outstanding, on an as-converted basis assuming the conversion of all of the outstanding preferred stock. Percentage ownership calculations for beneficial ownership after this offering also include shares we are offering hereby. This table assumes no exercise of the underwriters' option to purchase additional shares in the offering.

Names of Beneficial owner	Shares beneficially owned before the offering		Shares being offered		Shares beneficially owned after the offering	
	Number	Percent	Number	Percent	Number	Percent
Other 5% or Greater Stockholders:						
Entities associated with Technology Associates Management Company, Ltd. (1)	33,070,850	12.3%				
Entities associated with Robinhood II LP (2)	20,111,914	7.5%				
Certain Other Selling Stockholders:						
Directors and Named Executive Officers:						
Chih-Hsiang (Thompson) Lin (3)	3,385,437	1.3%				
Juen-Sheng (Andrew) Kang (1)	33,070,850	12.3%				
William H. Yeh (4)	3,825,501	1.4%				
Richard B. Black (5)	746,600	*				
Alex Ignatiev	136,869	*				
Min-Chu (Mike) Chen	57,428	*				
Alan Moore	2,975,593	1.1%				
Hung-Lun (Fred) Chang (6)	548,416	*				
Stefan J. Murry (7)	687,916	*				
Klaus Alexander Anselm (8)	469,020	*				
All executive officers and directors as a group (13 persons) (9)	48,638,413	18.2%				

(1) Includes (i) stock options to purchase 178,334 shares of common stock held by Juen-Sheng (Andrew) Kang, (ii) warrants to purchase 72,000 shares of Series F preferred stock convertible to 86,401 shares of common stock and 26,666 shares of Series G preferred stock convertible to 26,666 shares of common stock held by Techgains Global Corporation on an as-converted basis and (iii) warrants to purchase 72,000 shares of Series F preferred stock convertible to 86,401 shares of common stock and 26,666 shares of Series G preferred stock convertible to 26,666 shares of common stock held by Techgains Pan Pacific Corporation on an as-converted basis assuming the conversion of all of the outstanding preferred stock, which in each case is exercisable within 60 days of February 28, 2013. Also includes (a) 5,887,041 shares held of record by Techgains Global Corporation, (b) 6,176,571 shares held of record by Techgains International Corporation, (c) 4,676,658 shares held of record by Techgains Pacific Century Fund, LP, (d) 11,849,406 shares held of record by Techgains Pan Pacific Corporation and (e) 4,076,706 shares held of record by Technology Associates Management Company, Ltd., in each case on an as-converted basis assuming the conversion of all of the outstanding shares of preferred stock. Mr. Kang has the power to direct investments and/or has the sole power to vote the securities owned by Technology Associates Management Company, Ltd., as its managing director. Mr. Kang also has the power to direct investments and/or has the sole power to vote the securities owned by Techgains Pan Pacific Corporation, Techgains Global Corporation, Techgains International Corporation and Techgains Pacific Century Fund LP, as their chairman. The principal address of the entities associated with Technology Associates Management Company, Ltd. is 5052 Tennyson Parkway, Suite 100 Plano, Texas 75024.

(2) Includes (i) stock options to purchase 109,664 shares of common stock held by Nancy T. Chang and (ii) warrants to purchase 408,000 shares of Series F preferred stock convertible to 489,608 shares of common stock held by Robinhood III LP, which in each case is exercisable within 60 days of February 28, 2013. Also includes (a) 12,632,238 shares held of record by Robinhood II LP, (b) 6,843,735 shares held of record by Robinhood III LP and (c) 36,669 shares held of record by Ms. Chang. Ms. Chang resigned as a member of our board of directors on March 22, 2013. Ms. Chang has the power to direct investments and/or has the sole power to vote the securities owned by Robinhood II LP and Robinhood III LP, as the sole beneficiary and president of the general partner of

such entities. The principal address of the entities associated with Robinhood II LP is 101 Wescott St. #603, Houston, Texas 77007.

(3) Includes stock options to purchase 1,751,976 shares of common stock that are exercisable within 60 days of February 28, 2013.

(4) Includes stock options to purchase 163,164 shares of common stock, and warrants held by Lina Yeh to purchase 96,000 shares of Series F preferred stock convertible to 115,202 shares of common stock and 23,555 shares of Series G preferred stock convertible to 23,555 shares of common stock, which in each is exercisable within 60 days of February 28, 2013. Also includes 926,335 shares of common stock held of record by Ms. Yeh. Ms. Yeh is Mr. Yeh's spouse.

(5) Includes stock options to purchase 132,500 shares of common stock that are exercisable within 60 days of February 28, 2013.

(6) Includes stock options to purchase 470,934 shares of common stock that are exercisable within 60 days of February 28, 2013.

(7) Includes stock options to purchase 621,016 shares of common stock that are exercisable within 60 days of February 28, 2013.

(8) Includes stock options to purchase 359,020 shares of common stock that are exercisable within 60 days of February 28, 2013.

(9) Includes (i) stock options to purchase 4,339,107 shares of common stock that are exercisable within 60 days of February 28, 2013, (ii) warrants to purchase 1,128,000 shares of Series F preferred stock convertible to 1,353,621 shares of common stock that are exercisable within 60 days of February 28, 2013 and (iii) warrants to purchase 99,109 shares of Series G preferred stock convertible to 99,109 shares of common stock within 60 days of February 28, 2013.

DESCRIPTION OF CAPITAL STOCK

General

The following description of our capital stock is intended as a summary only and is qualified in its entirety by reference to our amended and restated certificate of incorporation and amended and restated bylaws to be in effect at the completion of this offering, which are filed as exhibits to the registration statement, of which this prospectus forms a part, and to the applicable provisions of the Delaware General Corporation Law.

Upon completion of this offering, our authorized capital stock will consist of shares of common stock, par value $0.001 per share, and shares of undesignated preferred stock, par value $0.001 per share.

Common Stock

As of February 28, 2013, there were 268,268,965 shares of our common stock outstanding and held of record by 345 stockholders, assuming conversion of all outstanding shares of preferred stock. Holders of our common stock are entitled to one vote for each share of common stock held of record for the election of directors and on all matters submitted to a vote of stockholders. Holders of our common stock are also entitled to receive dividends ratably, if any, as may be declared by our board of directors out of legally available funds, subject to any preferential dividend rights of any preferred stock then outstanding. Upon our dissolution, liquidation or winding up, holders of our common stock are entitled to share ratably in our net assets legally available after the payment of all our debts and other liabilities, subject to the preferential rights of any preferred stock then outstanding. Holders of our common stock have no subscription, preemptive, redemption or conversion rights. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future. Except as described below in "Provisions of our Certificate of Incorporation and Bylaws and Delaware Anti-Takeover Law," a majority vote of common stockholders is generally required to take action under our amended and restated certificate of incorporation and amended and restated bylaws.

Preferred Stock

Upon the completion of this offering, our board of directors will be authorized, without action by the stockholders, to designate and issue up to an aggregate of shares of preferred stock in one or more series. The board of directors can fix the rights, preferences and privileges of the shares of each series and any of its qualifications, limitations or restrictions. Our board of directors may authorize the issuance of preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of common stock. The issuance of preferred stock, while providing flexibility in connection with possible future financings and acquisitions and other corporate purposes could, under certain circumstances, have the effect of delaying, deferring or preventing a change in control of our company and might harm the market price of our common stock.

Our board of directors will make any determination to issue such shares based on its judgment as to our company's best interests and the best interests of our stockholders. We have no current plans to issue any shares of preferred stock.

Registration Rights

Our board of directors approved giving certain registration rights to holders of our common stock and our Series A preferred stock in connection with this offering which rights are subject to conditions and limitations at the sole discretion of our board of directors, which rights are subject to conditions and limitations at the sole discretion of our board of directors. We have also entered into agreements with holders of our Series C, D, E, F and G preferred stock that give certain registration rights to such holders. Following the completion of this offering, there will be shares of our common stock, issued upon conversion of our preferred stock, entitled to such registration rights, excluding the shares issuable upon the exercise of warrants for our preferred stock. The registration rights granted under these registration rights agreements are subject to conditions and limitations, including our right to limit the number of shares included in such a registration upon advisement of the managing underwriter and our right not to effect a requested registration if the aggregate price to the public is less than $2,000,000.

Demand registration rights

At any time more than 180 days after the effective date of this offering, the holders of a majority of the shares of common stock issued upon conversion of our Series C, D, E, F and G preferred stock, subject to exceptions, are entitled to demand registration of all or any of such shares and require us to file a registration statement under the Securities Act at our expense.

S-3 demand registration rights

Following the closing of this offering, the holders of the shares of common stock issued upon conversion of our Series C, D, E, F and G preferred stock, subject to exceptions, are entitled to demand registration rights pursuant to which they may require us to file, as soon as practicable, one registration statement under the Securities Act on Form S-3 in any 12-month period with respect to these shares. We have the ability to delay the filing of a registration statement under specified conditions, such as if we are in possession of material non-public information that would not be in our best interests to disclose.

Piggyback registration rights

If we propose to register any of our securities under the Securities Act for our own account or the account of any other holder, the holders of the shares of common stock issued upon conversion of our Series C, D, E, F and G preferred stock are entitled to notice of such registration and are entitled to include these shares in the registration, subject to exceptions, including our right to limit the number of shares included in the registration.

We will pay all registration expenses, other than underwriting discounts and commissions and certain other expenses (including all fees and expenses of the consultants, advisors, attorneys, special experts and other third parties engaged by the holders of the shares of common stock issued upon conversion of our common stock and Series A, C, D, E, F and G preferred stock, and all relevant taxes, including transfer taxes), related to the foregoing demand, S-3 or piggyback registration rights. The registration rights agreements contain customary cross-indemnification provisions, pursuant to which we are obligated to indemnify the selling stockholders in the event of material misstatements or omissions in the registration statement attributable to us, and they are obligated to indemnify us for material misstatements or omissions attributable to them.

Provisions of Our Certificate of Incorporation and Bylaws and Delaware Anti-Takeover Law

Our amended and restated certificate of incorporation and amended and restated bylaws will, at the completion of this offering, include a number of provisions that may have the effect of encouraging persons considering unsolicited tender offers or other unilateral takeover proposals to negotiate with our board of directors rather than pursue non-negotiated takeover attempts. These provisions include the items described below.

Board composition and filling vacancies

In accordance with our amended and restated certificate of incorporation, our board is divided into three classes serving staggered three year terms, with one class being elected each year. Our amended and restated certificate of incorporation also provides that directors may be removed only for cause and then only by the affirmative vote of the holders of $66^{2}/_{3}\%$ or more of the shares then entitled to vote at an election of directors. Furthermore, any vacancy on our board of directors, however occurring, including a vacancy resulting from an increase in the size of our board, may only be filled by the affirmative vote of a majority of our directors then in office even if less than a quorum.

No written consent of stockholders

Our amended and restated certificate of incorporation provides that all stockholder actions are required to be taken by a vote of the stockholders at an annual or special meeting, and that stockholders may not take any action by written consent in lieu of a meeting.

Meetings of stockholders

Our amended and restated bylaws provide that only a majority of the members of our board of directors then in office, the Chairman of the Board of Directors or the Chief Executive Officer may call special meetings of stockholders and only those matters set forth in the notice of the special meeting may be considered or acted upon at a special meeting of stockholders. Our amended and restated bylaws limit the business that may be conducted at an annual meeting of stockholders to those matters properly brought before the meeting.

Advance notice requirements

Our amended and restated bylaws establish advance notice procedures with regard to stockholder proposals relating to the nomination of candidates for election as directors or new business to be brought before meetings of our stockholders. These procedures provide that notice of stockholder proposals must be timely given in writing to our corporate secretary before the meeting at which the action is to be taken. Generally, to be timely, notice must be received at our principal executive offices not less than 90 days or more than 120 days before the first anniversary date of the annual meeting for the preceding year. The notice must contain certain information specified in the amended and restated bylaws.

Amendment to bylaws and certificate of incorporation

As required by the Delaware General Corporation Law, any amendment of our amended and restated certificate of incorporation must first be approved by a majority of our board of directors and, if required by law or our amended and restated certificate of incorporation, thereafter be approved by a majority of the outstanding shares entitled to vote on the amendment, and a majority of the outstanding shares of each class entitled to vote thereon as a class, except that

the amendment of the provisions relating to stockholder action, directors, limitation of liability and the amendment of our amended and restated bylaws and amended and restated certificate of incorporation must be approved by not less than $66^2/3\%$ of the outstanding shares entitled to vote on the amendment, and not less than $66^2/3\%$ of the outstanding shares of each class entitled to vote thereon as a class. Our bylaws may be amended by the affirmative vote of a majority vote of the directors then in office, subject to any limitations set forth in the bylaws; and may also be amended by the affirmative vote of at least $66^2/3\%$ of the outstanding shares entitled to vote on the amendment, or, if the board of directors recommends that the stockholders approve the amendment, by the affirmative vote of the majority of the outstanding shares entitled to vote on the amendment, in each case voting together as a single class.

Blank check preferred stock

Upon the completion of this offering, our amended and restated certificate of incorporation authorizes shares of preferred stock. The existence of authorized but unissued shares of preferred stock may enable our board of directors to render more difficult or to discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest or otherwise. For example, if in the due exercise of its fiduciary obligations, our board of directors were to determine that a takeover proposal is not in the best interests of us or our stockholders, our board of directors could cause shares of preferred stock to be issued without stockholder approval in one or more private offerings or other transactions that might dilute the voting or other rights of the proposed acquirer or insurgent stockholder or stockholder group. In this regard, our amended and restated certificate of incorporation grants our board of directors' broad power to establish the rights and preferences of authorized and unissued shares of preferred stock. The issuance of shares of preferred stock could decrease the amount of earnings and assets available for distribution to holders of shares of common stock. The issuance may also adversely affect the rights and powers, including voting rights, of these holders and may have the effect of delaying, deterring or preventing a change in control of us.

Anti-takeover effects of the Delaware general corporation law

Upon completion of this offering, we will be subject to the provisions of Section 203 of the Delaware General Corporation Law, or Section 203. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a 3-year period following the time that this stockholder becomes an interested stockholder, unless the business combination is approved in a prescribed manner. A "business combination" includes, among other things, a merger, asset or stock sale or other transaction resulting in a financial benefit to the interested stockholder. An "interested stockholder" is a person who, together with affiliates and associates, owns, or did own within the three years before the determination of interested stockholder status, 15% or more of the corporation's voting stock. Under Section 203, a business combination between a corporation and an interested stockholder is prohibited unless it satisfies one of the following conditions:

- before the stockholder became interested, the board of directors approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder;
- upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced, excluding for purposes of determining the voting stock outstanding, shares owned by persons who are directors and also officers, and employee stock plans, in some instances; or

- at or after the time the stockholder became interested, the business combination was approved by the board of directors of the corporation and authorized at an annual or special meeting of the stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock which is not owned by the interested stockholder.

NASDAQ Global Market Listing

We will apply to have our common stock listed on the NASDAQ Global Market under the trading symbol "AAOI."

Transfer Agent and Registrar

will act as the transfer agent and registrar for our common stock. The transfer agent and registrar's address is .

SHARES ELIGIBLE FOR FUTURE SALE

Before this offering, there was no public market for our common stock. Future sales of substantial amounts of common stock in the public market, or the perception that such sales may occur, could adversely affect the market price of our common stock. Although we have applied to have our common stock approved for quotation on the NASDAQ Global Market, we cannot assure you that there will be an active public market for our common stock.

Upon completion of this offering, we will have outstanding an aggregate of shares of common stock, assuming the issuance of the shares of common stock offered in this offering and no other exercise of outstanding options or warrants. Of these shares, all shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act, except for any shares purchased by our "affiliates," as that term is defined in Rule 144(a) under the Securities Act, whose sales would be subject to certain limitations and restrictions described below.

The remaining shares of common stock held by existing stockholders were issued and sold by us in reliance on exemptions from the registration requirements of the Securities Act. Of these shares, shares will be subject to "lock-up" agreements with the underwriters or us described below on the effective date of this offering. On the effective date of this offering, there will be shares that are not subject to lock-up agreements and are eligible for sale pursuant to Rule 144. Upon expiration of the lock-up agreements 180 days after the effective date of this offering, shares will become eligible for sale, subject in most cases to the limitations of Rule 144 and Rule 701. In addition, holders of stock options could exercise such options and sell certain of the shares issued upon exercise as described below.

Days or date after date of this prospectus	Shares eligible for sale	Comment
Upon effectiveness		Shares sold in the offering
Upon effectiveness		Freely tradable shares that may be sold under Rule 144(k) and are not subject to the lock-up
180 days		Lock-ups released, subject to extension; shares that may be sold under Rules 144 and 701

Lock-Up Agreements

We, and all directors and officers, and holders of substantially all of our outstanding stock and stock options (including the selling stockholders) have agreed that, subject to certain exceptions, without the prior written consent of Raymond James and Piper Jaffray, as representatives on behalf of the underwriters, we and they will not, during the period ending 180 days after the date of the final prospectus relating to this offering, dispose any shares of our stock or options, warrants or other securities with respect to our stock, enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our common stock, or file or cause to be filed any registration statement with the Securities and Exchange Commission relating to the offering of any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock (other than any registration statement on Form S-8). There are no agreements between Raymond James and Piper Jaffray, as representatives on behalf of the underwriters, our company

and any of our securityholders or affiliates releasing them from these lock-up agreements prior to the expiration of the 180-day period.

The agreements to not contain any pre-established conditions to the waiver by Raymond James and Piper Jaffray on behalf of the underwriters of any terms of the lock-up agreements. Any determination to release shares subject to the lock-up agreements would be based on a number of factors at the time of the determination, including but not necessarily limited to the market price of the common stock, the liquidity of the trading market for the common stock, general market conditions, the number of shares proposed to be sold and the timing, purpose and terms of the proposed sale.

Rule 144

In general, under Rule 144 as currently in effect, beginning 90 days after the effective date of the registration statement of which this prospectus is a part, a person who is not our affiliate and has not been our affiliate at any time during the preceding 90 days and who is not a party to a lock-up agreement as described above will be entitled to sell any shares of our common stock that such person has beneficially owned for at least six months, including the holding period of any prior owner other than one of our affiliates, without regard to manner of sale, volume limitations or notice provisions of Rule 144. These sales of our common stock by any such person would be subject to the availability of current public information about us if the shares to be sold were beneficially owned by such person for less than one year.

In addition, under Rule 144, a person may sell shares of our common stock acquired from us immediately upon the closing of this offering, without regard to volume limitations or the availability of public information about us, if:

- the person is not our affiliate and has not been our affiliate at any time during the preceding 90 days; and
- the person has beneficially owned the shares to be sold for at least one year, including the holding period of any prior owner other than one of our affiliates.

Beginning 90 days after the date of this prospectus, subject to the lock-up agreements described above, our affiliates who have beneficially owned shares of our common stock for at least six months, including the holding period of any prior owner other than one of our affiliates, will be entitled to sell within any three-month period a number of shares that does not exceed the greater of:

- 1% of the number of shares of our common stock then outstanding, which will equal approximately shares immediately after this offering; and
- the average weekly trading volume in our common stock on the NASDAQ Global Market during the four calendar weeks preceding the date of filing of a Notice of Proposed Sale of Securities Pursuant to Rule 144 with respect to the sale.

Sales under Rule 144 by our affiliates are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us.

Rule 701

Rule 701 of the Securities Act, as in effect on the date of this prospectus, permits resales of shares in reliance upon Rule 144 but without compliance with certain restrictions of Rule 144, including the holding period requirement. Most of our employees, executive officers, directors or consultants who purchased shares under a written compensatory plan or contract may be entitled to rely on the resale provisions of Rule 701, but all holders of Rule 701 shares are required to wait until 90 days after the date of this prospectus before selling their shares. All of the Rule 701 shares are subject to lock-up agreements as described under the heading "Underwriting" and will become eligible for sale at the expiration of those agreements.

Stock Options

We intend to file one or more registration statements on Form S-8 under the Securities Act to register all shares of common stock subject to outstanding stock options and common stock issued or issuable under our stock plans. We expect to file the registration statement covering shares offered pursuant to our stock plans shortly after the date of this prospectus, permitting the resale of such shares by non-affiliates in the public market without restriction under the Securities Act and the sale by affiliates in the public market, subject to applicable volume limitations.

Registration Rights

Upon the closing of this offering, the holders of approximately shares of our common stock will be eligible to exercise certain rights with respect to the registration of such shares under the Securities Act. See "Description of capital stock—Registration rights." Upon the effectiveness of a registration statement covering these shares, such shares would become freely tradable.

MATERIAL U.S. FEDERAL TAX CONSIDERATIONS FOR NON-U.S. HOLDERS

This section summarizes the material U.S. federal income and estate tax consequences of the ownership and disposition of our common stock by a non-U.S. holder. For purposes of this summary, a "non-U.S. holder" is any beneficial owner that for U.S. federal income tax purposes is not a U.S. person. The term "U.S. person" means:

- an individual citizen or resident of the U.S.;
- a corporation or entity treated as a corporation for U.S. federal income tax purposes, created or organized under the laws of the U.S. or any state, including the District of Columbia, or otherwise treated as such for U.S. federal income tax purposes;
- an estate whose income is subject to U.S. federal income tax regardless of source; or
- a trust (i) whose administration is subject to the primary supervision of a court within the U.S. and which has one or more U.S. persons who have authority to control all substantive decisions of the trust or (ii) which has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

Generally, an individual may be treated as a resident of the U.S. in any calendar year for U.S. federal income tax purposes by, among other ways, being present in the U.S. for at least 31 days in that calendar year and for an aggregate of at least 183 days during a three-year period ending in the current calendar year. For purposes of this calculation, such individual would count all of the days in which the individual was present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year. Residents are taxed for U.S. federal income tax purposes as if they were citizens of the U.S.

This summary does not consider the tax consequences for partnerships, entities classified as a partnership for U.S. federal income tax purposes, or persons who hold their interests through a partnership or other entity classified as a partnership for U.S. federal income tax purposes. If a partnership, including any entity treated as a partnership for U.S. federal income tax purposes, is a beneficial owner of common stock, the tax treatment of a partner in the partnership will depend upon the status of the partner and the activities of the partnership. Partnerships that are beneficial owners of our common stock, and partners in such partnerships, should consult their tax advisors regarding the tax consequences to them of the ownership and disposition of our common stock.

This summary applies only to non-U.S. holders who acquire our common stock pursuant to this offering and who hold our common stock as a capital asset (generally property held for investment). This summary generally does not address tax considerations that may be relevant to particular investors because of their specific circumstances, or because they are subject to special rules. Certain former U.S. citizens or long-term residents, controlled foreign corporations, passive foreign investment companies, corporations that accumulate earnings to avoid U.S. federal income tax, life insurance companies, tax-exempt organizations, dealers in securities or currencies, brokers, banks or other financial institutions, certain trusts, hybrid entities, pension funds and investors that hold our common stock as part of a hedge, straddle or conversion transaction are among those categories of potential investors that are subject to special rules not covered in this discussion. This summary does not address any U.S. federal gift tax consequences, or state or local or non-U.S. tax consequences. This summary does not provide a complete analysis of all potential tax considerations. The information provided below is based

on existing authorities. These authorities may change, or the Internal Revenue Service, or IRS, might interpret the existing authorities differently. In either case, the tax considerations of owning or disposing of common stock could differ from those described below.

INVESTORS CONSIDERING THE PURCHASE OF COMMON STOCK SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL INCOME AND ESTATE TAX LAWS TO THEIR PARTICULAR SITUATIONS AND THE CONSEQUENCES OF OTHER U.S. FEDERAL, STATE, OR LOCAL OR NON-U.S. LAWS AND ANY APPLICABLE TAX TREATIES.

Dividends

Payments of cash and other property that we make to our shareholders with respect to our common stock will constitute dividends to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent those dividends exceed our current and accumulated earnings and profits, the dividends will constitute a return of capital and will first reduce a holder's basis, but not below zero, and then will be treated as gain from the sale of stock.

The gross amount of any dividend (out of earnings and profits) paid to a non-U.S. holder of common stock generally will be subject to U.S. withholding tax at a rate of 30% unless the holder is entitled to an exemption from or reduced rate of withholding under an applicable income tax treaty. In order to receive an exemption or a reduced treaty rate, prior to the payment of a dividend, a non-U.S. holder must provide us with an IRS Form W-8BEN (or successor form) certifying qualification for the exemption or reduced rate.

Dividends received by a non-U.S. holder that are effectively connected with a U.S. trade or business conducted by the non-U.S. holder (and dividends attributable to a non-U.S. holder's permanent establishment in the U.S. if an income tax treaty applies) are exempt from this withholding tax. To obtain this exemption, prior to the payment of a dividend, a non-U.S. holder must provide us with an IRS Form W-8ECI (or successor form) properly certifying this exemption. Effectively connected dividends (or dividends attributable to a permanent establishment in the U.S. if an income tax treaty applies), although not subject to withholding tax, are taxed at the same graduated rates applicable to U.S. persons, net of certain deductions and credits. In addition, dividends received by a corporate non-U.S. holder that are effectively connected with a U.S. trade or business of the corporate non-U.S. holder (or dividends attributable to a corporate non-U.S. holder's permanent establishment in the U.S. if an income tax treaty applies) may also be subject to a branch profits tax at a rate of 30% (or such lower rate as may be specified by an applicable income tax treaty).

A non-U.S. holder who provides us with an IRS Form W-8BEN or an IRS Form W-8ECI will be required to periodically update such form.

A non-U.S. holder of common stock that is eligible for a reduced rate of withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts currently withheld if an appropriate claim for refund is timely filed with the IRS.

Gain on Disposition of Common Stock

A non-U.S. holder will generally not be subject to U.S. federal income tax on any gains realized on the sale, exchange or other disposition of common stock unless:

- the gain is effectively connected with a U.S. trade or business of the non-U.S. holder (or attributable to a permanent establishment in the U.S. if an income tax treaty applies), in which case the non-U.S. holder generally will be required to pay tax on the net gain derived from the sale under regular graduated U.S. federal income tax rates and, if the non-U.S. holder is a corporation, the branch profits tax may apply, at a 30% rate or such lower rate as may be specified by an applicable income tax treaty;

- the non-U.S. holder is an individual who is present in the U.S. for a period or periods aggregating 183 days or more during the calendar year in which the sale or disposition occurs and certain other conditions are met, in which case the non-U.S. holder will be required to pay a flat 30% tax (or such lower rate as may be specified by an applicable income tax treaty between the U.S. and such non-U.S. holder's country of residence) on the net gain derived from the disposition, which tax may be offset by U.S. source capital losses, if any, provided that the non-U.S. holder has timely filed U.S. federal income tax returns with respect to such losses; or

- our common stock constitutes a U.S. real property interest by reason of our status as a "U.S. real property holding corporation" for U.S. federal income tax purposes at any time within the shorter of the five-year period preceding the disposition or the holder's holding period for our common stock. We believe that we are not currently, and we are not likely to become, a "U.S. real property holding corporation" for U.S. federal income tax purposes.

If we become a U.S. real property holding corporation after this offering, so long as our common stock is regularly traded on an established securities market and continues to be so traded, a non-U.S. holder will not be subject to U.S. federal income tax on gain recognized from the sale, exchange or other disposition of shares of our common stock as a result of such status unless (i) such holder actually or constructively owned more than 5% of our common stock at any time during the shorter of (A) the five-year period preceding the disposition, or (B) the holder's holding period for our common stock, and (ii) we were a U.S. real property holding corporation at any time during such period when the more than 5% ownership test was met. If any gain on your disposition is taxable because we are a U.S. real property holding corporation and your ownership of our common stock exceeds 5%, you will be taxed on such disposition generally in the manner applicable to U.S. persons. Any such non-U.S. holder that owns or has owned, actually or constructively, more than 5% of our common stock is urged to consult that holder's own tax advisor with respect to the particular tax consequences to such holder for the gain from the sale, exchange or other disposition of shares of our common stock if we were to be or to become a U.S. real property holding corporation.

Backup Withholding and Information Reporting

Generally, we must report annually to the IRS the amount of dividends paid, the name and address of the recipient, and the amount, if any, of tax withheld. A similar report is sent to the recipient. Pursuant to tax treaties or other agreements, the IRS may make its reports available to tax authorities in the non-U.S. holder's country of residence.

Payments of dividends or of proceeds on the disposition of stock made to a non-U.S. holder may be subject to additional information reporting and backup withholding. Backup withholding will not apply if the non-U.S. holder establishes an exemption, for example, by properly certifying its non-U.S. person status on an IRS Form W-8BEN (or successor form). Notwithstanding the foregoing, backup withholding may apply if either we or our paying agent has actual knowledge, or reason to know, that the holder is a U.S. person.

Backup withholding is not an additional tax. Rather, the U.S. federal income tax liability of persons subject to backup withholding will be reduced by the amount of tax withheld. If withholding results in an overpayment of taxes, a credit or refund may be obtained from the IRS, provided that the required information is furnished to the IRS in a timely manner.

Legislation Relating to Foreign Accounts

Under legislation enacted in 2010, a 30% U.S. federal withholding tax will be imposed on dividends on stock of U.S. corporations, and on the gross proceeds from the disposition of such stock, paid to a "foreign financial institution" (as specially defined for this purpose), unless such institution enters into an agreement with the U.S. Treasury to collect and provide to the U.S. Treasury substantial information regarding its U.S. account holders and certain account holders that are foreign entities with U.S. owners. A 30% U.S. federal withholding tax will also apply to dividends paid on stock of U.S. corporations and on the gross proceeds from the disposition of such stock paid to a non-financial foreign entity unless such entity provides the withholding agent with a certification that it does not have any substantial U.S. owners or a certification identifying the direct and indirect substantial U.S. owners of the entity. The withholding taxes described above generally will apply to dividend payments made after December 31, 2013 and payments of gross proceeds made after December 31, 2016. Under certain circumstances, a non-U.S. holder may be eligible for refunds or credits of such withholding taxes. Investors are urged to consult with their own tax advisors regarding the possible application of these rules to their investment in our common stock.

U.S. Federal Estate Tax

The estates of nonresident alien individuals are generally subject to U.S. federal estate tax on property with a U.S. situs. Because we are a U.S. corporation, our common stock will be U.S. situs property and therefore will be included in the taxable estate of a nonresident alien decedent. The U.S. federal estate tax liability of the estate of a nonresident alien may be affected by a tax treaty between the U.S. and the decedent's country of residence.

THE PRECEDING DISCUSSION OF U.S. FEDERAL INCOME TAX CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY. IT IS NOT TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE PARTICULAR U.S. FEDERAL, STATE, LOCAL, AND NON-U.S. TAX CONSEQUENCES OF PURCHASING, HOLDING, AND DISPOSING OF OUR COMMON STOCK, INCLUDING THE CONSEQUENCES OF ANY PROPOSED CHANGE IN APPLICABLE LAWS.

UNDERWRITING

Raymond James & Associates, Inc. and Piper Jaffray & Co. are acting as representatives of each of the underwriters named below. Subject to the conditions set forth in an underwriting agreement among us, the selling stockholders and the underwriters, we and the selling stockholders have severally agreed to sell to the underwriters, and each of the underwriters has agreed, severally and not jointly, to purchase from us and the selling stockholders the number of shares of our common stock set forth opposite its name below:

Name	Number of Shares
Raymond James & Associates, Inc.	
Piper Jaffray & Co.	
Cowen and Company, LLC	
Roth Capital Partners, LLC	
Total:	

The underwriters are offering the shares of common stock subject to their acceptance of the shares from us and the selling stockholders and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares of common stock offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the shares of common stock offered by this prospectus if any such shares are taken. However, the underwriters are not required to take or pay for the shares covered by the underwriters' over-allotment option described below. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may be increased or the offering may be terminated.

The underwriters initially propose to offer part of the shares of common stock directly to the public at the offering price listed on the cover page of this prospectus and part to certain dealers at that price less a concession not in excess of $ per share. After the initial offering of the shares of common stock, the offering price and other selling terms may be changed by the underwriters. Sales of shares made outside of the U.S. may be made by affiliates of the underwriters.

Option to Purchase Additional Shares of Common Stock

We and the selling stockholders have granted the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to additional shares of common stock at the public offering price listed on the cover page of this prospectus, less underwriting discounts and commissions. To the extent the option is exercised, each underwriter will become obligated, subject to certain conditions, to purchase approximately the same percentage of the additional shares of common stock as the number listed next to the underwriter's name in the preceding table bears to the total number of shares of common stock listed next to the names of all underwriters in the preceding table. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with the offering of the shares of common stock offered by this prospectus.

Discounts and Expenses

The following table shows the per share and total public offering price, underwriting discounts and commissions, and proceeds before expenses to us and the selling stockholders. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase up to an additional shares of common stock.

	Per Share	Total No Exercise	Total Full Exercise
Initial public offering price	$	$	$
Underwriting discounts and commissions to be paid by:			
Us			
The selling stockholders			
Proceeds, before expenses, to us			
Proceeds, before expenses, to selling stockholders			

The estimated offering expenses payable by us, exclusive of the underwriting discounts and commissions, are approximately $.

Indemnification

We and the selling stockholders have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act.

Lock-Up Agreements

Subject to specified exceptions, we and all directors and officers, and holders of substantially all of our outstanding stock and stock options (including the selling stockholders) have agreed that, subject to certain exceptions, without the prior written consent of Raymond James and Piper Jaffray as representatives on behalf of the underwriters, we and they will not, during the period ending 180 days after the date of the final prospectus relating to this offering:

- offer, sell, contract to sell, pledge, grant any option to purchase, contract to purchase or purchase any option or contract to sell, grant any option, right or warrant, lend, make any short sale or otherwise transfer or dispose of, directly or indirectly, any shares of our stock or options, warrants or other securities with respect to our stock;
- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of our common stock; or
- file or cause to be filed any registration statement with the Securities and Exchange Commission relating to the offering of any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock (other than any registration statement on Form S-8).

The preceding restrictions apply without regard to whether any such transaction described above is to be settled by delivery of common stock or other securities, in cash or otherwise. In addition, we and each such person agree that, without the prior written consent of the representatives, we and each such person will not, during the period ending 180 days after the

date of this prospectus, make any demand for, or exercise any right with respect to, the registration of any shares of common stock or any security convertible into or exercisable or exchangeable for common stock.

The restrictions described in the immediately preceding paragraph do not apply to:

- the sale of shares to the underwriters pursuant to the underwriting agreement;
- the grant or exercise of options pursuant to our existing stock option plans;
- transfers of shares of common stock or any security convertible into common stock as a bona fide gift;
- transfers of shares of common stock or any security convertible into common stock by will or intestate succession or to any trust for the direct or indirect benefit of the stockholder or immediate family of the stockholder; or
- the establishment of a trading plan designed to comply with Rule 10b5-1(c) under the Exchange Act for the transfer of shares of common stock;

provided that in the case of any transfer or distribution as described in the second, third or fourth bullet points above, (i) each recipient or transferee agrees to be subject to the restrictions described in the immediately preceding paragraph, and (ii) no public announcement or filing under the Exchange Act with respect to such transfer shall be required or voluntarily made during the restricted period under Section 16(a) of the Exchange Act reporting a reduction in beneficial ownership of shares of common stock (other than a filing on a Form 5, Schedule 13D or Schedule 13G (or 13D/A or 13G/A) made after the expiration of the restricted period referred to above).

The 180 day restricted period described in the preceding paragraph will be extended if, during any period that we are not an emerging growth company:

- during the last 17 days of the 180 day restricted period we issue an earnings release or material news event relating to us occurs, or
- prior to the expiration of the 180 day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180 day period, in which case the restrictions described in the preceding paragraph will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the announcement of the material news or material event.

Stabilization

Until this offering is completed, rules of the SEC may limit the ability of the underwriters and various selling group members to bid for and purchase the shares of our common stock. As an exception to these rules and in accordance with Regulation M under the Exchange Act, the underwriters may engage in activities that stabilize, maintain or otherwise affect the price of our common stock in order to facilitate the offering of the common stock, including: short sales; syndicate covering transactions; imposition of penalty bids; and purchases to cover positions created by short sales.

Stabilizing transactions may include making short sales of shares of our common stock, which involve the sale by the underwriters of a greater number of shares than it is required to purchase in this offering and purchasing shares of common stock from us by exercising the over-allotment option or in the open market to cover positions created by short sales. Short sales may be "covered" shorts, which are short positions in an amount not greater than the underwriters' over-allotment option referred to above, or may be "naked" shorts, which are short positions in excess of that amount.

Each underwriter may close out any covered short position either by exercising its over-allotment option, in whole or in part, or by purchasing shares of common stock in the open market after the distribution has been completed. In making this determination, each underwriter will consider, among other things, the price of shares of our common stock available for purchase in the open market compared to the price at which the underwriter may purchase shares of our common stock pursuant to the over-allotment option.

A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of shares of our common stock in the open market after pricing that could adversely affect investors who purchased in this offering. To the extent that the underwriters create a naked short position, they will purchase shares of our common stock in the open market to cover the position after the pricing of this offering.

The underwriters also may impose a penalty bid on selling group members. This means that if the underwriters purchase shares of our common stock in the open market in stabilizing transactions or to cover short sales, the underwriters can require the selling group members that sold those shares as part of this offering to repay the selling concession received by them.

As a result of these activities, the price of shares of our common stock may be higher than the price that otherwise might exist in the open market. If the underwriters commence these activities, they may discontinue them without notice at any time. The underwriters may carry out these transactions on the Nasdaq Global Market or otherwise.

The underwriters are not required to engage in these activities and may end any of these activities at any time.

Relationships

Certain of the underwriters and their affiliates may provide from time to time in the future certain commercial banking, financial advisory, investment banking and other services for us and such affiliates, and for the selling stockholders and their affiliates, in the ordinary course of their business, for which they have received or will receive customary fees and commissions, as applicable, and reimbursement for out-of-pocket expenses. In addition, from time to time, certain of the underwriters and their affiliates may effect transactions for their own account or the account of customers, and hold on behalf of themselves or their customers, long or short positions in our debt or equity securities or loans, and may do so in the future.

Discretionary Accounts

The underwriters may confirm sales of the common stock offered by this prospectus to accounts over which they exercise discretionary authority but do not expect those sales to exceed 5% of the total number of shares of common stock offered by this prospectus.

Directed Shares Program

At our request, the underwriters have reserved up to 5% of the shares of common stock being offered by this prospectus (excluding the shares of common stock that may be issued upon the underwriters' exercise of their over-allotment option to purchase additional shares of common stock) for sale at the initial public offering price to our directors, officers, employees, business associates and other related persons. The sales will be made by Raymond James & Associates, Inc. through a directed shares program. It is not certain if these persons will choose to purchase all or any portion of these reserved shares, but any purchases they make will reduce the number of shares of common stock available for sale to the general public. Any reserved shares of common stock not so purchased will be offered by the underwriters to the general public on the same basis as the other shares of common stock offered by this prospectus. The individuals eligible to participate in the directed shares program must commit to purchase no later than before the opening of business on the day following the date of this prospectus. We and the selling stockholders have agreed to indemnify Raymond James & Associates, Inc. and the underwriters against certain liabilities and expenses in connection with the directed shares program, including liabilities under the Securities Act in connection with the sale of the reserved shares and for the failure of any participant to pay for its shares of common stock.

Listing

We expect to apply to list our common stock on the Nasdaq Global Market under the symbol "AAOI."

Determination of Initial Offering Price

Prior to this offering, there has been no public market for our common stock. Consequently, the initial public offering price will be determined by negotiations between us and the representatives. Among the factors considered in determining the initial public offering price will be our future prospects and those of our industry in general, our sales, earnings and certain other financial and operating information in recent periods, market prices of securities, and certain financial and operating information of companies engaged in activities similar to ours.

Electronic Prospectus

A prospectus in electronic format may be available on the Internet sites or through other online services maintained by one or more of the underwriters and selling group members participating in this offering, or by their affiliates. In those cases, prospective investors may view offering terms online and, depending upon the underwriter or the selling group member, prospective investors may be allowed to place orders online. The underwriters may agree with us to allocate a specific number of shares of common stock for sale to online brokerage account holders. Any such allocation for online distributions will be made by the underwriters on the same basis as other allocations.

Other than the prospectus in electronic format, the information on any underwriter's or any selling group member's website and any information contained in any other website maintained by the underwriters or any selling group member is not part of this prospectus or the registration statement of which this prospectus forms a part, has not been approved or endorsed by us or any underwriters or any selling group member in its capacity as underwriter or selling group member and should not be relied upon by investors.

Selling Restrictions

Other than in the U.S. and as described below, no action has been taken by us or the underwriters that would permit a public offering of the shares of common stock offered by this prospectus in any jurisdiction where action for that purpose is required. The shares of common stock offered by this prospectus may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisements in connection with the offer and sale of any such shares of common stock be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus comes are advised to inform themselves about and to observe any restrictions relating to the offering and the distribution of this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any shares of common stock offered by this prospectus in any jurisdiction in which such an offer or a solicitation is unlawful.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive, each a Member State, each underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Member State it has not made and will not make an offer of securities to the public in that Member State, except that it may, with effect from and including such date, make an offer of securities to the public in that Member State:

- at any time to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the book-running managers for any such offer; or
- at any time in any other circumstances which do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of the above, the expression "offer of securities to the public" in relation to any securities in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe for the securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in that Member State.

United Kingdom

This prospectus and any other material in relation to the shares described herein is only being distributed to, and is only directed at, (i) persons who are outside the United Kingdom,

(ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, or the Order, or (iii) high net worth entities, and other persons to whom it may be lawfully communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as relevant persons). The shares are only available to, and any invitation, offer or agreement to purchase or otherwise acquire such shares will be engaged in only with, relevant persons. This prospectus and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other person in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this prospectus or any of its contents.

LEGAL MATTERS

The validity of the common stock offered by this prospectus will be passed upon for us by DLA Piper LLP (US), Houston, Texas. Certain legal matters will be passed upon for the underwriters by Wilson Sonsini Goodrich & Rosati, Professional Corporation, Austin, Texas.

EXPERTS

The consolidated financial statements of Applied Optoelectronics, Inc. and its subsidiaries as of December 31, 2012 and 2011, and for each of the years in the three-year period ended December 31, 2012, included in this prospectus and elsewhere in the registration statement have been so included in reliance upon the report of Grant Thornton LLP, independent registered public accountants, upon the authority of said firm as experts in accounting and auditing in giving said report.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock we are offering by this prospectus. This prospectus does not contain all of the information included in the registration statement. For further information pertaining to us and our common stock, you should refer to the registration statement and to its exhibits. Whenever we make reference in this prospectus to any of our contracts, agreements or other documents, the references are not necessarily complete, and you should refer to the exhibits attached to the registration statement for copies of the actual contract, agreement or other document.

Upon the closing of the offering, we will be subject to the informational requirements of the Exchange Act and will file annual, quarterly and current reports, proxy statements and other information with the SEC. You can read our SEC filings, including the registration statement, over the Internet at the SEC's website at www.sec.gov. You may also read and copy any document we file with the SEC, including the registration statement of which this prospectus is a part, at its public reference facility at 100 F Street, N.E., Room 1580, Washington, D.C. 20549.

You may also obtain copies of the documents at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Applied Optoelectronics, Inc.:

We have audited the accompanying consolidated balance sheets of Applied Optoelectronics, Inc. (the Company) and subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Applied Optoelectronics, Inc. and subsidiary as of December 31, 2012 and 2011 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

/s/ Grant Thornton LLP

Houston, Texas
April 4, 2013

Applied Optoelectronics, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

December 31,

(in thousands, except per share data)

	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents	$ 10,723	$ 1,768
Restricted cash	503	306
Accounts receivable—trade, net of allowance of $59 and $61, respectively	13,525	12,335
Notes receivable	1,034	—
Inventories	12,493	12,671
Prepaid expenses and other current assets	968	695
Total current assets	39,246	27,775
Property, plant and equipment, net of accumulated depreciation of $24,967 and $22,556, respectively.	24,838	24,532
Land use rights, net	674	688
Intangible assets, net	795	651
Other assets, net	195	77
TOTAL ASSETS	$ 65,748	$ 53,723
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of notes payable and long-term debt	$ 15,421	$ 18,326
Short-term loan from shareholders	—	910
Accounts payable	6,913	7,792
Accrued liabilities	3,243	2,658
Total current liabilities	25,577	29,686
Notes payable and long-term debt, less current portion	9,163	3,361
TOTAL LIABILITIES	34,740	33,047
Stockholders' equity (deficit):		
Redeemable Preferred Stock, no par value; 172,200,000 shares authorized 166,404,000 shares and 130,224,000 shares issued and outstanding at December 31, 2012 and 2011, respectively.	105,367	94,373
Common Stock, no par value; 300,000 shares authorized; 7,978, and 7,954 shares issued and outstanding at December 31, 2012 and 2011	1,074	1,069
Additional paid-in capital	4,468	4,234
Accumulated other comprehensive gain	2,016	1,972
Accumulated deficit	(81,917)	(80,972)
TOTAL STOCKHOLDERS' EQUITY	31,008	20,676
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 65,748	$ 53,723

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

Applied Optoelectronics, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Years ended December 31,		
	2012	2011	2010
Revenue, net	$ 63,421	$ 47,840	$ 40,489
Cost of goods sold	44,492	34,468	27,539
Gross profit	18,929	13,372	12,950
Operating expenses			
Research and development	7,603	6,451	5,176
Sales and marketing	3,135	2,412	1,993
General and administrative	8,012	8,243	8,382
Asset impairment charges	—	—	492
Total operating expenses	18,750	17,106	16,043
Income (loss) from operations	179	(3,734)	(3,093)
Other income (expense)			
Interest expense	(1,381)	(1,338)	(906)
Other income (expense), net	257	(256)	619
Total other expense	(1,124)	(1,594)	(287)
Loss before income taxes	(945)	(5,328)	(3,380)
Income taxes	—	—	—
Net loss	$ (945)	$ (5,328)	$ (3,380)
Net loss per share—basic and diluted	$ (0.00)	$ (0.03)	$ (0.02)
Weighted average shares used to compute net loss per share:			
Basic and diluted	251,406,466	197,654,931	168,369,885

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

Applied Optoelectronics, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

	Years ended December 31,		
	2012	2011	2010
Net loss	$ (945)	$ (5,328)	$ (3,380)
Foreign currency translation adjustment, net of tax of $0, $0 and $0	44	434	4
Comprehensive loss	$ (901)	$ (4,894)	$ (3,376)

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

Applied Optoelectronics, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

Years ended December 2010, 2011 and 2012

(in thousands)

	Redeemable Preferred Stock		Common Stock					
	Number of shares	Amount	Number of shares	Amount	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive gain	Stockholders' equity
December 31, 2009	123,547	$ 90,424	7,763	$ 1,048	$ 2,891	$ (72,264)	$ 1,534	23,633
Preferred stock issued, net	—	—	—	—	—	—	—	—
Issuance of stock for consultancy service	—	—	64	3	—	—	—	3
Stock options exercised	—	—	6	1	—	—	—	1
Stock based compensation	—	—	—	—	780	—	—	780
Net loss	—	—	—	—	—	(3,380)	—	(3,380)
Foreign currency translation adjustment	—	—	—	—	—	—	4	4
December 31, 2010	123,547	90,424	7,833	1,052	3,671	(75,644)	1,538	21,041
Preferred stock issued, net	6,677	3,949	—	—	—	—	—	3,949
Issuance of stock for consultancy service	—	—	40	1	—	—	—	1
Stock options exercised	—	—	81	16	—	—	—	16
Stock based compensation	—	—	—	—	563	—	—	563
Net loss	—	—	—	—	—	(5,328)	—	(5,328)
Foreign currency translation adjustment	—	—	—	—	—	—	434	434
December 31, 2011	130,224	94,373	7,954	1,069	4,234	(80,972)	1,972	20,676
Preferred stock issued, net	36,180	10,994	—	—	—	—	—	10,994
Stock options exercised	—	—	24	5	—	—	—	5
Stock based compensation	—	—	—	—	161	—	—	161
Issuance of warrants	—	—	—	—	73	—	—	73
Net loss	—	—	—	—	—	(945)	—	(945)
Foreign currency translation adjustment	—	—	—	—	—	—	44	44
December 31, 2012	166,404	$ 105,367	7,978	$ 1,074	$ 4,468	$ (81,917)	$ 2,016	$ 31,008

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

Applied Optoelectronics, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2012	2011	2010
Operating activities:			
Net loss	$ (945)	$ (5,328)	$ (3,380)
Adjustments to reconcile net loss to net cash used in operating activities:			
Provision for obsolete inventory	858	1,579	648
Impairment of long-lived assets	—	—	492
Depreciation and amortization	2,942	3,112	3,340
(Gain) loss on disposal of assets	36	80	(11)
Stock-based compensation amd warrants expense	161	563	780
Changes in operating assets and liabilities:			
Accounts receivable	(1,158)	(4,498)	(2,103)
Notes receivable	(1,034)	—	—
Inventory	(538)	(1,578)	(3,674)
Other current assets	(261)	473	(151)
Accounts payable	(961)	1,534	(251)
Accrued liabilities	542	(62)	1,101
Net cash used in operating activities	(358)	(4,125)	(3,209)
Investing activities:			
Purchase of property, plant and equipment	(3,178)	(1,790)	(3,017)
Proceeds from disposal of equipment	138	387	37
Deposit and deferred charges	(41)	(1)	113
Purchase of intangible assets	(209)	(167)	(47)
Net cash used in investing activities	(3,290)	(1,571)	(2,914)
Financing activities:			
Proceeds from issuance of notes payable and long-term debt	845	—	391
Principal payments of long-term debt and notes payable	(707)	(245)	(434)
Proceeds from line of credit borrowings	19,305	16,760	12,385
Repayments from line of credit borrowings	(16,585)	(15,200)	(6,233)
Proceeds from shareholder loans	—	—	3,200
Repayments of shareholder loans	(150)	(1,200)	(793)
(Increase) decrease in restricted cash	(193)	(155)	455
Exercise of stock options	5	16	1
Common stock issued for consultant services	—	1	3
Issuance of preferred stock, net	10,234	2,859	—
Net cash provided by financing activities	12,754	2,836	8,975
Effect of exchange rate changes on cash	(150)	136	(621)
Net increase (decrease) in cash	8,956	(2,724)	2,232
Cash and cash equivalents at beginning of year	1,767	4,492	2,260
Cash and cash equivalents at end of year	$ 10,723	$ 1,768	$ 4,492
Supplemental disclosure of cash flow information:			
Cash paid for:			
Interest	$ 1,469	$ 1,392	$ 737
Income taxes	—	1	2
Conversion of shareholders' loan to preferred stock	$ 760	$ 1,100	$ —

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

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012, 2011 and 2010

NOTE A—ORGANIZATION AND OPERATIONS

Applied Optoelectronics, Inc. ("AOI") (the "Company") was incorporated in the State of Texas on February 28, 1997. The Company is a leading, vertically integrated provider of fiber-optic networking solutions, primarily for three networking end-markets: cable television, fiber-to-the-home and internet data centers. The Company designs and manufactures a range of optical communications solutions at varying levels of integration, from components, subassemblies and modules to complete turn-key equipment.

Prime World International Holdings, Ltd. ("Prime World") is a wholly-owned subsidiary of the Company incorporated in the British Virgin Islands on January 13, 2006. Prime World is the parent company of Global Technology, Inc. ("Global"). Global was established in June 2002 in the People's Republic of China ("PRC") and was acquired by Prime World on March 30, 2006. The Company also operates a division, AOI—Taiwan, which is qualified to do business in Taiwan and primarily manufactures transceivers and performs research and development activities.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. *Basis of Presentation*

The consolidated financial statements include the accounts of the Company and all of its wholly-owned subsidiaries and are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). All intercompany balances and transactions have been eliminated in consolidation.

2. *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 relate to, among other things, allowance for doubtful accounts, inventory reserve, estimated useful lives of property and equipment, and taxes.

3. *Foreign Currency Translation*

All assets and liabilities of foreign subsidiaries are translated into U.S. dollars at the exchange rate as of the balance sheet date. Revenue and expense accounts are translated at weighted-average rates for the reporting period. Translation adjustments do not impact the results of operations and are reported as a separate component of stockholders' equity. Foreign currency transaction gains and losses are included in the consolidated statements of operations.

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. *Fair Value*

The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximate their historical fair values due to their short-term maturities.

5. *Cash and Cash Equivalents*

The Company considers all highly liquid securities with an original maturity of ninety days or less from the date of purchase to be cash equivalents. Cash in foreign accounts was approximately $1.1 million and $1.4 million at December 31, 2012 and 2011, respectively.

The Company maintains cash and cash equivalents at U.S. financial institutions for which the combined account balances in individual institutions may exceed Federal Deposit Insurance Corporation ("FDIC") insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage. As of December 31, 2012, approximately $9.4 million of U.S. deposits were not covered by FDIC insurance. The Company has not experienced any losses and believes it is not exposed to any significant risk with such accounts.

6. *Restricted Cash/Compensating Balances*

The Company is required to maintain a minimum balance equal to 30% in 2012 and 10% in 2011 and 2010 of one of its lines of credit with a bank, as well as other restricted cash balances. As of December 31, 2012 and 2011, the amount of restricted cash was $0.5 million and $0.3 million, respectively.

7. *Accounts Receivable/Allowance for Doubtful Accounts*

The Company carries its accounts receivable at the net amount that it estimates to be collectible. An allowance for uncollectable accounts is maintained through a charge against operations. The allowance is determined by management review of outstanding amounts per customer, historical payments and the aging of accounts.

8. *Notes Receivable*

The Company carries its notes receivable at face value or discounted value if the note is interest bearing. The maturity date of the notes receivable are all within one year of the original issuance date and are carried at face value.

9. *Concentration of Credit Risk and Significant Customers*

Financial instruments which potentially subject the Company to concentrations of credit risk include cash, cash equivalents and accounts receivable. The Company places all cash and cash equivalents with high-credit quality financial institutions.

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company performs ongoing credit valuations of its customers' financial condition whenever deemed necessary and generally does not require deposits or collateral to support customer receivables. The historical amount of losses on uncollectible accounts has been within the Company's estimates. The Company's five largest customers represented an aggregate of 47%, 56% and 60% of total revenue for the years ended December 31, 2012, 2011 and 2010, respectively. The five largest receivable balances for customers represented an aggregate of 58%, and 71% of total accounts receivable at December 31, 2012 and 2011, respectively.

10. *Fair Value Accounting*

The fair value measurement standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard characterizes inputs used in determining fair value according to a hierarchy that prioritized inputs based on the degree to which they are observable. The three levels of the fair value hierarchy are as follows:

Level 1—Inputs represent quoted prices in active markets for identical assets or liabilities.

Level 2—Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3—Inputs that are not observable from objective sources, such as management's internally developed assumptions used in pricing an asset or liability.

Assets and liabilities that are required to be fair valued on a recurring basis include money market funds, marketable securities, equity instruments and contingent consideration.

Money market funds are valued with Level 1 inputs, using quoted market prices, and are included in cash and cash equivalents on the Company's consolidated balance sheets.

11. *Inventories*

Inventories are stated at the lower of cost (average-cost method) or market. Work in process and finished goods includes materials, labor and allocated overhead. The Company assesses the valuation of its inventory on a periodic basis and provides an allowance for the value of estimated excess and obsolete inventory based on estimates of future demand.

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

12. *Property, Plant and Equipment*

Property, plant and equipment are stated at cost, net of accumulated depreciation and amortization. The Company calculates depreciation using the straight-line method over the following estimated useful lives:

	Useful lives
Buildings	20 - 40 years
Land Improvments	10 years
Machinery and equipment	3 - 20 years
Furniture and fixtures	1 - 8 years
Computer equipment and software	3 - 7 years
Leasehold improvements	The shorter of the life of the applicable lease or the useful life of the improvement
Transportation equipment	5 years

Major improvements are capitalized and expenditures for maintenance and repairs are expensed as incurred. Construction in progress represents property, plant and equipment under construction or being installed. Costs include original cost, installation, construction and other direct costs which include interest on borrowings used to finance the asset. Construction in progress is transferred to the appropriate fixed asset account and depreciation commences when the asset has been substantially completed and placed in service.

Land use rights allow the Company rights for 50 years to certain land in Ningbo, China on which the Company built a facility that included office space, manufacturing operations and employee dormitories. The land use rights are recorded at cost and are amortized on the straight-line basis over the useful life of the related contract. The land use rights expire on March 8, 2054.

13. *Intangible Assets*

Intangible assets consist of intellectual property that is stated at cost less accumulated amortization. As of December 31, 2012, the Company had 103 total patents issued. The costs incurred to obtain such patents have been capitalized and are being amortized over an estimated life of 20 years. The Company periodically evaluates its intangible assets to determine whether events or changes in circumstances indicate that a patent or trademark may not be applicable to the Company's current products or is no longer in use. If such a determination is made, the intangible asset is impaired and the remaining value of the patent or trademark will be expensed at that time.

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

14. *Impairment of Long-Lived Assets*

The Company accounts for impairment of long-lived assets in accordance with Accounting Standards Codification ("ASC") 360, *Property, Plant and Equipment*, ("ASC 360"). Long-lived assets consist primarily of property, plant and equipment. In accordance with ASC 360, the Company periodically evaluates long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company obtained appraisals on an asset by asset basis, and will recognize an impairment loss when the sum of the appraised values is less than the carrying amounts of such assets. The appraised values, based on reasonable and supportable assumptions and projections, require subjective judgments. Depending on the assumptions and estimates used, the appraised values projected in the evaluation of long-lived assets can vary within a range of outcomes. The appraisals consider the likelihood of possible outcomes in determining the best estimate for the value of the assets.

The measurement for such an impairment loss is then based on the fair value of the asset as determined by the appraisals. During 2010, the Company recorded a $0.5 million noncash asset impairment charge on equipment with carrying values lower than estimated fair values.

15. *Comprehensive Income*

ASC 220, *Comprehensive Income*, ("ASC 220") establishes rules for reporting and display of comprehensive income and its components. ASC 220 requires that unrealized gains and losses on the Company's foreign currency translation adjustments be included in comprehensive income.

16. *Stock-Based Compensation*

The Company accounts for share-based compensation in accordance with the provisions of ASC 718, *Compensation—Stock Compensation*. Share-based compensation expense is recognized based on the estimated grant date fair value, net of an estimated forfeiture rate, in order to recognize compensation cost for those shares expected to vest. Compensation cost is recognized on a straight-line basis over the vesting period of the options.

17. *Revenue Recognition*

The Company derives revenue from the manufacture and sale of fiber optic networking solutions. Revenue recognition follows the criteria of ASC 605, *Revenue Recognition*. Specifically, the Company recognizes revenue when persuasive evidence exists of an arrangement with a customer, usually in the form of a customer purchase order; delivery to a third party carrier has occurred; title and risk of loss have transferred to the customer; the price is fixed or determinable; collectability is reasonably assured and there are no uncertainties with respect to customer acceptance. The Company may offer units (samples) to current and potential customers at no charge for evaluation or qualification purposes. Such sample units are expensed as selling or research and development costs when shipped.

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

18. *Advertising Costs*

Advertising costs are charged to operations as incurred and amounted to approximately $80,000, $104,000 and $78,000 for the years ended December 31, 2012, 2011 and 2010, respectively.

19. *Research and Development*

Research and development costs are charged to operations as incurred.

20. *Income Taxes*

The Company accounts for income taxes in accordance with the provisions of ASC 740, *Income Taxes*. The liability method is used to account for deferred income taxes. Under the liability method, deferred tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The realizability of deferred tax assets are evaluated annually and a valuation allowance is provided if it is unlikely that the deferred tax assets will not give rise to future benefits in the Company's tax returns.

21. *Supplemental Cash Flow Information*

During the years ended December 31, 2012 and 2011, $0.8 million and $1.1 million in aggregate principal amount of the convertible shareholder notes was converted by the holders, respectively. Upon conversion, 2,171,428 shares and 1,816,666 shares of Series G Preferred Stock were issued to the holders, respectively.

22. *New Accounting Standards Adopted in this Report*

ASU 2011-04. In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement* (Topic 820): *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS*. This ASU represents the converged guidance of the FASB and the IASB on measuring fair value and for disclosing information about fair value measurements. The amendments in this ASU clarify the Board's intent about the application of existing fair value measurement and disclosure requirements and changes particular principles or requirements for measuring fair value and for disclosing information about fair value measurements. ASU 2011-04 is effective prospectively for interim and annual reporting periods beginning after December 15, 2011. The Company adopted the provisions of ASU 2011-04 on January 1, 2012, and the adoption of this standard did not have a material impact on the Company's financial position, results of operations or cash flows.

ASU 2011-05. In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income* (Topic 220): *Presentation of Comprehensive Income*. The amendments in this ASU allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. ASU 2011-05 should be applied retrospectively for interim and annual reporting periods beginning after December 15, 2011 with early adoption permitted. The Company early adopted the provisions of ASU 2011-05 during the fourth quarter of 2011, and the adoption of this standard did not have a material impact on the Company's financial position, results of operations, or cash flows.

ASU 2011-12. In December 2011, the FASB issued ASU 2011-12, *Deferral of the Effective Date for Amendment to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income* (Topic 220): *Presentation of Comprehensive Income*. This ASU defers the guidance on whether to require entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement where net income is presented and the statement where other comprehensive income is presented for both interim and annual financial statements. ASU 2011-12 reinstated the requirements for the presentation of reclassifications that were in place prior to the issuance of ASU 2011-05 and did not change the effective date of ASU 2011-05. ASU 2011-12 should be applied consistently with ASU 2011-05; accordingly, this ASU is to be applied retrospectively for interim and annual reporting periods beginning after December 15, 2011, with early adoption permitted. The Company early adopted the provisions of ASU 2011-12 during the fourth quarter of 2011, and the adoption of this standard did not have a material impact on the Company's financial position, results of operations, or cash flows.

23. *Subsequent Events*

The Company has evaluated these consolidated financial statements and disclosures for subsequent events through April 4, 2013, the date they were available to be issued.

NOTE C—EARNINGS PER SHARE

Basic net loss per share has been computed using the weighted-average number of shares of common stock outstanding during the period. All shares of preferred stock were converted to common equivalent shares using their conversion rate at the end of each period. Diluted net loss per share has been computed using the weighted-average number of shares of common stock and dilutive potential common shares from options and warrants outstanding during the period.

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE C—EARNINGS PER SHARE (Continued)

The following table presents the calculation of basic and diluted loss per share from continuing operations:

	2012	2011	2010
	(in thousands, except per share data)		
Numerator			
Net loss	$ (945)	$ (5,328)	$ (3,380)
Net loss per share—basic and diluted	$ (0.00)	$ (0.03)	$ (0.02)
Weighted average shares used to compute net loss per share:			
Basic and diluted	251,406,466	197,654,931	168,369,885

The following potentially dilutive securities were excluded from the computation of diluted net loss per share as their effect would have been antidilutive:

	2012	2011	2010
		(in thousands)	
Employee stock options	12,580	11,324	8,669
Warrants	2,868	3,670	2,186
Total	15,448	14,994	10,855

NOTE D—INVENTORIES

At December 31, 2012 and 2011, inventories consisted of the following:

	2012	2011
	(in thousands)	
Raw materials	$ 4,755	$ 6,410
Work in process	4,434	3,628
Finished goods	3,304	2,633
	$ 12,493	$ 12,671

For the years ended December 31, 2012, 2011 and 2010, the lower of cost or market adjustment expensed for inventory was $0.9 million, $1.6 million and $0.6 million, respectively.

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE E—PROPERTY, PLANT AND EQUIPMENT

At December 31, 2012 and 2011, property, plant and equipment consisted of the following:

	2012	2011
	(in thousands)	
Land improvements	$ 93	$ —
Building and improvements	15,239	15,002
Machinery and equipment	29,977	27,698
Furniture and fixtures	739	738
Computer equipment and software	2,851	2,745
Transportation equipment	173	172
	49,072	46,355
Less accumulated depreciation and amortization	(24,967)	(22,556)
	24,105	23,799
Construction in progress	—	—
Land	733	733
Property, plant and equipment, net	$ 24,838	$ 24,532

For the years ended December 31, 2012, 2011 and 2010, depreciation expense of property, plant and equipment was $2.9 million $3.1 million and $3.3 million, respectively.

NOTE F—INTANGIBLE ASSETS

At December 31, 2012 and 2011, intangible assets consisted of the following:

	2012		
	Gross amount	Accumulated amortization	Intangible assets, net
		(in thousands)	
Patents	$ 1,509	$ (718)	$ 791
Trademarks	10	(6)	4
Total intangible assets	$ 1,519	$ (724)	$ 795

	2011		
	Gross amount	Accumulated amortization	Intangible assets, net
		(in thousands)	
Patents	$ 1,304	$ (659)	$ 645
Trademarks	10	(4)	6
Total intangible assets	$ 1,314	$ (663)	$ 651

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE F—INTANGIBLE ASSETS (Continued)

For the years ended December 31, 2012, 2011 and 2010, amortization expense for intangible assets, included in general and administrative expenses on the income statement, was $60,000 $46,000 and $41,000, respectively. The remaining weighted average amortization period for intangible assets is approximately 12 years.

At December 31, 2012, approximate amortization expense for intangible assets was as follows (in thousands):

2013	$ 65
2014	65
2015	65
2016	65
2017	65
Thereafter	470
	$ 795

NOTE G—FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents a summary of the Company's investments measured at fair value on a recurring basis as of December 31, 2012:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable remaining inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
		(in thousands)		
Assets:				
Cash and cash equivalents	$ 10,723	$ —	$ —	$ 10,723
Restricted cash	503			503
Notes receivable	1,034	—	—	1,034
Total assets	$ 12,260	$ —	$ —	$ 12,260

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE G—FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table presents a summary of the Company's investments measured at fair value on a recurring basis as of December 31, 2011:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable remaining inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
		(in thousands)		
Assets:				
Cash and cash equivalents	$ 1,768	$ —	$ —	$ 1,768
Restricted cash	306			306
Notes receivable	—	—	—	—
Total assets	$ 2,074	$ —	$ —	$ 2,074

NOTE H—NOTES PAYABLE AND LONG-TERM DEBT

Notes payable and long-term debt consisted of the following at December 31:

	2012	2011
	(in thousands)	
Term loan with a U.S. bank with monthly payments of principal and interest at prime plus 1.25% (floor rate: 4.5%), maturing May 3, 2014	$ 141	$ 241
Term loan with a U.S. bank with monthly payments of principal and interest at prime plus 1.25% (floor rate: 4.15%) or swap contract (fixed 5%), maturing May 3, 2014	3,181	3,287
Revolving line of credit with a U.S. bank up to $10,500,000 with interest at prime plus 1.25% (floor rate: 4.5%), maturing November 15, 2013	8,637	7,176
Revolving line of credit with a China bank up to $12,847,421 with interest at 110% of China Prime rate which ranged from 3.87% to 7.54% in 2012 with various maturity dates from February 2013 to December 2013	10,668	9,681
Bank acceptance notes issued to vendors with a zero percent interest rate, a 30% guarantee deposit of $409, and maturity dates ranging from January 2013 to June 2013	1,521	662
Revolving line of credit with a China bank up to $1,150,000 with interest at 7.54%, 125% of the China Prime rate in 2011	—	555
Note payable to a finance company due in monthly installments with 9% interest, maturing October 31, 2013	38	85
Note payable to a finance company due in monthly installments with 3.3% interest, maturing June 20, 2013	398	—
Total	24,584	21,687
Less current portion	15,421	18,326
Long term portion	$ 9,163	$ 3,361

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE H—NOTES PAYABLE AND LONG-TERM DEBT (Continued)

The prime rate of interest was 3.25% on December 31, 2012 and 2011.

Maturities of notes payable and long-term debt are as follows for the future years ending December 31(in thousands):

2013	$ 15,421
2014	9,163
Total outstanding	$ 24,584

The U.S. bank loans and line of credit agreement require the Company to meet certain financial covenants including a minimum liquidity ratio, minimum quarterly earnings and debt service coverage requirements as well as maximum debt to tangible net worth ratio and reporting requirements. Collateral for the U.S. bank loans and line of credit includes substantially all of the assets of the Company.

As of December 31, 2012, the Company had $4.7 million of unused borrowing capacity.

In November 2012, the Company renewed its U.S. revolving line of credit of $10.5 million with the same U.S. bank with a maturity date of November 15, 2013. The interest rate on this line of credit is the prime rate plus 1.25% or the floor rate 4.5%, whichever is higher.

In May 2011, the Company entered into an interest rate swap transaction contract for its real estate loan of $3.4 million for a fixed rate of 5% expiring on May 5, 2013. A security deposit of $60,000 was required for this swap contract. On December 31, 2012, the Company would pay $11,000 in additional interest if it terminated such swap contract.

The Company issued the following warrants to the same U.S. bank in connection with the renewals of the loan in 2009, 2010 and 2012:

Renewal year	Warrants issued	Initial exercise price	Expiration date
	(shares in thousands)		
2009	400	$ 0.25	6/30/2014
2010	250	0.60	5/3/2013
2012	200	0.35	11/2/2017
Total	850		

The Company estimated the fair value of these warrants at the date of the grant using the Black-Scholes option-pricing model and records the expense over the life of the warrants. As of December 31, 2012, the market value of the warrants amounted to $33,431, of which $8,707 was recorded as warrant expenses.

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE H—NOTES PAYABLE AND LONG-TERM DEBT (Continued)

The Company, through its China subsidiary, established a bank line of credit for $11.8 million and $1.1 million with a China Bank as of December 31, 2012. The interest rate for this line of credit varies between 110% and 125% of the China prime rate. This credit line is a revolving line that is renewable by its anniversary. Collateral for the loans includes the land use rights, building and equipment located in China.

The Company entered into a 12-month equipment financing agreement of $0.9 million with a Taiwan bank during 2012. The financing agreement required equipment collateral and a compensation deposit of $50,000 that is included in restricted cash. The agreement requires monthly installment payments over 12 months and ends in June 2013. The financing agreement bears interest at the rate of 3.375%.

NOTE I—SHORT-TERM LOAN WITH SHAREHOLDERS

In 2010, the Company borrowed $3.2 million from 12 shareholders under the terms of unsecured promissory note agreements. These notes bore an interest rate of 6% with maturity dates of 18 months from the effective dates of the notes originally maturing on October 21, 2011, but extended to December 31, 2012. The note holders were also issued warrants that expire by April 23, 2020, to purchase 1,536,000 shares of the Company's Series F Preferred Stock, with an exercise price of $0.25 per share. As part of the loan maturity date extension, additional warrants to purchase 182,442 shares of the Company's Series G Preferred Stock were issued in 2011 with an exercise price of $0.60 per share that expire on April 23, 2020.

In 2011, two of the note holders converted their respective notes into shares of Series G Preferred Stock and four of the notes were repaid in full. In 2012, five of the remaining note holders converted their respective notes into shares of Series G Preferred Stock and one of the notes was repaid. As of December 31, 2012, all principal and interest related to these notes had been fully satisfied.

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE J—ACCRUED LIABILITIES

Accrued liabilities consisted of the following as of December 31:

	2012	2011
	(in thousands)	
Accrued payroll	$ 1,631	$ 1,367
Accrued employee benefits	429	452
Accrued property taxes	167	173
Accrued interest	74	188
Accrued construction expenses	—	—
Advanced payments	189	25
Accrued commission	69	201
Accrued professional fees	22	—
Accrued other	662	252
	$ 3,243	$ 2,658

NOTE K—OTHER INCOME AND EXPENSE

Other income and expense consisted of the following as of December 31:

	2012	2011	2010
	(in thousands)		
Interest income	$ 26	$ 15	$ 34
Unrealized foreign exchange gain (loss)	217	(352)	406
Realized foreign exchange gain (loss)	(79)	83	88
Government subsidy income	92	77	71
Other non-operating gain	38	1	9
Gain (loss) on disposal of assets	(37)	(80)	11
	$ 257	$ (256)	$ 619

NOTE L—INCOME TAXES

Deferred income tax assets and liabilities result principally from net operating losses, different methods of recognizing depreciation, reserve for doubtful accounts, inventory reserves for obsolescence and accrued vacation, together with timing differences between book and tax

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE L—INCOME TAXES (Continued)

reporting. At December 31, the net deferred tax assets and liabilities are comprised of the following approximate amounts:

	2012	2011
	(in thousands)	
NOL carryforward	$ 22,673	$ 21,797
Inventory reserves	389	305
Stock compensation	511	—
Fixed assets and intangibles	(1,582)	(1,664)
Impairment loss	(614)	(614)
Other	267	276
	21,644	20,099
Less valuation allowance	(21,644)	(20,099)
Deferred tax assets, net	$ —	$ —

The valuation allowance was established to reduce the deferred tax asset for the amounts that will more likely than not be realized. This reduction is primarily necessary due to the uncertainty of the Company's ability to utilize all of the net operating loss carry forwards. The valuation allowance increased approximately $1.5 million, $0.8 million and $0.5 million in 2012, 2011 and 2010, respectively.

The Company has a U.S. net operating loss carry forward of approximately $66.7 million, which expires between 2020 and 2032. The Company also has U.S. research and development tax credits of $1.5 million which expire between 2024 and 2032. Utilization of its net operating loss and tax credit carry-forwards may be subject to a substantial annual limitation due to the ownership change limitations set forth in Internal Revenue Code Section 382. Such an annual limitation could result in the expiration of the net operating loss and tax credit carry-forwards before utilization.

The Company files income tax returns in the U.S federal jurisdiction and various states and foreign jurisdictions. As of December 31, 2012, the Company's federal returns for the year ended December 31, 2009 through the current period are still open to examination. In addition, all of the net operating losses and research and development credit carry-forwards that may be utilized in future years are still subject to examination. The Company is not currently subject to U.S. federal, state and local, or non-U.S. income tax examinations by any tax authorities.

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE L—INCOME TAXES (Continued)

A reconciliation of the U.S. federal income tax rate of 34% for the years ended December 31, 2012, 2011 and 2010 to the Company's effective income tax rate follows:

	2012	2011	2010
		(in thousands)	
Expected (benefit) taxes	$ (293)	$ (1,808)	$ (1,158)
Non-deductible expenses	(582)	1,003	534
Increase in valuation allowance	1,545	845	523
Other, net	(669)	(40)	101
Tax expense	$ —	$ —	$ —

The Company's wholly owned subsidiary, Prime World is a tax-exempt entity under the Income Tax Code of the British Virgin Islands.

The Company's wholly owned subsidiary, Global has enjoyed preferential tax concessions in China as a "high-tech enterprise." Pursuant to China's State Council's Regulations on Encouraging Investment in and Development, Global is entitled to full exemption from China's Foreign Enterprise Income Tax, or FEIT, for the first two years and a 50% reduction for the next three years, commencing from the first profit making year after offsetting all tax losses carried forward from the previous five years. In March 2007, China enacted the PRC Enterprise Income Tax Law, or EIT Law, under which, effective January 1, 2008, China adopted a uniform income tax rate of 25% for all enterprises (including foreign-invested enterprises) and cancelled several tax incentives enjoyed previously by foreign-invested enterprises. For foreign-invested enterprises like Global that were established before the promulgation of the EIT Law, a five-year transition period is provided during which reduced income tax rates will apply but will gradually be phased out. The Chinese government has not yet announced implementation measures for the transitional policy concerning such preferential tax rates, so the Company is unable at this time to estimate the financial impact of the new tax law on Global.

NOTE M—STOCK-BASED COMPENSATION

The Company issues stock options to employees, consultants and non-employee directors. There are four incentive share plans that have been approved by the board of directors: the 1998 Incentive Share Plan, the 2000 Incentive Share Plan, the 2004 Incentive Share Plan and the 2006 Incentive Share Plan. Stock option awards for each of the four plans generally vest over a four year period and have a maximum term of ten years.

Stock options under these plans have been granted at the fair market value on the date of the grant. Nonqualified and Incentive Stock Options may be granted from each of these plans. The fair market value of the Company's stock has been historically determined by the board of directors and beginning in 2007, with the assistance of a third party valuation specialist.

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE M—STOCK-BASED COMPENSATION (Continued)

The 1998 Incentive Share Plan provides for awards of Stock Options, Stock Appreciation Rights, Restricted Stock, Performance Awards or Other Awards. Initially 2,000,000 shares of common stock were reserved for issuance under such plan and such amount was amended to 2,080,000 in June 2001. As of December 31, 2012, 115,850 shares were outstanding under this plan and there were no shares available to issue under this plan.

The 2000 Incentive Share Plan provides for awards of Stock Options, Stock Appreciation Rights, Restricted Stock, Performance Awards or Other Awards. Upon approval 3,604,100 shares of common stock were reserved for issuance under the plan. As of December 31, 2012, 632,586 shares were outstanding under this plan and there were no shares available to issue under this plan.

The 2004 Incentive Share Plan provides for awards of Stock Options, Stock Appreciation Rights, Restricted Stock, Performance Awards or Other Awards. Upon approval, 1,500,000 shares of common stock were reserved for issuance under the plan. As of December 31, 2012, 771,170 shares were outstanding under this plan and there were no shares available to issue under this plan.

The 2006 Incentive Share Plan provides for awards of Stock Options, Stock Appreciation Rights, Restricted Stock, Performance Awards or Other Awards. Initially 1,500,000 shares of common stock were reserved for issuance under the plan. In June 2008, the number of shares of common stock reserved for issuance under this plan was increased to 14,000,000. The plan was again amended to increase the reserved shares to 30,000,000 in November 2012. As of December 31, 2012, 11,060,044 shares were outstanding under this plan and there were 18,714,408 shares available to issue under this plan.

The Company estimates the fair value of employee stock options at the date of the grant using the Black-Scholes option-pricing model with the following assumptions:

	2012	2011	2010
Expected volatility	70%	70%	74%
Risk free interest rate	1.01%	2.32%	1.72%
Expected term (years)	6.25	6.25	6.25
Expected dividend yield	—	—	—
Estimated forfeitures	10%	13%	13%

As there has been no market for the Company's common stock, the expected volatility for options granted to date was derived from an analysis of reported data for a peer group of companies that issued options with similar terms. The expected volatility has been determined using an average of the expected volatility reported by this peer group of companies. The Company uses a risk free interest rate based on the 10-year Treasury as reported during the period. The expected term of options has been determined utilizing the simplified method which calculates a simple average based on vesting period and option life. The Company does not anticipate paying dividends in the near future. Estimated forfeitures are based on historical experience and future work force projections.

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE M—STOCK-BASED COMPENSATION (Continued)

Employee stock-based compensation expenses recognized for the years ended December 31, were as follows:

	2012	2011	2010
	(in thousands)		
Cost of sales	$ 7	$ 35	$ 61
Research and development	8	50	60
Sales and marketing	9	58	80
General and administrative	137	420	579
Total employee stock-based compensation expenses	$ 161	$ 563	$ 780

Options have been granted to the Company's employees under the four incentive plans and generally become exercisable as to 25% of the shares on the first anniversary date following the date of grant and semi-annually thereafter. All options expire ten years after the date of grant. The Company has outstanding options to purchase 2,533,240 shares under the 1998 plan; 3,778,267 shares under the 2000 plan; 2,229,545 shares under the 2004 plan; and 16,985,327 shares under the 2006 plan.

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE M—STOCK-BASED COMPENSATION (Continued)

The following is a summary of option activity:

	Number of shares	Exercise price	Weighted average exercise price
	(in thousands, except price data)		
Outstanding, January 1, 2010	4,845	$ 0.10 - $1.88	$ 0.1927
Granted	4,030	0.20	0.2000
Exercised	(7)	0.20	0.2000
Forfeited	(100)	0.20	0.2000
Expired	(99)	0.15 - 1.88	0.1946
Outstanding, December 31, 2010	8,669	0.10 - 0.25	0.1946
Exercisable, December 31, 2010	4,050	0.10 - 0.25	0.1885
Granted	3,715	0.20	0.2000
Exercised	(81)	0.10 - 0.20	0.2000
Forfeited	(756)	0.20	0.2000
Expired	(223)	0.15 - 0.20	0.1991
Outstanding, December 31, 2011	11,324	0.10 - 0.25	0.1959
Exercisable, December 31, 2011	5,417	0.10 - 0.25	0.1915
Granted	2,646	0.20	0.2000
Exercised	(23)	0.20 - 0.25	0.2097
Forfeited	(575)	0.20	0.2000
Expired	(793)	0.10 - 0.25	0.1767
Outstanding, December 31, 2012	12,580	0.10 - 0.25	0.1978
Exercisable, December 31, 2012	7,006	0.10 - 0.25	0.1960
Vested and expected to vest	11,891	0.10 - 0.25	0.1977

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE M—STOCK-BASED COMPENSATION (Continued)

The following table summarizes information about the options outstanding at December 31, 2012:

Range of exercise prices	Number of shares outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Aggregate intrinsic value	Number of shares exercisable	Weighted average remaining contractual life (years)	Weighted average exercise price	Aggregate intrinsic value
				(in thousands, except price data)				
$0.10 - $0.165	556	1.67	$ 0.135	$ 64	556	1.67	$ 0.135	$ 64
0.20 - 0.25	12,023	7.68	0.201	593	6,450	6.92	0.201	314
Total	12,579	7.41	$ 0.198	$ 657	7,006	6.49	$ 0.196	$ 378

As of December 31, 2012, total compensation cost related to unvested stock options not yet recognized was $0.4 million, which is expected to be expensed over a weighted-average period of 3.25 years.

The aggregate intrinsic value of options outstanding and options exercisable as of December 31, 2012 and December 31, 2011 was $0.7 million and $0.4 million, respectively.

The number and weighted average fair value of options granted in 2012, 2011 and 2010 is as follows:

2012		2011		2010	
Shares	Weighted average fair value	Shares	Weighted average fair value	Shares	Weighted average fair value
		(shares in thousands)			
2,647	$ 0.1642	3,715	$ 0.0131	4,030	$ 0.0144

NOTE N—STOCKHOLDERS' EQUITY

1. *Common Stock*

The Company has authorized the issuance of up to 300,000,000 shares of common stock, all of which have been designated voting common stock, under its Tenth Amended and Restated Articles of Incorporation (the "Restated Articles").

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE N—STOCKHOLDERS' EQUITY (Continued)

2. *Redeemable Convertible Preferred Stock*

The Company has authorized the issuance of up to 200,000,000 shares of preferred stock under the Company's Restated Articles. The number of authorized, and issued shares and the conversion rate from a preferred share into a common share by series is as follows:

	Authorized shares	Issued shares	Carrying value	Conversion rate
	(in thousands, except for conversion rate)			
Series A	4,900	4,806	$ 7,105	1:3.1731
Series C	17,500	17,470	21,802	1:2.3106
Series D	11,800	11,414	14,184	1:2.5359
Series E	11,000	10,339	28,055	1:3.6186
Series F	82,000	79,518	19,278	1:1.2000
Series G	45,000	42,857	14,943	1:1.0000
	172,200	166,404	$ 105,367	

Except for Series A preferred shareholders, holders of preferred stock vote equally with shares of common stock on an as-converted basis on actions required by stockholders, other than as required by the Texas Business Organizations Code ("TBOC"). Holders of Series A Preferred do not have the right to vote on any action to be taken by the shareholders of the Company, except (a) to the extent a vote is required by the TBOC; or (b) with respect to certain other matters specified in the Restated Articles of Incorporation. In addition, each of the Series C, Series D, Series E, Series F and Series G have per-class voting rights similar to the class-voting rights for Series A Preferred Stock.

The Company's preferred shareholders are not entitled to receive dividends unless declared by the board of directors of the Company. Each share of preferred stock is convertible into common stock as shown in the conversion rate table above upon an initial public offering of the Company's common stock.

Each class of preferred stock provides to shareholders certain liquidation preferences upon any liquidation, dissolution or winding up of the Corporation. The Series G Preferred is senior to all other series of preferred stock, and the Series G liquidation preference is equal to the Series G purchase price plus a Series G preferential return equal to interest at prime rate plus one percent on the Series G purchase price, not to exceed the Series G purchase price, for a total liquidation payment of up to two times the Series G purchase price. The Series F Preferred is senior to all other series of preferred stock other than Series G, and the Series F liquidation preference is equal to the Series F purchase price plus a Series F preferential return equal to interest at prime rate plus one percent on the Series F purchase price, not to exceed the Series F purchase price, for a total liquidation payment of up to two times the Series F purchase price. The Series E Preferred is senior to all other series of preferred stock other than Series F and G,

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE N—STOCKHOLDERS' EQUITY (Continued)

and the Series E liquidation preference is equal to the Series E purchase price plus a Series E preferential return equal to interest at prime rate plus one percent on the Series E purchase price, not to exceed the Series E purchase price, for a total liquidation payment of up to two times the Series E purchase price. The Series D Preferred are senior to all other series of preferred stock other than Series E, F and G, and the Series D other series of preferred stock other than Series E, F and G, and the Series D liquidation preference is equal to the Series D purchase price plus a Series D preferential return equal to interest at prime rate plus one percent on the Series D purchase price, not to exceed the Series D purchase price, for a total liquidation payment of up to two times the Series D purchase price. The Series A and C Preferred are junior to Series D, E, F and G. Series C holders are entitled to a first payment equal to the Series C purchase price. Then, the Series A liquidation preference is equal to the Series A purchase price plus a Series A preferential return equal to interest at prime rate plus one percent on the Series A purchase price, not to exceed the Series A purchase price, for a total liquidation payment of up to two times the Series A purchase price. The Series C Preferred are then entitled to a second payment junior to the Series A liquidation payment, which Series C Junior liquidation payment is equal to that amount paid or distributed to holders of Common Stock as if such share of Series C Preferred Stock were converted; provided that the amount distributed per share of Series C Preferred Stock will not exceed one half of the Series C purchase price.

3. *Warrants*

As of December 31, 2012, the Company had the following warrants outstanding related to certain financing transactions:

Issue date	Security upon exercise	Shares	Expiration date	Weighted average exercise price
		(shares in thousands)		
5/17/2011	Common	300	6/30/2014	$ 0.20000
6/30/2009 to 5/3/2010	Preferred F	2,186	6/30/2014 to 4/23/2020	$ 0.29003
12/31/2011 to 11/2/2012	Preferred G	382	5/3/2013 to 4/23/2020	$ 0.46926
		2,868		

The Company estimated the fair value of these warrants at the date of the grant using the Black-Scholes option-pricing model and records the expense over the life of the warrants. The Company recorded expense of $21,000 in 2012 related to the issuance of these warrants.

NOTE O—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

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE O—SEGMENT AND GEOGRAPHIC INFORMATION (Continued)

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 product manufacturing plants. Long-lived assets in the tables below comprise only property, plant, equipment and intangible assets (in thousands):

	For the year ended December 31,		
	2012	2011	2010
		(in thousands)	
Revenues:			
United States	$ 12,192	$ 18,767	$ 13,273
Taiwan	15,200	6,547	10,018
China	36,029	22,526	17,198
Total	$ 63,421	$ 47,840	$ 40,489

	For the year ended December 31,		
	2012	2011	2010
		(in thousands)	
Long-lived assets:			
United States	$ 8,966	$ 9,457	$ 10,430
Taiwan	3,719	2,325	2,633
China	13,595	14,052	13,784
Total	$ 26,280	$ 25,834	$ 26,847

NOTE P—MAJOR CUSTOMERS

The Company currently derives its revenues from customers in the United States and throughout the rest of the world. Generally, the Company does not require deposits or other collateral to support customer receivables. The Company performs an initial and periodic credit evaluation of its customers and maintains an allowance for uncollectible accounts for potential uncollectible accounts. The historical amount of losses on uncollectible accounts has been within the Company's estimates. The Company's five largest customers represented an aggregate of 47%, 56% and 60% of revenue for the years ended December 31, 2012, 2011 and 2010, respectively. The five largest receivable balances for customers represented an aggregate of 58%, and 71% of total accounts receivable at December 31, 2012 and 2011, respectively.

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE Q—EMPLOYEE BENEFIT PLANS

On August 1, 2000, the Company established a 401(k) profit sharing plan covering employees meeting certain age and service requirements. The plan provides for discretionary Company contributions to be allocated based on the employee's eligible contributions. The Company made no contributions to the 401(k) plan for the years ended December 31, 2012, 2011 and 2010.

Employees of Global participate in a state-mandated social security program in China. Under this program, pension costs are recorded on the basis of required monthly contributions to employees' individual accounts during their service periods. Under the regulations of the People's Republic of China, Global is required to make fixed contributions to a fund, which is under the administration of the local labor departments. Employees of AOI—Taiwan participate in a pension program under the Taiwan Labor Pension Act. Pension expense for Global was $244,000, $206,000 and $188,000 in 2012, 2011 and 2010, respectively. Pension expense for AOI—Taiwan was $168,000, $123,000 and $92,000 in 2012, 2011 and 2010, respectively.

NOTE R—COMMITMENTS AND CONTINGENCIES

1. *Commitments*

The Company conducts part of its operations from leased facilities and also leases equipment. Rent expense was $0.5 million, $0.4 million and $0.6 million for the years ended December 31, 2012, 2011 and 2010, respectively.

At December 31, 2012, the approximate minimum rental commitments under noncancellable leases in excess of one year that expire at varying dates through 2015 were as follows:

Year ending December 31,	Amount (in thousands)
2013	$ 521
2014	167
2015	9
	$ 697

2. *Employment Agreements and Consultancy Agreements*

The Company has entered into employment and indemnification agreements with its CEO and CSO. These agreements provide that if their employment is terminated as a result of a change of control of the Company, or if their employment is terminated for certain other reasons set forth in the agreements, the Company will be required to pay a severance payment in an amount equal to their annual base salary, and other additional compensation due under the terms of the agreements.

Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2012, 2011 and 2010

NOTE R—COMMITMENTS AND CONTINGENCIES (Continued)

The Company had entered into a consulting agreement with one of its shareholders and board members for a period of three years from July 2009 to June 2012. The agreement provided that a consulting service fee would be paid to the consultant upon delivery of stipulated services. The Company paid $150,000 and $350,000 of consulting services fees to the consultant in 2011 and 2010, respectively.

In 2012, the Company entered into consulting agreements with two of its shareholders and board members for a period of one year from June 2012 to June 2013. The agreements provide that a consulting fee will be paid to the consultants upon delivery of stated services. The Company paid $25,000 of consulting service fees to the consultants in 2012.

3. *Contingencies*

The Company may be party to litigation, claims or assessments in the ordinary course of business. Management is not aware of any of these matters that would have a material effect on the financial condition, results of operations or cash flows of the Company.

NOTE S—RELATED PARTY TRANSACTIONS

The Company had the following related parties' activities with its shareholders:

	2012	2011	2010
		(in thousands)	
Interest expense	$ 36	$ 176	$ 169
Consulting service fees	25	150	350
Note payable	—	910	3,200
Interest payable	—	122	150

NOTE T—SUBSEQUENT EVENTS

As of March 15, 2013, the Company renewed and extended $6.0 million of its line of credit for an additional one year term with a China based bank. In addition, the Company also repaid $2.1 million of loans and bank acceptance notes subsequent to year-end.

On March 25, 2013, the Company was converted from a Texas corporation to a Delaware corporation.

On January 18, 2013, the Company's board of directors granted stock options for 10,037,000 shares of the Company's common stock to various employees of the Company. The stock options have an exercise price of $0.25 per share and vest over a four year period from date of grant.

shares

Common Stock

PROSPECTUS

RAYMOND JAMES **PIPER JAFFRAY**

COWEN AND COMPANY **ROTH CAPITAL PARTNERS**

, 2013

PART II

INFORMATION NOT REQUIRED IN THE PROSPECTUS

Item 13. Other Expenses of Issuance And Distribution

The following table sets forth the costs and expenses, other than underwriting discounts and commissions, payable by registrant in connection with the sale of common stock being registered. All amounts are estimates except the SEC registration fee and the FINRA filing fee.

SEC registration fee	$	6,820
FINRA filing fee	$	8,000
NASDAQ Global Market listing fee	$	150,000
Printing and mailing costs	$	*
Legal fees and expenses	$	*
Accounting fees and expenses	$	*
Blue Sky fees and expenses	$	*
Directors and officers insurance	$	*
Transfer agent and registrar fees	$	*
Miscellaneous expenses	$	*
Total Expenses	$	*

* To be completed by amendment.

Item 14. Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law (the "DGCL") authorizes a corporation to indemnify its directors and officers against liabilities arising out of actions, suits and proceedings to which they are made or threatened to be made a party by reason of the fact that they have served or are currently serving as a director or officer to a corporation. The indemnity may cover expenses (including attorneys' fees) judgments, fines and amounts paid in settlement actually and reasonably incurred by the director or officer in connection with any such action, suit or proceeding. Section 145 permits corporations to pay expenses (including attorneys' fees) incurred by directors and officers in advance of the final disposition of such action, suit or proceeding. In addition, Section 145 provides that a corporation has the power to purchase and maintain insurance on behalf of its directors and officers against any liability asserted against them and incurred by them in their capacity as a director or officer, or arising out of their status as such, whether or not the corporation would have the power to indemnify the director or officer against such liability under Section 145.

We have adopted provisions in our amended and restated certificate of incorporation and amended and restated bylaws to be in effect at the completion of this offering that limit or eliminate the personal liability of our directors to the fullest extent permitted by the DGCL, as it now exists or may in the future be amended. Consequently, a director will not be personally liable to us or our stockholders for monetary damages or breach of fiduciary duty as a director, except for liability for:

- any breach of the director's duty of loyalty to us or our stockholders;

- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- any unlawful payments related to dividends or unlawful stock purchases, redemptions or other distributions; or
- any transaction from which the director derived an improper personal benefit.

These limitations of liability do not alter director liability under the federal securities laws and do not affect the availability of equitable remedies such as an injunction or rescission.

In addition, our amended and restated bylaws provide that:

- we will indemnify our directors, officers and, in the discretion of our board of directors, certain employees to the fullest extent permitted by the DGCL, as it now exists or may in the future be amended; and
- we will advance reasonable expenses, including attorneys' fees, to our directors and, in the discretion of our board of directors, to our officers and certain employees, in connection with legal proceedings relating to their service for or on behalf of us, subject to limited exceptions.

We have entered into indemnification agreements with each of our directors and certain of our executive officers. These agreements provide that we will indemnify each of our directors and certain of our executive officers to the fullest extent permitted by Delaware law.

We also maintain general liability insurance which covers certain liabilities of our directors and officers arising out of claims based on acts or omissions in their capacities as directors or officers, including liabilities under the Securities Act.

Item 15. Recent Sales of Unregistered Securities

In the three completed fiscal years preceding the filing of this registration statement, we have issued the following securities that were not registered under the Securities Act:

(a) Issuances of Capital Stock.

On December 31, 2011, we issued and sold an aggregate of 6,676,916 shares of Series G preferred stock to twenty-five investors, at a price of $0.60 per share, in our Initial Series G Private Placement. On September 7, 2012, we issued and sold an additional 31,410,977 shares of Series G preferred stock to fifty-four investors, at a price of $0.35 per share, in our Secondary Series G Private Placement. As a result of the Secondary Series G Private Placement, we agreed to amend the per share price of the Initial Series G Private Placement from $0.60 per share to $0.35 per share and, as a result an additional 4,769,215 shares of Series G preferred stock was issued to the investors of the Initial Series G Private Placement. As a result, a total of 42,857,108 shares of Series G preferred stock was issued by our company.

No underwriters were used in the foregoing transactions. All sales of securities described above were made in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act (and/or Regulation D promulgated thereunder) of the Securities Act for transactions by a registrant not involving a public offering. All of the foregoing securities are deemed restricted securities for the purposes of the Securities Act.

Before completion of this offering, each share of Series A preferred stock will convert into shares of common stock, each share of Series C preferred stock will convert into shares of common stock, each share of Series D preferred stock will convert into shares of common stock, each share of Series E preferred stock will convert into shares of common stock, each share of Series F preferred stock will convert into shares of common stock, and each share of Series G preferred stock will convert into shares of common stock.

(b) Grants and Exercises of Stock Options.

From January 1, 2010 through February 28, 2013, we have granted stock options to purchase an aggregate of 20,429,500 shares of common stock with exercise prices ranging from $0.20 to $0.25 per share, to employees, officers, directors, consultants pursuant to our stock option plans. 158,506 shares of options have been exercised for consideration aggregating $31,426.20 from January 1, 2010 through February 28, 2013. The issuance of common stock upon exercise of the options was exempt either pursuant to Rule 701, as a transaction pursuant to a compensatory benefit plan, or pursuant to Section 4(2) of the Securities Act or Regulation S of the Securities Act, as a transaction by a registrant not involving a public offering. The shares of common stock issued upon exercise of options are deemed restricted securities for the purposes of the Securities Act.

(c) Issuances and Exercises of Warrants

On May 3, 2010, we issued warrants to our U.S. lender to purchase 250,000 shares of Series F preferred stock, with an exercise price of $0.60 per share and an expiration date equal to the earlier of May , 2013 or thirty days after the expiration of the initial lock-up period agreed to between us and our underwriters in connection with this offering. On November 2, 2012, we issued warrants to our U.S. lender to purchase 200,000 shares of Series G preferred stock, with an exercise price of $0.35 per share and an expiration date equal to thirty days after the expiration of the initial lock-up period agreed to between our company and its underwriters in connection with this offering. As of February 28, 2013, none of the warrants described above have been exercised.

From February 3, 2010 through April 23, 2010, we issued warrants to purchase 1,536,000 shares of Series F preferred stock issued to eleven investors of our Series F preferred stock. The exercise price of the warrants is $0.25 and expires upon the closing of this offering. As of February 28, 2013, no such warrants have been exercised.

On May 17, 2011, we issued warrants to Alliance Management Consulting Co. Ltd. to purchase 300,000 shares of our common stock in partial consideration of certain services provided to us. The exercise price of the warrants is $0.20 per share and expires upon the closing of this offering. As of February 28, 2013, no such warrants have been exercised.

On December 31, 2011, we issued warrants to purchase 1,001,536 shares of Series G preferred stock, with exercise price of $0.60 per share in connection with the Initial Series G Private Placement, to the investors of the Initial Series G Private Placement. However, the warrants were terminated as a result of the Secondary Series G Private Placement in which we agreed to amend the per share price of the Initial Series G Private Placement from $0.60 per share to $0.35 per share. As of February 28, 2013, none of the warrants described above have been exercised.

No underwriters were used in the foregoing transactions. All sales of securities described above were made in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act (and/or Regulation D promulgated thereunder) of the Securities Act for transactions by a registrant not involving a public offering. All of the foregoing securities are deemed restricted securities for the purposes of the Securities Act.

Item 16. Exhibits and Financial Statement Schedules

(a) Exhibits

See the Exhibit Index on the page immediately following the signature page for a list of exhibits filed as part of this registration statement on Form S-1, which Exhibit Index is incorporated herein by reference.

(b) Financial Statement Schedules

Schedules not listed above have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes thereto.

Item 17. Undertakings

The undersigned registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreements certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described in Item 14 of this registration statement, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Houston, State of Texas, on , 2013.

APPLIED OPTOELECTRONICS, INC.

By: _____

Chih-Hsiang (Thompson) Lin,
President and Chief Executive Officer

POWER OF ATTORNEY

We, the undersigned directors of Applied Optoelectronics, Inc. (the "Company"), hereby severally constitute and appoint Chih-Hsiang (Thompson) Lin and James L. Dunn, Jr., and each of them singly, our true and lawful attorneys, with full power, and to each of them singly, to sign for us and in our names in the capacities indicated below, any and all pre-effective and post-effective amendments to this registration statement, and any registration statement filed pursuant to Rule 462(b) under the Securities Act of 1933, as amended, in connection with the registration under the Securities Act of 1933, as amended, of our equity securities, and to file or cause to be filed the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys, and each of them singly, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as each of them might or could do in person, and hereby ratifying and confirming all that said attorneys, and each of them, or their substitute or substitutes, shall do or cause to be done by virtue of this Power of Attorney.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Date
Chih-Hsiang (Thompson) Lin, *President, Chief Executive Officer and Director*	
James L. Dunn, Jr., *Chief Financial Officer*	
Juen-Sheng (Andrew) Kang, *Chairman of the Board of Directors*	

Signature	Date
William H. Yeh, *Director*	
Richard B. Black, *Director*	
Alex Ignatiev, *Director*	
Alan Moore, *Director*	
Min-Chu (Mike) Chen, *Director*	

EXHIBIT INDEX

Number	Description
1.1*	Form of Underwriting Agreement
3.1	Certificate of Incorporation of the registrant, as currently in effect
3.2*	Form of Amended and Restated Certificate of Incorporation of the registrant, to be filed upon completion of this offering with the Delaware Secretary of State
3.3	Bylaws of the registrant, as currently in effect
3.4*	Form of Amended and Restated Bylaws of the registrant, to be in effect upon completion of this offering
4.1	Form of Registration Rights Agreement
4.2	Form of Stockholders' Agreement
5.1*	Opinion of DLA Piper
10.1	Form of Indemnification Agreement between the registrant each of its Directors and certain of its Executive Officers
10.2	1998 Share Incentive Plan
10.3*	Form of Stock Option Agreement under 1998 Share Incentive Plan
10.4	2000 Share Incentive Plan
10.5*	Form of Stock Option Agreement under 2000 Share Incentive Plan
10.6	2004 Share Incentive Plan
10.7*	Form of Stock Option Agreement under 2004 Share Incentive Plan
10.8	2006 Share Incentive Plan
10.9*	Form of Stock Option Agreement under 2006 Share Incentive Plan
10.10*	2013 Long-Term Incentive Plan
10.11*	Form of Restricted Stock Award Agreement under 2013 Long-Term Incentive Plan
10.12*	Form of Restricted Stock Unit Award Agreement under 2013 Long-Term Incentive Plan
10.13*	Form of Stock Appreciation Right Award Agreement under 2013 Long-Term Incentive Plan
10.14*	Form of Stock Option Agreement under 2013 Long-Term Incentive Plan
10.15*	Lease Agreement effective May 1, 2012 between the registrant and 12808 W. Airport, LLC
10.16*	First Amendment to Lease Agreement effective June 15, 2012 between the registrant and 12808 W. Airport, LLC
10.17*	Lease agreement dated January 10, 2012 until April 9, 2014 between the registrant and Admiral Overseas Corporation for space on 4F.-1,NO.700, Jhongjheng Rd., Jhonghe District, New Taipei City 23552, Taiwan (R.O.C.)
10.18*	Lease agreement dated April 1, 2012 until March 31, 2014 between the registrant and Admiral Overseas Corporation for space on 6-7F.-1,NO.700, Jhongjheng Rd., Jhonghe District, New Taipei City 23552, Taiwan (R.O.C.)
10.19	Amended and Restated Loan and Security Agreement effective June 30, 2009 between registrant and United Commercial Bank

Number	Description
10.20	First Amendment to Amended and Restated Loan and Security Agreement effective May 3, 2010 between the registrant and East West Bank (as successor in interest to United Commercial Bank)
10.21	Second Amendment to Amended and Restated Loan and Security Agreement effective October 28, 2010 between the registrant and East West Bank
10.22	Third Amendment to Amended and Restated Loan and Security Agreement effective December 6, 2010 between the registrant and East West Bank
10.23	Fourth Amendment to Amended and Restated Loan and Security Agreement effective May 5, 2011 between the registrant and East West Bank
10.24	Fifth Amendment to Amended and Restated Loan and Security Agreement effective November 30, 2011 between the registrant and East West Bank
10.25	Sixth Amendment to Amended and Restated Loan and Security Agreement effective March 29, 2012 between the registrant and East West Bank
10.26	Seventh Amendment to Amended and Restated Loan and Security Agreement effective June 29, 2012 between the registrant and East West Bank
10.27	Eighth Amendment to Amended and Restated Loan and Security Agreement effective November 2, 2012 between the registrant and East West Bank
10.28*	Credit Agreement between the Global Technology Inc. and China Construction Bank
10.29	Employment Agreement between the registrant and Chih-Hsiang (Thompson) Lin, dated January 28, 2007
10.30	Employment Agreement between the registrant and Stefan J. Murry, dated January 28, 2007
10.31	Employment Agreement between the registrant and Shu-Hua (Joshua) Yeh, dated June 1, 2012
21.1	Subsidiaries of the registrant
23.1*	Consent of Grant Thornton LLP
23.2*	Consent of DLA Piper LLP (US) (included in Exhibit 5.1)
24.1	Power of Attorney (see page II-5 to this registration statement on Form S-1)

* To be filed by amendment.

CERTIFICATE OF INCORPORATION
OF
APPLIED OPTOELECTRONICS, INC.

ARTICLE ONE — NAME

The name of the corporation is Applied Optoelectronics, Inc. (the "***Corporation***").

ARTICLE TWO — DURATION

The Corporation will have perpetual existence.

ARTICLE THREE — PURPOSE

The purpose for which the Corporation is organized is the transaction of any or all lawful business for which corporations may be incorporated under the Delaware General Corporation Law (the "***DGCL***").

ARTICLE FOUR — CAPITAL STOCK

The aggregate number of shares of capital stock that the Corporation will have authority to issue is 472,200,000, of which 300,000,000 shares will be common stock, par value $0.001 per share ("***Common Stock***"), and 172,200,000 will be preferred stock, par value $0.001 per share ("***Preferred Stock***"). Unless specifically provided otherwise herein, the holders of such shares ("***Stockholders***") will be entitled to one vote for each share held in any Stockholder vote in which any of such Stockholder is entitled to participate.

The board of directors of the Corporation (the "***Board***") may determine the powers, designations, preferences and relative, participating, optional or other rights, including the voting rights, and the qualifications, limitations or restrictions thereof, of each class of capital stock and of each series within any such class and may increase or decrease the number of shares within each such class or series; provided, however, that the Board may not decrease the number of shares within a class or series to less than the number of shares within such class or series that are then issued and may not increase the number of shares within a series above the total number of authorized shares of the applicable class for which the powers, designations, preferences and rights have not otherwise been set forth herein.

ARTICLE FIVE — SERIES A PREFERRED STOCK

4,900,000 shares of the Preferred Stock are designated "***Series A Preferred Stock***," which have the following powers, preferences, rights, and restrictions:

Section 5.1. Voting.

(a) General. Except as may be otherwise required by the DGCL or set forth in this Section 5.1, the Series A Preferred Stock will not have the right to vote on any action to be taken by the stockholders of the Corporation. To the extent that the DGCL or this

Section 5.1 require the Series A Preferred Stock to have a vote on an action to be taken by the stockholders of the Corporation, each share of Series A Preferred Stock will entitle the record holder thereof (each a "***Series A Holder***") to such number of votes per share on each such action as will equal the number of shares of Common Stock (including fractions of a share) into which each share of Series A Preferred Stock is then convertible.

(b) Election of Directors. The holders of Series A Preferred Stock will have the right to vote or grant consent with respect to the election of directors of the Corporation as set forth in the bylaws of the Corporation.

(c) Voting. So long as at least 2,883,523 shares of Series A Preferred Stock (subject to adjustment for any stock split, reverse stock split, stock dividend or other such transaction applicable to the Series A Preferred Stock) remain outstanding, the Series A Holders will have the right to vote, as a separate class and not together with the holders of other stock, with respect to the following matters, each of which will require the consent or affirmative vote of at least 66% of the issued and outstanding shares of Series A Preferred Stock:

(i) Any amendment, alteration or repeal of any provision of the Certificate of Incorporation of the Corporation, as amended from time to time, that affects adversely the voting or other powers, preferences or other special rights or privileges or restrictions of the Series A Preferred Stock;

(ii) Any authorization or any designation, whether by reclassification or otherwise, of any new class or series of stock of the Corporation ranking senior to the Series A Preferred Stock in right of liquidation preference or dividends ("***Series A Senior Securities***" which, except as contemplated by the definition of "Series A Junior Securities," shall include the Series C Preferred Stock, the Series D Preferred Stock, the Series E Preferred Stock, the Series F Preferred Stock and the Series G Preferred Stock);

(iii) Any redemption of any shares of Common Stock (other than pursuant to equity incentive agreements with employees or service providers giving the Corporation the right to repurchase shares upon the termination of employment or services);

(iv) Any amendment of, or waiver with respect to, any provision of the Corporation's Certificate of Incorporation or bylaws directly relating to the Series A Preferred Stock;

(v) Any increase in the authorized size of the Board; and

(vi) The declaration or payment of any dividend in respect of any Series A Junior Securities. "***Series A Junior Securities"*** means any shares of Common Stock or other stock that is junior to the Series A Preferred Stock in right of dividends or in respect of Liquidation,

including only with respect to the Series C Junior Liquidation Payment, and for no other purpose, the Series C Preferred Stock.

Section 5.2. Dividends. No Series A Holder will have the right to receive any dividends in respect of any share of Series A Preferred Stock unless, and only to the extent, such dividends are declared by the Board and funds are legally available therefor. No dividends will be declared or paid in respect of the Common Stock or any Series A Junior Securities unless an identical dividend amount (on an as-converted, per-share basis) is also simultaneously declared and paid in respect of the Series A Preferred Stock.

Section 5.3. Liquidation Preference.

(a) Upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary (a "***Liquidation***"), the Series A Holders will be entitled to receive, out of assets of the Corporation which remain after satisfaction in full of all valid claims of the Corporation's creditors and which are available for payment to stockholders (and subject to the rights of the holders of any Series A Senior Securities or the holders of shares of the Corporation ranking on a parity with the Series A Preferred Stock in respect of liquidation ("***Series A Parity Securities***")), before any amount will be paid to or distributed among the holders of Series A Junior Securities, distributions per share of Series A Preferred Stock in an amount (the "***Series A Liquidation Payment***") equal to the sum of (i) $1.50 (subject to adjustment for any stock split, reverse stock split, stock dividend or other such transaction applicable to the Series A Preferred Stock, the "***Series A Purchase Price***") plus (ii) the greater of (A) any dividends declared but unpaid in respect of such share and (B) the Series A Preferential Return (defined below). If upon any Liquidation the Series A Liquidation Payment and any amounts payable in respect of any Series A Parity Securities as to any such distribution are not paid in full, the Series A Holders and the holders of Series A Parity Securities will share ratably in any distribution of assets in proportion to the full respective preferential amounts to which they are entitled.

(b) "***Series A Preferential Return***" means an amount equal to the lesser of (i) the Series A Purchase Price and (ii) the amount of simple interest which would have accrued on a hypothetical principal amount equal to the Series A Purchase Price for the period beginning on April 14, 2000 (the "***Series A Purchase Date***") and ending on the date of the Liquidation payment at an interest rate for such period equal to the rate announced by Citibank N.A. as its prime rate two business days before the date of the Liquidation payment plus one percent.

(c) The Corporation will give written notice of any Liquidation to the Series A Holders, stating the payment date or dates when, and the place or places where, any payments under this Section 5.3 will be payable, at least 20 days prior to any payment date stated therein.

(d) (i) The voluntary sale, conveyance, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all of the property or assets of the Corporation or (ii) the merger, consolidation, share exchange or similar transaction of the Corporation with one or more entities (each a "***Sale/Merger Transaction***") will be deemed to be a Liquidation.

Section 5.4. Conversion.

(a) Optional Conversion. Subject to and in compliance with this Section 5.4, any share of Series A Preferred Stock may, at the option of the holder thereof, be converted at any time and from time to time into a number of shares of Common Stock equal to the then-applicable Series A Conversion Amount (defined below). Each Series A Holder who desires to convert any of its Series A Preferred Stock into Common Stock pursuant to this Section 5.4(a) will surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation, and will give written notice to the Corporation at such office that such Series A Holder desires to convert such shares. Such notice will state the number of shares of Series A Preferred Stock being converted.

(b) Automatic Conversion. Each share of Series A Preferred Stock will automatically be converted into a number of shares of Common Stock equal to the then-applicable Series A Conversion Amount (defined below), simultaneously with the closing of the first underwritten public offering under an effective registration statement under the Securities Act of 1933, as amended, covering the offering and sale of Common Stock for the account of the Corporation on a firm commitment basis for proceeds of at least $30 million (before deduction of underwriting costs, commissions and expenses). Upon the occurrence of an automatic conversion of the Series A Preferred Stock, the Series A Holders will surrender the certificates representing their shares at the office of the Corporation or transfer agent, and the rights, preferences and restrictions of the Series A Preferred Stock will terminate.

(c) Anti-Dilution.

(i) Definitions.

(A) "***Additional Common Stock***" for this ARTICLE FIVE means shares of Common Stock issued by the Corporation or deemed to be issued under this Section 5.4(c)(v), whether or not subsequently reacquired or retired by the Corporation, other than shares issued (or deemed to be issued) (1) upon conversion of the Series A Preferred Stock; (2) to employees, officers or directors of, or consultants or advisors to, the Corporation or any subsidiary pursuant to stock purchase or stock option plans or other arrangements that are approved by the Board; (3) pursuant to the exercise of options, warrants or convertible securities outstanding as of the Restatement Date; (4) in connection with a Sale/Merger Transaction; (5) pursuant to any equipment leasing arrangement, commercial credit arrangement or debt financing from a bank or similar financial institution; (6) in connection with a transaction that causes an automatic conversion of the Series A Preferred Stock; and (7) for consideration other than cash pursuant to a merger, consolidation, share exchange, acquisition or similar business combination approved by the Board.

(B) "***Aggregate Consideration***" for this ARTICLE FIVE means, for any issuance or sale, or deemed issuance or sale, of Additional Common Stock, the net consideration received by the Corporation, as determined in accordance with United States Generally Accepted Accounting Principles ("***GAAP***").

(C) "***Convertible Securities***" for this ARTICLE FIVE, means rights or options for the purchase of, or stock or other securities convertible into, Additional Common Stock.

(D) "***Effective Price***" for this ARTICLE FIVE, means the quotient of (1) the Aggregate Consideration received in an issuance or sale (or deemed issuance or sale) of Additional Common Stock divided by (2) the total number of shares of Additional Common Stock issued or sold (or deemed to have been issued or sold) in such transaction.

(E) "***Series A Conversion Amount***" means the quotient of (1) the Series A Purchase Price divided by (2) the Series A Conversion Price.

(F) "***Series A Conversion Price***" means, as of the Restatement Date, $0.47272, and will be adjusted from time to time thereafter in accordance with this Section 5.4(c). All references to the Series A Conversion Price are to the Series A Conversion Price as so adjusted.

(ii) Adjustment for Diluting Issues. If, at any time or from time to time after the Restatement Date, the Corporation issues or sells, or is deemed by the express provisions of this Section 5.4(c) to have issued or sold, for gross proceeds of at least $200,000, Additional Common Stock (other than (A) as a dividend or other distribution on any class of stock as provided in Section 5.4(c)(iv) or (B) as a subdivision or combination of shares of stock as provided in Section 5.4(c)(iii)) for an Effective Price less than the then-effective Series A Conversion Price, then and in each such case the then-existing Series A Conversion Price will be reduced, as of the opening of business on the date of such issue or sale, by multiplying it by the number determined by the following formula:

(X+Y) / (X+Z), where

X= the total number of shares of Common Stock issued and outstanding, or deemed to be issued and outstanding under Section 5.4(c)(v), immediately prior to the time of such issuance or sale;

Y= the number of shares of Common Stock that could have been purchased for the Aggregate Consideration at the Series A Conversion Price in effect immediately prior to such reduction; and

Z= the number of shares of Common Stock issued or sold, or deemed to be issued or sold under Section 5.4(c)(v), in such issuance or sale.

(iii) Adjustment for Stock Splits and Combinations. If the Corporation at any time or from time to time after the Restatement Date effects a subdivision of the outstanding Common Stock without a corresponding subdivision of the Series A Preferred Stock, the Series A Conversion Price in effect immediately before that subdivision will be proportionately decreased. Conversely, if the Corporation at any time or from time to time after the Restatement Date combines the outstanding shares of Common Stock into a smaller number of shares without a corresponding combination of the Series A Preferred Stock, the Series A Conversion Price in effect immediately before the combination will be proportionately increased. Any adjustment under this Section 5.4(c)(iii) will become effective at the close of business on the date the subdivision or combination becomes effective.

(iv) Adjustment for Common Stock Dividends and Distributions. If the Corporation at any time or from time to time after the Restatement Date makes, or fixes a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in additional shares of Common Stock, in each such event the Series A Conversion Price that is then in effect will be decreased as of the time of such issuance or, in the event such record date is fixed, as of the close of business on such record date, by multiplying the Series A Conversion Price then in effect by the result of the following formula:

X / (Y+Z), where

X = the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date;

Y = the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date; and

Z = the number of shares of Common Stock issuable in payment of such dividend or distribution;

provided, however, that if such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Series A Conversion Price will be recomputed accordingly as of the close of business on such record date and thereafter the Series A Conversion Price will be adjusted pursuant to this Section 5.4(c)(iv) to reflect the actual payment of such dividend or distribution.

(v) Deemed Issuances or Sales. If the Corporation issues or sells any Convertible Securities after the Restatement Date and if the Effective Price of the Additional Common Stock underlying such Convertible Securities is less than the Series A Conversion Price, in each such case the Corporation will be deemed to have issued at the time of the issuance of such Convertible Securities the maximum number of shares of Additional Common Stock issuable upon exercise or conversion thereof and to have received as consideration for the issuance of

such shares an amount equal to the Aggregate Consideration, if any, received by the Corporation for the issuance of such Convertible Securities, plus, in the case of such rights or options, the minimum amounts of Aggregate Consideration, if any, payable to the Corporation upon the exercise or conversion of such Convertible Securities (other than by cancellation of liabilities or obligations evidenced by such Convertible Securities) upon the conversion thereof; provided, that, if the minimum amount of Aggregate Consideration payable to the Corporation upon the exercise or conversion of Convertible Securities is reduced over time or on the occurrence or non-occurrence of specified events other than by reason of anti-dilution adjustments, the Effective Price will be recalculated at such time using the figure to which such minimum amount of

Aggregate Consideration is reduced; provided further, that if the minimum amount of Aggregate Consideration payable to the Corporation upon the exercise or conversion of such Convertible Securities is subsequently increased, the Effective Price will be again recalculated using the increased minimum amount of Aggregate Consideration payable to the Corporation upon the exercise or conversion of such Convertible Securities. No further adjustment of the Series A Conversion Price, as adjusted upon the issuance of such Convertible Securities, will be made as a result of the actual issuance of shares of Additional Common Stock on the exercise or conversion of any such Convertible Securities. If any Convertible Securities outstanding (including those outstanding as of the Restatement Date) expire without having been exercised or converted, the Series A Conversion Price will be adjusted to the Series A Conversion Price which would have been in effect absent the issuance of such expired Convertible Securities.

(d) Issuance of Certificates; Time Conversion Effected. Promptly after the automatic conversion and surrender of the certificate or certificates for the share or shares of Series A Preferred Stock to be converted, the Corporation will issue and deliver, or cause to be issued and delivered, to the holder thereof, registered in such name or names as such holder may direct, a certificate or certificates for the number of whole shares of Common Stock issuable upon the conversion of such share or shares of Series A Preferred Stock, unless and to the extent the Board adopts a resolution providing that the Common Stock or Series A Preferred Stock shall be uncertificated or registered in book entry form. With respect to an automatic conversion, effective immediately upon such conversion, regardless of whether the certificate or certificates for such share or shares shall have been surrendered, the rights of the holder of such share or shares of Series A Preferred Stock will cease, and the person(s) in whose name or names any certificate, certificates or book entry for shares of Common Stock issued upon such conversion will be deemed to have become the holder or holders of record of the shares represented thereby. With respect to an optional conversion, the certificate or certificates for such converted share or shares will have been surrendered as aforesaid, and at such time the rights of the holder of such converted share or shares of Series A Preferred Stock will cease, and the person(s) in whose name or names any certificate or certificates for shares of Common Stock (or Series A Preferred Stock, as applicable) will be issuable upon such conversion will be deemed to have become the holder or holders of record of the shares represented thereby.

(e) Fractional Shares; Dividends; Partial Conversion. No fractional shares will be issued upon conversion of Series A Preferred Stock into Common Stock and no payment or adjustment will be made upon any conversion on account of any cash dividends on the Common Stock issued upon conversion.

(f) Stock to be Reserved. The Corporation will at all times reserve and keep available out of its authorized Common Stock, solely for the purpose of issuance upon the conversion of Series A Preferred Stock as herein provided, such number of shares of Common Stock as are then issuable upon the conversion of all outstanding shares of Series A Preferred Stock. All shares of Common Stock so issued will be duly and validly issued and fully paid and nonassessable. The Corporation will take all reasonable actions as may be necessary to assure that all such shares of Common Stock may be so issued without violation of any applicable law or regulation, or of any requirement of any national securities exchange upon which the Common Stock may be listed.

(g) No Reissuance of Series A Preferred Stock. Shares of Series A Preferred Stock that are converted into shares of Common Stock as provided herein will not be reissued as Series A Preferred Stock but will be generally available to be reissued pursuant to a separate statement of resolution adopted by the Board.

(h) Issue Tax. The issuance of certificates for shares of Common Stock upon conversion of Series A Preferred Stock will be made without charge to the holders thereof for any issuance tax in respect thereof, provided that the Corporation will not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of the holder of the Series A Preferred Stock which is being converted.

(i) Closing of Books. The Corporation will at no time close its transfer books against the transfer of any Series A Preferred Stock or of any shares of Common Stock issued or issuable upon the conversion of any shares of Series A Preferred Stock in any manner which interferes with the timely conversion of such Series A Preferred, except as may otherwise be required to comply with applicable securities and corporate laws.

(j) Reorganization or Reclassification. If any capital reorganization, reclassification of the capital stock of the Corporation, stock split, or stock dividend (for this Article V, each a "***Distribution***") is effected in such a way that holders of Common Stock will be entitled to receive stock, securities or assets with respect to or in exchange for Common Stock, then, as a condition of such Distribution, lawful and adequate provisions will be made whereby each holder of a share or shares of Series A Preferred Stock will thereupon have the right to receive, upon the basis and upon the terms and conditions specified herein and, as applicable, in lieu of the shares of Common Stock immediately theretofore receivable upon the conversion of such share or shares of Series A Preferred Stock, such shares of stock, securities or assets as may be issued or payable with respect to or, as applicable, in exchange for a number of outstanding shares of such Common Stock equal to the number of shares of such Common Stock immediately theretofore receivable upon such conversion had such Distribution not taken place, and in any such case appropriate provisions will be made with respect to the rights and interests

of such holder to the end that the provisions hereof will thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise of such conversion rights.

Section 5.5. Redemption.

(a) General. The Corporation may, at any time and from time to time, at the option of the Board, redeem any or all of the outstanding Series A Preferred Stock by: (i) mailing notice of such redemption to the Series A Holders at least 30 and no more than 60 days before the date (the "***Series A Redemption Date***") fixed by the Board for such redemption and (B) paying to the holders of the Series A Preferred Stock so redeemed, upon surrender by such holder of such holder's stock certificate representing the redeemed shares on the Series A Redemption Date, an amount per share equal to the Series A Redemption Price (herein defined). The Corporation shall not be obligated to pay the Series A Redemption Price in respect of any redeemed Series A Preferred Stock unless the certificates evidencing such shares of Series A Preferred Stock are delivered to the Corporation.

(b) "***Series A Redemption Price***" means an amount equal to (i) the Series A Purchase Price plus (ii) the quotient of (A) the retained earnings of the Corporation as shown on its regularly prepared financial statements as of the last day of the month immediately preceding the date that

such notice is mailed divided by (B) the number of shares of Series A Preferred Stock issued and outstanding on the date that such notice is mailed.

(c) Issuance of Certificates; Time Redemption Effected. On and after the Series A Redemption Date, all shares of Series A Preferred Stock for which a notice of redemption was mailed in accordance with Section 5.5(a) shall be canceled by the Corporation, and the holder of a certificate representing any such shares shall have no rights, preferences or other privileges with respect to such shares except the right to receive the Series A Redemption Price for each such share upon surrender of such certificate. If less than all of the Series A Preferred Stock represented by any Series A Holder's certificate are redeemed, then, promptly after the surrender of such certificate, the Corporation shall issue and deliver, or cause to be issued and delivered, to Such Series A Holder, registered in such Series A Holder's name, a certificate for the number of whole shares of Series A Preferred Stock represented by such previous certificate but not redeemed.

(d) No Reissuance of Series A Preferred Stock. Shares of Series A Preferred Stock which are redeemed as provided herein shall not be reissued as Series A Preferred Stock but shall be generally available to be reissued pursuant to a separate statement of resolution adopted by the Board.

Section 5.6. Senior Preferred Stock. Except as otherwise set forth in Section 5.1(c)(ii), the Corporation may, in its sole discretion, authorize additional classes and series of Preferred Stock with rights senior to, junior to, or pari passu with, the Series A Preferred Stock.

Section 5.7. Amendments to Series A Provisions of Articles. The Company may amend any of ARTICLE FIVE with the consent or affirmative vote of two-thirds (2/3) of the issued and outstanding shares of Series A Preferred Stock on the date of such consent or vote.

ARTICLE SIX — SERIES C PREFERRED STOCK

Section 6.1. Series C Preferred Stock. 17,500,000 shares of Preferred Stock will be designated Series C Preferred Stock (the "***Series C Preferred Stock***"), which will have the following powers, preferences, rights and restrictions:

Section 6.2. Voting.

(a) General. Except as may be otherwise required by the DGCL or set forth in this Section 6.2, the Series C Preferred Stock will have the right to vote on all actions to be taken by the holders of Common Stock (other than the actions set forth in Section 6.2(b)), and each share of Series C Preferred Stock will entitle the record holder thereof (each a "***Series C Holder***") to such number of votes per share on each such action as will equal the number of shares of Common Stock (including fractions of a share) into which such share of Series C Preferred Stock is then convertible.

(b) Class Voting.

(i) So long as at least 60% of the greatest number of shares of Series C Preferred Stock (subject to adjustment for any stock split, reverse stock split, stock dividend or other such transaction applicable to the Series C Preferred Stock) ever outstanding remain outstanding, the Series C Preferred Stock will have the right to vote, as a separate class and not together with the holders of other stock, with respect to the following matters, each of which will require the consent or affirmative vote of two-thirds (2/3) of the issued and outstanding shares of Series C Preferred Stock on the date of such vote:

(A) Any amendment, alteration or repeal of any provision of the Certificate of Incorporation of the Corporation, as amended from time to time, that affects adversely the voting or other powers, preferences or other special rights or privileges or restrictions of the Series C Preferred Stock;

(B) Any authorization or any designation, whether by reclassification or otherwise, of any new class or series of stock or any other securities convertible into equity securities of the Corporation ranking senior to the Series C Preferred Stock in right of liquidation preference (as to the Series C Senior Liquidation Payment (as defined) only) or dividends ("***Series C Senior Securities***", which shall include the Series D Preferred Stock, the Series E Preferred Stock, the Series F Preferred Stock and the Series G Preferred Stock);

(C) Any redemption of any shares of Common Stock (other than pursuant to equity incentive agreements with employees or service

providers giving the Corporation the right to repurchase shares upon the termination of employment or services);

(D) Any amendment of, or waiver with respect to, any provision of this ARTICLE SIX or the Corporation's Certificate of Incorporation or bylaws directly relating to the Series C Preferred Stock;

(E) Any increase in the authorized size of the Board; and

(F) The declaration or payment of any dividend in respect of any Series C Junior Securities. "***Series C Junior Securities***" means any shares of Common Stock or other stock that is junior to the Series C Preferred Stock in right of dividends or in respect of Liquidation other than with respect to the Series C Junior Liquidation Payment.

Section 6.3. Dividends. No Series C Holder will have the right to receive any dividends in respect of any share of Series C Preferred Stock unless, and only to the extent, such dividends are declared by the Board and funds are legally available therefor. No dividends will be declared or paid in respect of the Common Stock or any shares ranking junior to the Series C Preferred Stock in respect of dividends unless an identical dividend amount (on an as-converted, per-share basis) is also simultaneously declared and paid in respect of the Series C Preferred Stock.

Section 6.4. Liquidation Preference.

(a) Upon any Liquidation, the Series C Holders will be entitled to receive, out of assets of the Corporation which remain after satisfaction in full of all valid claims of the Corporation's creditors and which are available for payment to stockholders (and subject to the rights of the holders of any Series C Senior Securities or the holders of shares of the Corporation ranking on a parity with the Series C Preferred Stock in respect of liquidation ("***Series C Parity Securities***")), before any amount will be paid to or distributed among the holders of Series C Junior Securities, distributions per share of Series C Preferred Stock in two payments. The first payment (the "***Series C Senior Liquidation Payment***") shall be equal to the sum of (i) $0.925 (the "***Series C Purchase Price***") (subject to adjustment for any stock split, reverse stock split, stock dividend or other such transaction applicable to the Series C Preferred Stock), plus (ii) any dividends declared but unpaid in respect of such share. The second payment (the "***Series C Junior Liquidation Payment***" and, together with the Series C Senior Liquidation Payment, the "***Series C Liquidation Payment***") shall be junior to the Series A Liquidation Payment, and shall equal that amount paid or distributed to holders of Common Stock as if such share of Series C Preferred Stock were converted; provided that the amount distributed per share of Series C Preferred Stock (subject to adjustment for any stock split, reverse stock split, stock dividend or other such transaction applicable to the Series C Preferred Stock) shall not exceed one half of the Series C Purchase Price. If upon any Liquidation the Series C Liquidation Payment and any amounts payable in respect of any Series C Parity Securities as to any such distribution are not paid in full, the Series C Holders and the holders of Series C Parity Securities will share ratably in any distribution of assets in

proportion to the full respective amounts to which they are entitled.

(b) The Corporation will give written notice of any Liquidation to the Series C Holders, stating the payment date or dates when, and the place or places where, any payments under this Section 6.4 will be payable, at least 20 days prior to any payment date stated therein.

(c) A Sale/Merger Transaction will be deemed to be a Liquidation.

Section 6.5. Conversion.

(a) Optional Conversion. Subject to and in compliance with this Section 6.5, any share of Series C Preferred Stock may, at the option of the holder thereof, be converted at any time and from time to time into a number of shares of Common Stock equal to the then-applicable Series C Conversion Amount (defined below). Each Series C Holder who desires to convert any of its Series C Preferred Stock into Common Stock pursuant to this Section 6.5(a) will surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation, and will give written notice to the Corporation at such office that such Series C Holder desires to convert such shares. Such notice will state the number of shares of Series C Preferred Stock being converted.

(b) Automatic Conversion. Each share of Series C Preferred Stock will automatically be converted into a number of shares of Common Stock equal to the then-applicable Series C Conversion Amount (defined below):

(i) simultaneously with the closing of the first underwritten public offering under an effective registration statement under the Securities Act of 1933, as amended, covering the offering and sale of Common Stock for the account of the Corporation on a firm commitment basis for proceeds of at least $30 million (before deduction of underwriting costs, commissions and expenses);

(ii) at the election of the holders of a number of shares of Series C Preferred Stock equal to at least two-thirds (2/3) of the then-outstanding shares of Series C Preferred Stock; or

(iii) upon the conversion of a number of shares of Series C Preferred Stock equal to at least 60% of the shares of Series C Preferred Stock outstanding (subject to adjustment for any stock split, reverse stock split, stock dividend or other such transaction applicable to the Series C Preferred Stock) on October 11, 2002 (the "***Series C Purchase Date***").

Upon the occurrence of an automatic conversion of the Series C Preferred Stock, the Series C Holders will surrender the certificates representing their shares at the office of the Corporation or transfer agent, and the rights, preferences and restrictions of the Series C Preferred Stock will terminate.

(c) Anti-Dilution.

(i) Definitions.

(A) "***Additional Common Stock***" for this ARTICLE SIX means shares of Common Stock issued by the Corporation or deemed to be issued under Section 6.5(d)(iii), whether or not subsequently reacquired or retired by the Corporation, other than shares issued (or deemed to be issued) (1) upon conversion of the Series C Preferred Stock; (2) to employees, officers or directors of, or consultants or advisors to, the Corporation or any subsidiary pursuant to stock purchase or stock option plans or other arrangements that are approved by the Board; (3) pursuant to the exercise of options, warrants or convertible securities outstanding as of the Restatement Date; (4) in connection with a Sale/Merger Transaction; (5) pursuant to any equipment leasing arrangement, commercial credit arrangement or debt financing from a bank or similar financial institution; (6) in connection with a transaction that causes an automatic conversion of the Series C Preferred Stock; and (7) for consideration other than cash pursuant to a merger, consolidation, share exchange, acquisition or similar business combination approved by the Board.

(B) "***Aggregate Consideration***" for this ARTICLE SIX means, for any issuance or sale, or deemed issuance or sale, of Additional Common Stock, the net consideration received by the Corporation, as determined in accordance with GAAP.

(C) "***Convertible Securities***" for this ARTICLE SIX means rights or options for the purchase of, or stock or other securities convertible into, Additional Common Stock.

(D) "***Effective Price***" for this ARTICLE SIX means the quotient of (1) the Aggregate Consideration received in an issuance or sale (or deemed issuance or sale) of Additional Common Stock divided by (2) the total number of shares of Additional Common Stock issued or sold (or deemed to have been issued or sold) in such transaction.

(E) "***Series C Conversion Amount***" means the quotient of (1) the Series C Purchase Price divided by (2) the Series C Conversion Price.

(F) "***Series C Conversion Price***" means, as of the Restatement Date, $0.40032, and will be adjusted from time to time thereafter in accordance with this Section 6.5. All references to the Series C Conversion Price are to the Series C Conversion Price as so adjusted.

(d) Adjustment for Diluting Issues. If at any time or from time to time after the Restatement Date the Corporation issues or sells, or is deemed by the express provisions of this Section to have issued or sold, for gross proceeds of at least $200,000, Additional Common Stock (other than (A) as a dividend or other distribution on any class

of stock as provided in Section 6.5(d)(ii) or (B) as a subdivision or combination of shares of stock as provided in Section 6.5(d)(i)) for an Effective Price (determined in accordance with GAAP) less than the then-effective Series C Conversion Price, then and in each such case the then-existing Series C Conversion Price will be reduced, as of the opening of business on the date of such issue or sale, by multiplying it by the number determined by the following formula:

1/(1+w), where

w = [((X+Z)/(X+Y))—1]/(1—P);

P= C/(X+Y);

C= the number of shares of Series C Preferred Stock immediately prior to the time of such issuance or sale multiplied by the then-effective Series C Conversion Amount (the quotient of the Series C Purchase Price divided by the Series C Conversion Price); and

X= the sum of the following (i) the total number of shares of Common Stock issued and outstanding, or deemed to be issued and outstanding under this Section 6.5(d)(iii), (ii) the total number of shares of Common Stock reserved for nonexercised stock options granted, and (iii) the total number of shares of Common Stock reserved and available for issuance under stock option plans, immediately prior to the time of such issuance or sale;

Y= the number of shares of Common Stock that could have been purchased for the Aggregate Consideration at the Series C Conversion Price in effect immediately prior to such reduction;

Z= the number of shares of Common Stock issued or sold, or deemed to be issued or sold under Section 6.5(d)(iii), in such issuance or sale.

(i) Adjustment for Stock Splits and Combinations. If the Corporation at any time or from time to time after the Restatement Date effects a subdivision of the outstanding Common Stock without a corresponding subdivision of the Series C Preferred Stock, the Series C Conversion Price in effect immediately before that subdivision will be proportionately decreased. Conversely, if the Corporation at any time or from time to time after the Restatement Date combines the outstanding shares of Common Stock into a smaller number of shares without a corresponding combination of the Series C Preferred Stock, the Series C Conversion Price in effect immediately before the combination will be proportionately increased. Any adjustment under this Section 6.5(d)(i) will become effective at the close of business on the date the subdivision or combination becomes effective.

(ii) Adjustment for Common Stock Dividends and Distributions. If the Corporation at any time or from time to time after the Restatement Date makes, or fixes a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in additional shares of Common Stock, in each such event the Series C Conversion Price that is then in effect will be decreased as of the time of such issuance or, in the event such record date is fixed, as of the close of business on such record date, by multiplying the Series C Conversion Price then in effect by the result of the following formula:

X / (Y+Z), where

X = the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date;

Y = the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date; and

Z = the number of shares of Common Stock issuable in payment of such dividend or distribution;

provided, however, that if such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Series C Conversion Price will be recomputed accordingly as of the close of business on such record date and thereafter the Series C Conversion Price will be adjusted pursuant to this Section 6.5(d)(ii) to reflect the actual payment of such dividend or distribution.

(iii) Deemed Issuances or Sales. If the Corporation issues or sells any Convertible Securities after the Restatement Date and if the Effective Price of the Additional Common Stock underlying such Convertible Securities is less than the Series C Conversion Price, in each such case the Corporation will be deemed to have issued at the time of the issuance of such Convertible Securities the maximum number of shares of Additional Common Stock issuable upon exercise or conversion thereof and to have received as consideration for the issuance of such shares an amount equal to the total amount of the consideration, if any, received by the Corporation for the issuance of such Convertible Securities, plus, in the case of such rights or options, the minimum amounts of consideration, if any, payable to the Corporation upon the exercise or conversion of

such Convertible Securities (other than by cancellation of liabilities or obligations evidenced by such Convertible Securities) upon the conversion thereof; provided, that, if the minimum amount of consideration payable to the Corporation upon the exercise or conversion of Convertible Securities is reduced over time or on the occurrence or non-occurrence of specified events other than by reason of anti-dilution adjustments, the Effective Price will be recalculated at such time using the figure to which such minimum amount of consideration is reduced; provided further, that if the minimum amount of consideration payable to the Corporation

upon the exercise or conversion of such Convertible Securities is subsequently increased, the Effective Price will be again recalculated using the increased minimum amount of consideration payable to the Corporation upon the exercise or conversion of such Convertible Securities. No further adjustment of the Series C Conversion Price, as adjusted upon the issuance of such Convertible Securities, will be made as a result of the actual issuance of shares of Additional Common Stock on the exercise or conversion of any such Convertible Securities. If any Convertible Securities outstanding (including those outstanding as of the Restatement Date) expire without having been exercised or converted, the Series C Conversion Price will be adjusted to the Series C Conversion Price which would have been in effect absent the issuance of such expired Convertible Securities.

(e) Issuance of Certificates; Time Conversion Effected. Promptly after the automatic or optional conversion and surrender of the certificate or certificates (and notice, as applicable) for the share or shares of Series C Preferred Stock to be converted, the Corporation will issue and deliver, or cause to be issued and delivered, to the holder thereof, registered in such name or names as such holder may direct, (A) a certificate or certificates for the number of whole shares of Common Stock issuable upon the conversion of such share or shares of Series C Preferred Stock and (B), in the case of a partial optional conversion, a certificate or certificates for the number of whole shares of Series C Preferred Stock which the notice delivered by such holder specified were not to be converted, unless and to the extent the Board adopts a resolution providing that the Common Stock or Series C Preferred Stock shall be uncertificated or registered in book entry form. With respect to an automatic conversion, effective immediately upon such conversion, regardless of whether the certificate or certificates for such share or shares shall have been surrendered, the rights of the holder of such share or shares of Series C Preferred Stock will cease, and the person(s) in whose name or names any certificate, certificates or book entry for shares of Common Stock issued upon such conversion will be deemed to have become the holder or holders of record of the shares represented thereby. With respect to an optional conversion, the certificate or certificates for such converted share or shares will have been surrendered as aforesaid, and at such time the rights of the holder of such converted share or shares of Series C Preferred Stock will cease, and the person(s) in whose name or names any certificate or certificates for shares of Common Stock (or Series C Preferred Stock, as applicable) will be issuable upon such conversion will be deemed to have become the holder or holders of record of the shares represented thereby.

(f) Fractional Shares; Dividends; Partial Conversion. No fractional shares will be issued upon conversion of Series C Preferred Stock into Common Stock and no payment or adjustment will be made upon any conversion on account of any cash dividends on the Common Stock issued upon conversion. If any fractional share of Common Stock would, except for the provisions of the first sentence of this Section 6.5(f), be delivered upon such conversion, the Corporation, in lieu of delivering such fractional share, will pay to the holder surrendering the Series C Preferred Stock for conversion an amount in cash equal to the current market price of such fractional share as determined in good faith by the Board.

(g) Stock to be Reserved. The Corporation will at all times reserve and keep available out of its authorized Common Stock, solely for the purpose of issuance upon the conversion of Series C Preferred Stock as herein provided, such number of shares of Common Stock as are then issuable upon the conversion of all outstanding shares of Series C Preferred Stock. All shares of Common Stock so issued will be duly and validly issued and fully paid and nonassessable. The Corporation will take all such action as may be necessary to assure that all such shares of Common Stock may be so issued without violation of any applicable law or regulation, or of any requirement of any national securities exchange upon which the Common Stock may be listed.

(h) No Reissuance of Series C Preferred Stock. Shares of Series C Preferred Stock that are converted into shares of Common Stock as provided herein will not be reissued as Series C Preferred Stock but will be generally available to be reissued pursuant to a separate statement of resolution adopted by the Board.

(i) Issue Tax. The issuance of certificates for shares of Common Stock upon conversion of Series C Preferred Stock will be made without charge to the holders thereof for any issuance tax in respect thereof, provided that the Corporation will not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of the holder of the Series C Preferred Stock which is being converted.

(j) Closing of Books. The Corporation will at no time close its transfer books against the transfer of any Series C Preferred Stock or of any shares of Common Stock issued or issuable upon the conversion of any shares of Series C Preferred Stock in any manner which interferes with the timely conversion of such Series C Preferred Stock, except as may otherwise be required to comply with applicable securities and corporate laws.

(k) Reorganization or Reclassification. If any capital reorganization, reclassification of the capital stock of the Corporation, stock split, or stock dividend (each a "***Distribution***") is effected in such a way that holders of Common Stock will be entitled to receive stock, securities or assets with respect to or in exchange for Common Stock, then, as a condition of such Distribution, lawful and adequate provisions will be made whereby each holder of a share or shares of Series C Preferred Stock will thereupon have the right to receive, subject to the terms and conditions specified herein and, as applicable, in lieu of the shares of Common Stock receivable upon the conversion of such share or shares of Series C Preferred Stock immediately prior to such Distribution, such shares of stock, securities or assets as may be issued or payable with respect to or, as applicable, in exchange for a number of outstanding shares of such Common Stock equal to the number of shares of such Common Stock receivable immediately prior to such Distribution upon such conversion had such Distribution not taken place. In any such case, appropriate adjustments to the provisions hereof shall be made with respect to the rights and interests of such holder of Series C Preferred Stock after the Distribution to the end that the provisions hereof will thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise of such conversion rights.

Section 6.6. Senior Preferred Stock. Except as otherwise set forth in Section 6.2(b)(i)(B), the Corporation may, in its sole discretion, authorize additional classes and series of Preferred Stock with rights senior to, junior to, or *pari passu* with, the Series C Preferred Stock.

Section 6.7. Amendments to Series C Provisions of Articles. The Company may amend any of ARTICLE SIX with the consent or affirmative vote of two-thirds (2/3) of the issued and outstanding shares of Series C Preferred Stock on the date of such consent or vote.

ARTICLE SEVEN— SERIES D PREFERRED STOCK.

Section 7.1. Series D Preferred Stock. 11,800,000 shares of Preferred Stock will be designated Series D Preferred Stock (the "***Series D Preferred Stock***"), which will have the following powers, preferences, rights and restrictions:

Section 7.2. Voting.

(a) General. Except as may be otherwise required by the DGCL or set forth in this Section 7.2, the Series D Preferred Stock will have the right to vote on all actions to be taken by the holders of Common Stock (other than the actions set forth in Section 7.2(b)), and each share of Series D Preferred Stock will entitle the record holder thereof (each a "***Series D Holder***") to such number of votes per share on each such action as will equal the number of shares of Common Stock (including fractions of a share) into which such share of Series D Preferred Stock is then convertible.

(b) Class Voting. So long as at least 60% of the greatest number of shares of Series D Preferred Stock (subject to adjustment for any stock split, reverse stock split, stock dividend or other such transaction applicable to the Series D Preferred Stock) ever outstanding remain outstanding, the Series D Preferred Stock will have the right to vote, as a separate class and not together with the holders of other stock, with respect to the following matters, each of which will require the consent or affirmative vote of two-thirds (2/3) of the issued and outstanding shares of Series D Preferred Stock on the date of such vote:

(i) Any amendment, alteration or repeal of any provision of the Certificate of Incorporation of the Corporation, as amended from time to time, that affects adversely the voting or other powers, preferences or other special rights or privileges or restrictions of the Series D Preferred Stock;

(ii) Any authorization or any designation, whether by reclassification or otherwise, of any new class or series of stock or any other securities convertible into equity securities of the Corporation ranking senior to the Series D Preferred Stock in right of liquidation preference or dividends ("***Series D Senior Securities***", which shall include the Series E Preferred Stock, the Series F Preferred Stock and the Series G Preferred Stock);

(iii) Any redemption of any shares of Common Stock (other than pursuant to equity incentive agreements with employees or service providers

giving the Corporation the right to repurchase shares upon the termination of employment or services);

(iv) Any amendment of, or waiver with respect to, any provision of this ARTICLE SEVEN or the Corporation's Certificate of Incorporation or bylaws directly relating to the Series D Preferred Stock;

(v) Any increase in the authorized size of the Board; and

(vi) The declaration or payment of any dividend in respect of any Series D Junior Securities. "***Series D Junior Securities***" means any shares of Common Stock or other stock that is junior to the Series D Preferred Stock in right of dividends or in respect of Liquidation.

Section 7.3. Dividends. No Series D Holder will have the right to receive any dividends in respect of any share of Series D Preferred Stock unless, and only to the extent, such dividends are declared by the Board and funds are legally available therefor. No dividends will be declared or paid in respect of the Common Stock or any shares ranking junior to the Series D Preferred Stock in respect of dividends unless an identical dividend amount (on an as-converted, per-share basis) is also simultaneously declared and paid in respect of the Series D Preferred Stock.

Section 7.4. Liquidation Preference.

(a) Upon any Liquidation, the Series D Holders will be entitled to receive, out of assets of the Corporation which remain after satisfaction in full of all valid claims of the Corporation's creditors and which are available for payment to stockholders (and subject to the rights of the holders of any Series D Senior Securities or the holders of shares of the Corporation ranking on a parity with the Series D Preferred Stock in respect of liquidation ("***Series D Parity Securities***")), before any amount will be paid to or distributed among the holders of Series D Junior Securities, distributions per share of Series D Preferred Stock equal to the sum of (i) $1.25 (the "***Series D Purchase Price***") (subject to adjustment for any stock split, reverse stock split, stock dividend or other such transaction applicable to the Series D Preferred Stock), plus (ii) the greater of (A) any dividends declared but unpaid in respect of such share and (B) the Series D Preferential Return (defined below). If upon any Liquidation the Series D Liquidation Payment and any amounts payable in respect of any Series D Parity Securities as to any such distribution are not paid in full, the Series D Holders and the holders of Series D Parity Securities will share ratably in any distribution of assets in proportion to the full respective amounts to which they are entitled. "***Series D Preferential Return***" means an amount equal to the lesser of (x) the Series D Purchase Price and (y) the amount of simple interest, calculated monthly, which would have accrued on a hypothetical principal amount equal to the Series D Purchase Price for the period beginning on June 17, 2005 (the "***Series D Purchase Date***") and ending on the date of the Liquidation payment at an interest rate for such period equal to the rate announced by Citibank N.A. as its prime rate two business days before the date of the Liquidation payment plus one percent.

(b) The Corporation will give written notice of any Liquidation to the Series D Holders, stating the payment date or dates when, and the place or places where, any payments under this Section 7.4 will be payable, at least 20 days prior to any payment date stated therein.

(c) A Sale/Merger Transaction will be deemed to be a Liquidation.

Section 7.5. Conversion.

(a) Optional Conversion. Subject to and in compliance with this Section 7.5, any share of Series D Preferred Stock may, at the option of the holder thereof, be converted at any time and from time to time into a number of shares of Common Stock equal to the then-applicable Series D Conversion Amount (defined below). Each Series D Holder who desires to convert any of its Series D Preferred Stock into Common Stock pursuant to this Section 7.5(a) will surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation, and will give written notice to the Corporation at such office that such Series D Holder desires to convert such shares. Such notice will state the number of shares of Series D Preferred Stock being converted.

(b) Automatic Conversion. Each share of Series D Preferred Stock will automatically be converted into a number of shares of Common Stock equal to the then-applicable Series D Conversion Amount (defined below):

(i) simultaneously with the closing of the first underwritten public offering under an effective registration statement under the Securities Act of 1933, as amended, covering the offering and sale of Common Stock for the account of the Corporation on a firm commitment basis for proceeds of at least $30 million (before deduction of underwriting costs, commissions and expenses);

(ii) at the election of the holders of a number of shares of Series D Preferred Stock equal to at least two-thirds (2/3) of the then-outstanding shares of Series D Preferred Stock; or

(iii) upon the conversion of a number of shares of Series D Preferred Stock equal to at least 60% of the shares of Series D Preferred Stock outstanding (subject to adjustment for any stock split, reverse stock split, stock dividend or other such transaction applicable to the Series D Preferred Stock) on the Series D Purchase Date.

Upon the occurrence of an automatic conversion of the Series D Preferred Stock, the Series D Holders will surrender the certificates representing their shares at the office of the Corporation or transfer agent, and the rights, preferences and restrictions of the Series D Preferred Stock will terminate.

(c) Anti-Dilution.

(i) Definitions.

(A) "***Additional Common Stock***" for this ARTICLE SEVEN means shares of Common Stock issued by the Corporation or deemed to be issued under Section 7.5(d)(iii), whether or not subsequently reacquired or retired by the Corporation, other than shares issued (or deemed to be issued) (1) upon conversion of the Series D Preferred Stock; (2) to employees, officers or directors of, or consultants or advisors to, the Corporation or any subsidiary pursuant to stock purchase or stock option plans or other arrangements that are approved by the Board; (3) pursuant to the exercise of options, warrants or convertible securities outstanding as of the Restatement Date; (4) in connection with a Sale/Merger Transaction; (5) pursuant to any equipment leasing arrangement, commercial credit arrangement or debt financing from a bank or similar financial institution; (6) in connection with a transaction that causes an automatic conversion of the Series D Preferred Stock; and (7) for consideration other than cash pursuant to a merger, consolidation, share exchange, acquisition or similar business combination approved by the Board.

(B) "***Aggregate Consideration***" for this ARTICLE SEVEN means, for any issuance or sale, or deemed issuance or sale, of Additional Common Stock, the net consideration received by the Corporation, as determined in accordance with GAAP.

(C) "***Convertible Securities***" for this ARTICLE SEVEN means rights or options for the purchase of, or stock or other securities convertible into, Additional Common Stock.

(D) "***Effective Price***" for this ARTICLE SEVEN means the quotient of (1) the Aggregate Consideration received in an issuance or sale (or deemed issuance or sale) of Additional Common Stock divided by (2) the total number of shares of Additional Common Stock issued or sold (or deemed to have been issued or sold) in such transaction.

(E) "***Series D Conversion Amount***" means the quotient of (1) the Series D Purchase Price divided by (2) the Series D Conversion Price.

(F) "***Series D Conversion Price***" means, as of the Restatement Date, $0.49291, and will be adjusted from time to time thereafter in accordance with this Section 7.5. All references to the Series D Conversion Price are to the Series D Conversion Price as so adjusted.

(d) Adjustment for Diluting Issues. If at any time or from time to time after the Restatement Date the Corporation issues or sells, or is deemed by the express provisions of this Section to have issued or sold, for gross proceeds of at least $200,000, Additional Common Stock (other than as a dividend or other distribution on any class of stock, or as a subdivision or combination of shares of stock, in either case as provided in this Section 7.5(d)) for an Effective Price (determined in accordance with GAAP) less

than the then-effective Series D Conversion Price, then and in each such case the then-existing Series D Conversion Price will be reduced, as of the opening of business on the date of such issue or sale, by multiplying it by the number determined by the following formula:

1/(1+w), where

w = [((X+Z)/(X+Y))–1]/(1–P);

P= C/(X+Y);

C= the number of shares of Series D Preferred Stock immediately prior to the time of such issuance or sale multiplied by the then-effective Series D Conversion Amount (the quotient of the Series D Purchase Price divided by the Series D Conversion Price); and

X= the sum of the following (i) the total number of shares of Common Stock issued and outstanding, or deemed to be issued and outstanding under this Section 7.5(d)(iii), (ii) the total number of shares of Common Stock reserved for nonexercised stock options granted, and (iii) the total number of shares of Common Stock reserved and available for issuance under stock option plans, immediately prior to the time of such issuance or sale;

Y= the number of shares of Common Stock that could have been purchased for the Aggregate Consideration at the Series D Conversion Price in effect immediately prior to such reduction;

Z= the number of shares of Common Stock issued or sold, or deemed to be issued or sold under this Section 7.5(d)(iii), in such issuance or sale.

(i) Adjustment for Stock Splits and Combinations. If the Corporation at any time or from time to time after the Restatement Date effects a subdivision of the outstanding Common Stock without a corresponding subdivision of the Series D Preferred Stock, the Series D Conversion Price in effect immediately before that subdivision will be proportionately decreased. Conversely, if the Corporation at any time or from time to time combines the outstanding shares of Common Stock into a smaller number of shares without a corresponding combination of the Series D Preferred Stock, the Series D Conversion Price in effect immediately before the combination will be proportionately increased. Any adjustment under this Section 7.5(d)(i) will become effective at the close of business on the date the subdivision or combination becomes effective.

(ii) Adjustment for Common Stock Dividends and Distributions. If the Corporation at any time or from time to time after the Restatement Date makes, or fixes a record date for the determination of holders of Common Stock entitled to

receive, a dividend or other distribution payable in additional shares of Common Stock, in each such event the Series D Conversion Price that is then in effect will be decreased as of the time of such issuance or, in the event such record date is fixed, as of the close of business on such record date, by multiplying the Series D Conversion Price then in effect by the result of the following formula:

X / (Y+Z), where

X = the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date;

Y = the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date; and

Z = the number of shares of Common Stock issuable in payment of such dividend or distribution;

provided, however, that if such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Series D Conversion Price will be recomputed accordingly as of the close of business on such record date and thereafter the Series D Conversion Price will be adjusted pursuant to this Section 7.5(d)(ii) to reflect the actual payment of such dividend or distribution.

(iii) Deemed Issuances or Sales. If the Corporation issues or sells any Convertible Securities after the Restatement Date and if the Effective Price of the Additional Common Stock underlying such Convertible Securities is less than the Series D Conversion Price, in each such case the Corporation will be deemed to have issued at the time of the issuance of such Convertible Securities the maximum number of shares of Additional Common Stock issuable upon exercise or conversion thereof and to have received as consideration for the issuance of such shares an amount equal to the total amount of the consideration, if any, received by the Corporation for the issuance of such Convertible Securities, plus, in the case of such rights or options, the minimum amounts of consideration, if any, payable to the Corporation upon the exercise or conversion of such Convertible Securities (other than by cancellation of liabilities or obligations evidenced by such Convertible Securities) upon the conversion thereof; provided, that, if the minimum amount of consideration payable to the Corporation upon the exercise or conversion of Convertible Securities is reduced over time or on the occurrence or non-occurrence of specified events other than by reason of anti-dilution adjustments, the Effective Price will be recalculated at such time using the figure to which such minimum amount of consideration is reduced; provided further, that if the minimum amount of consideration payable to the Corporation upon the exercise or conversion of such Convertible Securities is subsequently increased, the Effective Price will be again recalculated using the increased minimum amount of consideration payable to the Corporation upon the exercise or conversion of such Convertible Securities. No further adjustment of the Series

D Conversion Price, as adjusted upon the issuance of such Convertible Securities, will be made as a result of the actual issuance of shares of Additional Common Stock on the exercise or conversion of any such Convertible Securities. If any Convertible Securities outstanding (including those outstanding as of the Restatement Date) expire without having been exercised or converted, the Series D Conversion Price will be adjusted to the Series D Conversion Price which would have been in effect absent the issuance of such expired Convertible Securities.

(e) Issuance of Certificates; Time Conversion Effected. Promptly after the automatic or optional conversion and surrender of the certificate or certificates (and notice, as applicable) for the share or shares of Series D Preferred Stock to be converted, the Corporation will issue and deliver, or cause to be issued and delivered, to the holder thereof, registered in such name or names as such holder may direct, (A) a certificate or certificates for the number of whole shares of Common Stock issuable upon the conversion of such share or shares of Series D Preferred Stock and (B), in the case of a partial optional conversion, a certificate or certificates for the number of whole shares of Series D Preferred Stock which the notice delivered by such holder specified were not to be converted, unless and to the extent the Board adopts a resolution providing that the Series D Preferred Stock or Common

Stock shall be uncertificated or registered in book entry form. With respect to an automatic conversion, effective immediately upon such conversion, regardless of whether the certificate or certificates for such share or shares shall have been surrendered, the rights of the holder of such share or shares of Series D Preferred Stock will cease, and the person(s) in whose name or names any certificate, certificates or book entry for shares of Common Stock issued upon such conversion will be deemed to have become the holder or holders of record of the shares represented thereby. With respect to an optional conversion, the certificate or certificates for such converted share or shares will have been surrendered as aforesaid, and at such time the rights of the holder of such converted share or shares of Series D Preferred Stock will cease, and the person(s) in whose name or names any certificate or certificates for shares of Common Stock (or Series D Preferred Stock, as applicable) will be issuable upon such conversion will be deemed to have become the holder or holders of record of the shares represented thereby.

(f) Fractional Shares; Dividends; Partial Conversion. No fractional shares will be issued upon conversion of Series D Preferred Stock into Common Stock and no payment or adjustment will be made upon any conversion on account of any cash dividends on the Common Stock issued upon conversion. If any fractional share of Common Stock would, except for the provisions of the first sentence of this Section 7.5(f), be delivered upon such conversion, the Corporation, in lieu of delivering such fractional share, will pay to the holder surrendering the Series D Preferred Stock for conversion an amount in cash equal to the current market price of such fractional share as determined in good faith by the Board.

(g) Stock to be Reserved. The Corporation will at all times reserve and keep available out of its authorized Common Stock, solely for the purpose of issuance upon the conversion of Series D Preferred Stock as herein provided, such number of shares of

Common Stock as are then issuable upon the conversion of all outstanding shares of Series D Preferred Stock. All shares of Common Stock so issued will be duly and validly issued and fully paid and nonassessable. The Corporation will take all such action as may be necessary to assure that all such shares of Common Stock may be so issued without violation of any applicable law or regulation, or of any requirement of any national securities exchange upon which the Common Stock may be listed.

(h) No Reissuance of Series D Preferred Stock. Shares of Series D Preferred Stock that are converted into shares of Common Stock as provided herein will not be reissued as Series D Preferred Stock but will be generally available to be reissued pursuant to a separate statement of resolution adopted by the Board.

(i) Issue Tax. The issuance of certificates for shares of Common Stock upon conversion of Series D Preferred Stock will be made without charge to the holders thereof for any issuance tax in respect thereof, provided that the Corporation will not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of the holder of the Series D Preferred Stock which is being converted.

(j) Closing of Books. The Corporation will at no time close its transfer books against the transfer of any Series D Preferred Stock or of any shares of Common Stock issued or issuable upon the conversion of any shares of Series D Preferred Stock in any manner which interferes with the timely conversion of such Series D Preferred Stock, except as may otherwise be required to comply with applicable securities and corporate laws.

(k) Reorganization or Reclassification. If any capital reorganization, reclassification of the capital stock of the Corporation, stock split, or stock dividend (each a "***Distribution***") is effected in such a way that holders of Common Stock will be entitled to receive stock, securities or assets with respect to or in exchange for Common Stock, then, as a condition of such Distribution, lawful and adequate provisions will be made whereby each holder of a share or shares of Series D Preferred Stock will thereupon have the right to receive, subject to the terms and conditions specified herein and, as applicable, in lieu of the shares of Common Stock receivable upon the conversion of such share or shares of Series D Preferred Stock immediately prior to such Distribution, such shares of stock, securities or assets as may be issued or payable with respect to or, as applicable, in exchange for a number of outstanding shares of such Common Stock equal to the number of shares of such Common Stock receivable immediately prior to such Distribution upon such conversion had such Distribution not taken place. In any such case, appropriate adjustments to the provisions hereof shall be made with respect to the rights and interests of such holder of Series D Preferred Stock after the Distribution to the end that the provisions hereof will thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise of such conversion rights.

Section 7.6. Senior Preferred Stock. Except as otherwise set forth in Section 7.2(b)(ii), the Corporation may, in its sole discretion, authorize additional classes and series of Preferred

Stock with rights senior to, junior to, or *pari passu* with, the Series D Preferred Stock.

Section 7.7. Amendments to Series D Provisions of Articles. The Company may amend any of this ARTICLE SEVEN with the consent or affirmative vote of two-thirds (2/3) of the issued and outstanding shares of Series D Preferred Stock on the date of such consent or vote.

ARTICLE EIGHT— SERIES E PREFERRED STOCK.

Section 8.1. Series E Preferred Stock. 11,000,000 shares of Preferred Stock will be designated Series E Preferred Stock (the "***Series E Preferred Stock***"), which will have the following powers, preferences, rights and restrictions:

Section 8.2. Voting.

(a) General. Except as may be otherwise required by the DGCL or set forth in this Section 8.2, the Series E Preferred Stock will have the right to vote on all actions to be taken by the holders of Common Stock (other than the actions set forth in Section 8.2(b)), and each share of Series E Preferred Stock will entitle the record holder thereof (each a "***Series E Holder***") to such number of votes per share on each such action as will equal the number of shares of Common Stock (including fractions of a share) into which such share of Series E Preferred Stock is then convertible.

(b) Class Voting. So long as at least 60% of the greatest number of shares of Series E Preferred Stock (subject to adjustment for any stock split, reverse stock split, stock dividend or other such transaction applicable to the Series E Preferred Stock) ever outstanding remain outstanding, the Series E Preferred Stock will have the right to vote, as a separate class and not together with the holders of other stock, with respect to the following

matters, each of which will require the consent or affirmative vote of two-thirds (2/3) of the issued and outstanding shares of Series E Preferred Stock on the date of such vote:

(i) Any amendment, alteration or repeal of any provision of the Certificate of Incorporation of the Corporation, as amended from time to time, that affects adversely the voting or other powers, preferences or other special rights or privileges or restrictions of the Series E Preferred Stock;

(ii) Any authorization or any designation, whether by reclassification or otherwise, of any new class or series of stock or any other securities convertible into equity securities of the Corporation ranking senior to the Series E Preferred Stock in right of liquidation preference or dividends ("***Series E Senior Securities,***" which shall include the Series F Preferred Stock and the Series G Preferred Stock);

(iii) Any redemption of any shares of Common Stock (other than pursuant to equity incentive agreements with employees or service providers giving the Corporation the right to repurchase shares upon the termination of employment or services);

(iv) Any amendment of, or waiver with respect to, any provision of this ARTICLE EIGHT or the Corporation's Certificate of Incorporation or bylaws directly relating to the Series E Preferred Stock;

(v) Any increase in the authorized size of the Board; and

(vi) The declaration or payment of any dividend in respect of any Series E Junior Securities. "***Series E Junior Securities***" means any shares of Common Stock or other stock that is junior to the Series E Preferred Stock in right of dividends or in respect of Liquidation.

Section 8.3. Dividends. No Series E Holder will have the right to receive any dividends in respect of any share of Series E Preferred Stock unless, and only to the extent, such dividends are declared by the Board and funds are legally available therefor. No dividends will be declared or paid in respect of the Common Stock or any shares ranking junior to the Series E Preferred Stock in respect of dividends unless an identical dividend amount (on an as-converted, per-share basis) is also simultaneously declared and paid in respect of the Series E Preferred Stock.

Section 8.4. Liquidation Preference.

(a) Upon any Liquidation, the Series E Holders will be entitled to receive, out of assets of the Corporation which remain after satisfaction in full of all valid claims of the Corporation's creditors and which are available for payment to stockholders (and subject to the rights of the holders of any Series E Senior Securities or the holders of shares of the Corporation ranking on a parity with the Series E Preferred Stock in respect of liquidation ("***Series E Parity Securities***")), before any amount will be paid to or distributed among the holders of Series E Junior Securities, distributions per share of Series E Preferred Stock equal to the sum of (i) $2.68 (the "***Series E Purchase Price***") (subject to adjustment for any stock split, reverse stock split, stock dividend or other such transaction applicable to the Series E Preferred Stock), plus (ii) the greater of (A) any dividends declared but unpaid in respect of such share and (B) the Series E Preferential Return (defined below). If upon any Liquidation the Series E Liquidation Payment and any amounts payable in respect of any Series E Parity Securities as to any such distribution are not paid in full, the Series E Holders and the holders of Series E Parity Securities will share ratably in any distribution of assets in proportion to the full respective amounts to which they are entitled. "***Series E Preferential Return***" means an amount equal to the lesser of (x) the Series E Purchase Price and (y) the amount of simple interest, calculated monthly, which would have accrued on a hypothetical principal amount equal to the Series E Purchase Price for the period beginning on September 15, 2006 (the "***Series E Purchase Date***") and ending on the date of the Liquidation payment at an interest rate for such period equal to the rate announced by Citibank N.A. as its prime rate two business days before the date of the Liquidation payment plus one percent.

(b) The Corporation will give written notice of any Liquidation to the Series E Holders, stating the payment date or dates when, and the place or places where, any payments under this Section 8.4 will be payable, at least 20 days prior to any payment date stated therein.

(c) A Sale/Merger Transaction will be deemed to be a Liquidation.

Section 8.5. Conversion.

(a) Optional Conversion. Subject to and in compliance with this Section 8.5, any share of Series E Preferred Stock may, at the option of the holder thereof, be converted at any time and from time to time into a number of shares of Common Stock equal to the then-applicable Series E Conversion Amount (defined below). Each Series E Holder who desires to convert any of its Series E Preferred Stock into Common Stock pursuant to this Section 8.5(a) will surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation, and will give written notice to the Corporation at such office that such Series E Holder desires to convert such shares. Such notice will state the number of shares of Series E Preferred Stock being converted.

(b) Automatic Conversion. Each share of Series E Preferred Stock will automatically be converted into a number of shares of Common Stock equal to the then-applicable Series E Conversion Amount (defined below):

(i) simultaneously with the closing of the first underwritten public offering under an effective registration statement under the Securities Act of 1933, as amended, covering the offering and sale of Common Stock for the account of the Corporation on a firm commitment basis for proceeds of at least $30 million (before deduction of underwriting costs, commissions and expenses);

(ii) at the election of the holders of a number of shares of Series E Preferred Stock equal to at least two-thirds (2/3) of the then-outstanding shares of Series E Preferred Stock; or

(iii) upon the conversion of a number of shares of Series E Preferred Stock equal to at least 60% of the shares of Series E Preferred Stock outstanding (subject to adjustment for any stock split, reverse stock split, stock dividend or other such transaction applicable to the Series E Preferred Stock) on the Series E Purchase Date.

Upon the occurrence of an automatic conversion of the Series E Preferred Stock, the Series E Holders will surrender the certificates representing their shares at the office of the Corporation or transfer agent, and the rights, preferences and restrictions of the Series E Preferred Stock will terminate.

(c) Anti-Dilution.

(i) Definitions.

(A) "***Additional Common Stock***" for this ARTICLE EIGHT means shares of Common Stock issued by the Corporation or deemed to be issued under Section 8.5(d)(iii), whether or not subsequently reacquired or retired by the Corporation, other than shares issued (or deemed to be issued) (1) upon conversion of the Series E Preferred Stock; (2) to

employees, officers or directors of, or consultants or advisors to, the Corporation or any subsidiary pursuant to stock purchase or stock option plans or other arrangements that are approved by the Board; (3) pursuant to the exercise of options, warrants or convertible securities outstanding as of the Restatement Date; (4) in connection with a Sale/Merger Transaction; (5) pursuant to any equipment leasing arrangement, commercial credit arrangement or debt financing from a bank or similar financial institution; (6) in connection with a transaction that causes an automatic conversion of the Series E Preferred Stock; and (7) for consideration other than cash pursuant to a merger, consolidation, share exchange, acquisition or similar business combination approved by the Board.

(B) "***Aggregate Consideration***" for this ARTICLE EIGHT means, for any issuance or sale, or deemed issuance or sale, of Additional Common Stock, the net consideration received by the Corporation, as determined in accordance with GAAP.

(C) "***Convertible Securities***" for this ARTICLE EIGHT means rights or options for the purchase of, or stock or other securities convertible into, Additional Common Stock.

(D) "***Effective Price***" for this ARTICLE EIGHT means the quotient of (1) the Aggregate Consideration received in an issuance or sale (or deemed issuance or sale) of Additional Common Stock divided by (2) the total number of shares of Additional Common Stock issued or sold (or deemed to have been issued or sold) in such transaction.

(E) "***Series E Conversion Amount***" means the quotient of (1) the Series E Purchase Price divided by (2) the Series E Conversion Price.

(F) "***Series E Conversion Price***" means, as of the Restatement Date, $0.74062, and will be adjusted from time to time thereafter in accordance with this Section 8.5. All references to the Series E Conversion Price are to the Series E Conversion Price as so adjusted.

(d) Adjustment for Diluting Issues. If at any time or from time to time after the Restatement Date the Corporation issues or sells, or is deemed by the express provisions of this Section to have issued or sold, for gross proceeds of at least $200,000, Additional Common Stock (other than as a dividend or other distribution on any class of stock, or as a subdivision or combination of shares of stock, in either case as provided in this Section 8.5(d)) for an Effective Price (determined in accordance with GAAP) less than the then-effective Series E Conversion Price, then and in each such case the then-existing Series E Conversion Price will be reduced, as of the opening of business on the date of such issue or sale, by multiplying it by the number determined by the following formula:

1/(1+w), where

w = [((X+Z)/(X+Y))–1]/(1–P);

P= C/(X+Y);

C= the number of shares of Series E Preferred Stock immediately prior to the time of such issuance or sale multiplied by the then-effective Series E Conversion Amount (the quotient of the Series E Purchase Price divided by the Series E Conversion Price); and

X= the sum of the following: (i) the total number of shares of Common Stock issued and outstanding, or deemed to be issued and outstanding under this Section 8.5(d)(iii), (ii) the total number of shares of Common Stock reserved for nonexercised stock options granted, and (iii) the total number of shares Common Stock reserved and available for issuance under stock option plans, immediately prior to the time of such issuance or sale;

Y= the number of shares of Common Stock that could have been purchased for the Aggregate Consideration at the Series E Conversion Price in effect immediately prior to such reduction;

Z= the number of shares of Common Stock issued or sold, or deemed to be issued or sold under this Section 8.5(d)(iii), in such issuance or sale.

(i) Adjustment for Stock Splits and Combinations. If the Corporation at any time or from time to time after the Restatement Date effects a subdivision of the outstanding Common Stock without a corresponding subdivision of the Series E Preferred Stock, the Series E Conversion Price in effect immediately before that subdivision will be proportionately decreased. Conversely, if the Corporation at any time or from time to time combines the outstanding shares of Common Stock into a smaller number of shares without a corresponding combination of the Series E Preferred Stock, the Series E Conversion Price in effect immediately before the combination will be proportionately increased. Any adjustment under this Section 8.5(d)(i) will become effective at the close of business on the date the subdivision or combination becomes effective.

(ii) Adjustment for Common Stock Dividends and Distributions. If the Corporation at any time or from time to time after the Restatement Date makes, or fixes a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in additional shares of Common Stock, in each such event the Series E Conversion Price that is then in effect will be decreased as of the time of such issuance or, in the event such record date is fixed, as of the close of business on such record date, by multiplying the Series E Conversion Price then in effect by the result of the following formula:

X / (Y+Z), where

X = the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date;

Y = the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date; and

Z = the number of shares of Common Stock issuable in payment of such dividend or distribution;

provided, however, that if such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Series E Conversion Price will be recomputed accordingly as of the close of business on such record date and thereafter the Series E Conversion Price will be adjusted pursuant to this Section 8.5(d)(ii) to reflect the actual payment of such dividend or distribution.

(iii) Deemed Issuances or Sales. If the Corporation issues or sells any Convertible Securities after the Restatement Date and if the Effective Price of the Additional Common Stock underlying such Convertible Securities is less than the Series E Conversion Price, in each such case the Corporation will be deemed to have issued at the time of the issuance of such Convertible Securities the maximum number of shares of Additional Common Stock issuable upon exercise or conversion thereof and to have received as consideration for the issuance of such shares an amount equal to the total amount of the consideration, if any, received by the Corporation for the issuance of such Convertible Securities, plus, in the case of such rights or options, the minimum amounts of consideration, if any, payable to the Corporation upon the exercise or conversion of such Convertible Securities (other than by cancellation of liabilities or obligations evidenced by such Convertible Securities) upon the conversion thereof; provided, that, if the minimum amount of consideration payable to the Corporation upon the exercise or conversion of Convertible Securities is reduced over time or on the occurrence or non-occurrence of specified events other than by reason of anti-dilution adjustments, the Effective Price will be recalculated at such time using the figure to which such minimum amount of consideration is reduced; provided further, that if the minimum amount of consideration payable to the Corporation upon the exercise or conversion of such Convertible Securities is subsequently increased, the Effective Price will be again recalculated using the increased minimum amount of consideration payable to the Corporation upon the exercise or conversion of such Convertible Securities. No further adjustment of the Series E Conversion Price, as adjusted upon the issuance of such Convertible Securities, will be made as a result of the actual issuance of shares of Additional Common Stock on the exercise or conversion of any such Convertible Securities. If any Convertible Securities outstanding (including those outstanding as of the Restatement Date) expire without having been exercised or converted, the Series E Conversion Price will be adjusted to the Series E Conversion Price which

would have been in effect absent the issuance of such expired Convertible Securities.

(e) Issuance of Certificates; Time Conversion Effected. Promptly after the automatic or optional conversion and surrender of the certificate or certificates (and notice, as applicable) for the share or shares of Series E Preferred Stock to be converted, the Corporation will issue and deliver, or cause to be issued and delivered, to the holder thereof, registered in such name or names as such holder may direct, (A) a certificate or certificates for the number of whole shares of Common Stock issuable upon the conversion of such share or shares of Series E Preferred Stock and (B), in the case of a partial optional conversion, a certificate or certificates for the number of whole shares of Series E Preferred Stock which the notice delivered by such holder specified were not to be converted, unless and to the extent the Board adopts a resolution providing that the Series E Preferred Stock or Common Stock shall be uncertificated or registered in book entry form. With respect to an automatic conversion, effective immediately upon such conversion, regardless of whether the certificate or certificates for such share or shares shall have been surrendered, the rights of the holder of such share or shares of Series E Preferred Stock will cease, and the person(s) in whose name or names any certificate, certificates or book entry for shares of Common Stock issued upon such conversion will be deemed to have become the holder or holders of record of the shares represented thereby. With respect to an optional conversion, the certificate or certificates for such converted share or shares will have been surrendered as aforesaid, and at such time the rights of the holder of such converted share or shares of Series E Preferred Stock will cease, and the person(s) in whose name or names any certificate or certificates for shares of Common Stock (or Series E Preferred Stock, as applicable) will be issuable upon such conversion will be deemed to have become the holder or holders of record of the shares represented thereby.

(f) Fractional Shares; Dividends; Partial Conversion. No fractional shares will be issued upon conversion of Series E Preferred Stock into Common Stock and no payment or adjustment will be made upon any conversion on account of any cash dividends on the Common Stock issued upon conversion. If any fractional share of Common Stock would, except for the provisions of the first sentence of this Section 8.5(f), be delivered upon such conversion, the Corporation, in lieu of delivering such fractional share, will pay to the holder surrendering the Series E Preferred Stock for conversion an amount in cash equal to the current market price of such fractional share as determined in good faith by the Board.

(g) Stock to be Reserved. The Corporation will at all times reserve and keep available out of its authorized Common Stock, solely for the purpose of issuance upon the conversion of Series E Preferred Stock as herein provided, such number of shares of Common Stock as are then issuable upon the conversion of all outstanding shares of Series E Preferred Stock. All shares of Common Stock so issued will be duly and validly issued and fully paid and nonassessable. The Corporation will take all such action as may be necessary to assure that all such shares of Common Stock may be so issued without violation of any applicable law or regulation, or of any requirement of any national securities exchange upon which the Common Stock may be listed.

(h) No Reissuance of Series E Preferred Stock. Shares of Series E Preferred Stock that are converted into shares of Common Stock as provided herein will not be reissued as Series E Preferred Stock but will be generally available to be reissued pursuant to a separate statement of resolution adopted by the Board.

(i) Issue Tax. The issuance of certificates for shares of Common Stock upon conversion of Series E Preferred Stock will be made without charge to the holders thereof for any issuance tax in respect thereof, provided that the Corporation will not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of the holder of the Series E Preferred Stock which is being converted.

(j) Closing of Books. The Corporation will at no time close its transfer books against the transfer of any Series E Preferred Stock or of any shares of Common Stock issued or issuable upon the conversion of any shares of Series E Preferred Stock in any manner which interferes with the timely conversion of such Series E Preferred Stock, except as may otherwise be required to comply with applicable securities and corporate laws.

(k) Reorganization or Reclassification. If any capital reorganization, reclassification of the capital stock of the Corporation, stock split, or stock dividend (each a "***Distribution***") is effected in such a way that holders of Common Stock will be entitled to receive stock, securities or assets with respect to or in exchange for Common Stock, then, as a condition of such Distribution, lawful and adequate provisions will be made whereby each holder of a share or shares of Series E Preferred Stock will thereupon have the right to receive, subject to the terms and conditions specified herein and, as applicable, in lieu of the shares of Common Stock receivable upon the conversion of such share or shares of Series E Preferred Stock immediately prior to such Distribution, such shares of stock, securities or assets as may be issued or payable with respect to or, as applicable, in exchange for a number of outstanding shares of such Common Stock equal to the number of shares of such Common Stock receivable immediately prior to such Distribution upon such conversion had such Distribution not taken place. In any such case, appropriate adjustments to the provisions hereof shall be made with respect to the rights and interests of such holder of Series E Preferred Stock after the Distribution to the end that the provisions hereof will thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise of such conversion rights.

Section 8.6. Senior Preferred Stock. Except as otherwise set forth in Section 8.2(b)(ii), the Corporation may, in its sole discretion, authorize additional classes and series of Preferred Stock with rights senior to, junior to, or *pari passu* with, the Series E Preferred Stock.

Section 8.7. Amendments to Series E Provisions of Articles. The Company may amend any of this ARTICLE EIGHT with the consent or affirmative vote of two-thirds (2/3) of the issued and outstanding shares of Series E Preferred Stock on the date of such consent or vote.

ARTICLE NINE— SERIES F PREFERRED STOCK.

Section 9.1. Series F Preferred Stock. 82,000,000 shares of Preferred Stock will be designated Series F Preferred Stock (the "***Series F Preferred Stock***"), which will have the following powers, preferences, rights and restrictions:

Section 9.2. Voting.

(a) General. Except as may be otherwise required by the DGCL or set forth in this Section 9.2, the Series F Preferred Stock will have the right to vote on all actions to be taken by the holders of Common Stock (other than the actions set forth in Section 9.2(b), and each share of Series F Preferred Stock will entitle the record holder thereof (each a "***Series F Holder***") to such number of votes per share on each such action as will equal the number of shares of Common Stock (including fractions of a share) into which such share of Series F Preferred Stock is then convertible.

(b) Class Voting. So long as at least 60% of the greatest number of shares of Series F Preferred Stock (subject to adjustment for any stock split, reverse stock split, stock dividend or other such transaction applicable to the Series F Preferred Stock) ever outstanding remain outstanding, the Series F Preferred Stock will have the right to vote, as a separate class and not together with the holders of other stock, with respect to the following matters, each of which will require the consent or affirmative vote of two-thirds (2/3) of the issued and outstanding shares of Series F Preferred Stock on the date of such vote:

(i) Any amendment, alteration or repeal of any provision of the Certificate of Incorporation of the Corporation, as amended from time to time, that affects adversely the voting or other powers, preferences or other special rights or privileges or restrictions of the Series F Preferred Stock;

(ii) Any authorization or any designation, whether by reclassification or otherwise, of any new class or series of stock or any other securities convertible into equity securities of the Corporation ranking senior to the Series F Preferred Stock in right of liquidation preference or dividends ("***Series F Senior Securities***", which shall include the Series G Preferred Stock);

(iii) Any redemption of any shares of Common Stock (other than pursuant to equity incentive agreements with employees or service providers giving the Corporation the right to repurchase shares upon the termination of employment or services);

(iv) Any amendment of, or waiver with respect to, any provision of this ARTICLE NINE or the Corporation's Certificate of Incorporation or bylaws directly relating to the Series F Preferred Stock;

(v) Any increase in the authorized size of the Board; and

(vi) The declaration or payment of any dividend in respect of any Series F Junior Securities. "***Series F Junior Securities***" means any shares of Common Stock or other stock that is junior to the Series F Preferred Stock in right of dividends or in respect of Liquidation.

Section 9.3. Dividends. No Series F Holder will have the right to receive any dividends in respect of any share of Series F Preferred Stock unless, and only to the extent, such dividends are declared by the Board and funds are legally available therefor. No dividends will be declared or paid in respect of the Common Stock or any shares ranking junior to the Series F Preferred Stock in respect of dividends unless an identical dividend amount (on an as-converted, per-share basis) is also simultaneously declared and paid in respect of the Series F Preferred Stock.

Section 9.4. Liquidation Preference.

(a) Upon any Liquidation, the Series F Holders will be entitled to receive, out of assets of the Corporation which remain after satisfaction in full of all valid claims of the Corporation's creditors and which are available for payment to stockholders (and subject to the rights of the holders of any Series F Senior Securities or the holders of shares of the Corporation ranking on a parity with the Series F Preferred Stock in respect of liquidation ("***Series F Parity Securities***")), before any amount will be paid to or distributed among the holders of Series F Junior Securities, distributions per share of Series F Preferred Stock equal to the sum of (i) $0.25 (the "***Series F Purchase Price***") (subject to adjustment for any stock split, reverse stock split, stock dividend or other such transaction applicable to the Series F Preferred Stock), plus (ii) the greater of (A) any dividends declared but unpaid in respect of such share and (B) the Series F Preferential Return (defined below). If upon any Liquidation the Series F Liquidation Payment and any amounts payable in respect of any Series F Parity Securities as to any such distribution are not paid in full, the Series F Holders and the holders of Series F Parity Securities will share ratably in any distribution of assets in proportion to the full respective amounts to which they are entitled. "***Series F Preferential Return***" means an amount equal to the lesser of (x) the Series F Purchase Price and (y) the amount of simple interest, calculated monthly, which would have accrued on a hypothetical principal amount equal to the Series F Purchase Price for the period beginning on March 27, 2009 (the "***Series F Purchase Date***") and ending on the date of the Liquidation payment at an interest rate for such period equal to the rate announced by Citibank N.A. as its prime rate two business days before the date of the Liquidation payment plus one percent.

(b) The Corporation will give written notice of any Liquidation to the Series F Holders, stating the payment date or dates when, and the place or places where, any payments under this Section 9.4 will be payable, at least 20 days prior to any payment date stated therein.

(c) A Sale/Merger Transaction will be deemed to be a Liquidation.

Section 9.5. Conversion.

(a) Optional Conversion. Subject to and in compliance with this Section 9.5,

any share of Series F Preferred Stock may, at the option of the holder thereof, be converted at any time and from time to time into a number of shares of Common Stock equal to the then-applicable Series F Conversion Amount (defined below). Each Series F Holder who desires to convert any of its Series F Preferred Stock into Common Stock pursuant to this Section 9.5(a) will surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation, and will give written notice to the Corporation at such office that such Series F Holder desires to convert such shares. Such notice will state the number of shares of Series F Preferred Stock being converted.

(b) Automatic Conversion. Each share of Series F Preferred Stock will automatically be converted into a number of shares of Common Stock equal to the then-applicable Series F Conversion Amount (defined below):

(i) simultaneously with the closing of the first underwritten public offering under an effective registration statement under the Securities Act of 1933, as amended, covering the offering and sale of Common Stock for the account of the Corporation on a firm commitment basis for proceeds of at least $30 million (before deduction of underwriting costs, commissions and expenses);

(ii) at the election of the holders of a number of shares of Series F Preferred Stock equal to at least two-thirds (2/3) of the then-outstanding shares of Series F Preferred Stock; or

(iii) upon the conversion of a number of shares of Series F Preferred Stock equal to at least 60% of the shares of Series F Preferred Stock outstanding (subject to adjustment for any stock split, reverse stock split, stock dividend or other such transaction applicable to the Series F Preferred Stock) on the Series F Purchase Date.

Upon the occurrence of an automatic conversion of the Series F Preferred Stock, the Series F Holders will surrender the certificates representing their shares at the office of the Corporation or transfer agent, and the rights, preferences and restrictions of the Series F Preferred Stock will terminate.

(c) Anti-Dilution.

(i) Definitions.

(A) "***Additional Common Stock***" for this ARTICLE NINE means shares of Common Stock issued by the Corporation or deemed to be issued under Section 9.5(d)(iii), whether or not subsequently reacquired or retired by the Corporation, other than shares issued (or deemed to be issued) (1) upon conversion of the Series F Preferred Stock; (2) to employees, officers or directors of, or consultants or advisors to, the Corporation or any subsidiary pursuant to stock purchase or stock option plans or other arrangements that are approved by the Board; (3) pursuant to the exercise of options, warrants or convertible securities outstanding as of the Restatement Date; (4) in connection with a Sale/Merger

Transaction; (5) pursuant to any equipment leasing arrangement, commercial credit arrangement or debt financing from a bank or similar financial institution; (6) in connection with a transaction that causes an automatic conversion of the Series F Preferred Stock; and (7) for consideration other than cash pursuant to a merger, consolidation, share exchange, acquisition or similar business combination approved by the Board.

(B) "***Aggregate Consideration***" for this ARTICLE NINE means, for any issuance or sale, or deemed issuance or sale, of Additional Common Stock, the net consideration received by the Corporation, as determined in accordance with GAAP.

(C) "***Convertible Securities***" for this ARTICLE NINE means rights or options for the purchase of, or stock or other securities convertible into, Additional Common Stock.

(D) "***Effective Price***" for this ARTICLE NINE means the quotient of (1) the Aggregate Consideration received in an issuance or sale (or deemed issuance or sale) of Additional Common Stock divided by (2) the total number of shares of Additional Common Stock issued or sold (or deemed to have been issued or sold) in such transaction.

(E) "***Series F Conversion Amount***" means the quotient of (1) the Series F Purchase Price divided by (2) the Series F Conversion Price.

(F) "***Series F Conversion Price***" means, as of the Restatement Date, $0.20833, and will be adjusted from time to time thereafter in accordance with this Section 9.5. All references to the Series F Conversion Price are to the Series F Conversion Price as so adjusted.

(d) Adjustment for Diluting Issues. If at any time or from time to time after the Restatement Date the Corporation issues or sells, or is deemed by the express provisions of this Section to have issued or sold, for gross proceeds of at least $200,000, Additional Common Stock (other than as a dividend or other distribution on any class of stock, or as a subdivision or combination of shares of stock, in either case as provided in this Section 9.5(d)) for an Effective Price (determined in accordance with GAAP) less than the then-effective Series F Conversion Price, then and in each such case the then-existing Series F Conversion Price will be reduced, as of the opening of business on the date of such issue or sale, by multiplying it by the number determined by the following formula:

1/(1+w), where

w = [((X+Z)/(X+Y))–1]/(1–P);

P= C/(X+Y);

C= the number of shares of Series F Preferred Stock immediately prior to the time of such issuance or sale multiplied by the then-effective Series F Conversion Amount (the quotient of the Series F Purchase Price divided by the Series F Conversion Price); and

X= the sum of the following: (i) the total number of shares of Common Stock issued and outstanding, or deemed to be issued and outstanding under this Section 9.5(d)(iii), (ii) the total number of shares of Common Stock reserved for nonexercised stock options granted, and (iii) the total number of shares of Common Stock reserved and available for issuance under stock option plans, immediately prior to the time of such issuance or sale;

Y= the number of shares of Common Stock that could have been purchased for the Aggregate Consideration at the Series F Conversion Price in effect immediately prior to such reduction;

Z= the number of shares of Common Stock issued or sold, or deemed to be issued or sold under this Section 9.5(d)(iii), in such issuance or sale.

(i) Adjustment for Stock Splits and Combinations. If the Corporation at any time or from time to time after the Restatement Date effects a subdivision of the outstanding Common Stock without a corresponding subdivision of the Series F Preferred Stock, the Series F Conversion Price in effect immediately before that subdivision will be proportionately decreased. Conversely, if the Corporation at any time or from time to time combines the outstanding shares of Common Stock into a smaller number of shares without a corresponding combination of the Series F Preferred Stock, the Series F Conversion Price in effect immediately before the combination will be proportionately increased. Any adjustment under this Section 9.5(d)(i) will become effective at the close of business on the date the subdivision or combination becomes effective.

(ii) Adjustment for Common Stock Dividends and Distributions. If the Corporation at any time or from time to time after the Restatement Date makes, or fixes a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in additional shares of Common Stock, in each such event the Series F Conversion Price that is then in effect will be decreased as of the time of such issuance or, in the event such record date is fixed, as of the close of business on such record date, by multiplying the Series F Conversion Price then in effect by the result of the following formula:

X / (Y+Z), where

X = the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of

business on such record date;

Y = the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date; and

Z = the number of shares of Common Stock issuable in payment of such dividend or distribution;

provided, however, that if such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Series F Conversion Price will be recomputed accordingly as of the close of business on such record date and thereafter the Series F Conversion Price will be adjusted pursuant to this Section 9.5(d)(ii) to reflect the actual payment of such dividend or distribution.

(iii) Deemed Issuances or Sales. If the Corporation issues or sells any Convertible Securities after the Restatement Date and if the Effective Price of the Additional Common Stock underlying such Convertible Securities is less than the Series F Conversion Price, in each such case the Corporation will be deemed to have issued at the time of the issuance of such Convertible Securities the maximum number of shares of Additional Common Stock issuable upon exercise or conversion thereof and to have received as consideration for the issuance of such shares an amount equal to the total amount of the consideration, if any, received by the Corporation for the issuance of such Convertible Securities, plus, in the case of such rights or options, the minimum amounts of consideration, if any, payable to the Corporation upon the exercise or conversion of such Convertible Securities (other than by cancellation of liabilities or obligations evidenced by such Convertible Securities) upon the conversion thereof; provided, that, if the minimum amount of consideration payable to the Corporation upon the exercise or conversion of Convertible Securities is reduced over time or on the occurrence or non-occurrence of specified events other than by reason of anti-dilution adjustments, the Effective Price will be recalculated at such time using the figure to which such minimum amount of consideration is reduced; provided further, that if the minimum amount of consideration payable to the Corporation upon the exercise or conversion of such Convertible Securities is subsequently increased, the Effective Price will be again recalculated using the increased minimum amount of consideration payable to the Corporation upon the exercise or conversion of such Convertible Securities. No further adjustment of the Series F Conversion Price, as adjusted upon the issuance of such Convertible Securities, will be made as a result of the actual issuance of shares of Additional Common Stock on the exercise or conversion of any such Convertible Securities. If any Convertible Securities outstanding (including those outstanding as of the Restatement Date) expire without having been exercised or converted, the Series F Conversion Price will be adjusted to the Series F Conversion Price which would have been in effect absent the issuance of such expired Convertible Securities.

(e) Issuance of Certificates; Time Conversion Effected. Promptly after the automatic or optional conversion and surrender of the certificate or certificates (and

notice, as applicable) for the share or shares of Series F Preferred Stock to be converted, the Corporation will issue and deliver, or cause to be issued and delivered, to the holder thereof, registered in such name or names as such holder may direct, (A) a certificate or certificates for the number of whole shares of Common Stock issuable upon the conversion of such share or shares of Series F Preferred Stock and (B), in the case of a partial optional conversion, a certificate or certificates for the number of whole shares of Series F Preferred Stock which the notice delivered by such holder specified were not to be converted, unless and to the extent the Board adopts a resolution providing that the Series F Preferred Stock or Common Stock shall be uncertificated or registered in book entry form. With respect to an automatic conversion, effective immediately upon such conversion, regardless of whether the certificate or certificates for such share or shares shall have been surrendered, the rights of the holder of such share or shares of Series F Preferred Stock will cease, and the person(s) in whose name or names any certificate, certificates or book entry for shares of Common Stock issued upon such conversion will be deemed to have become the holder or holders of record of the shares represented thereby. With respect to an optional conversion, the certificate or certificates for such converted share or shares will have been surrendered as aforesaid, and at such time the rights of the holder of such converted share or shares of Series F Preferred Stock will cease, and the person(s) in whose name or names any certificate or certificates for shares of Common Stock (or Series F Preferred Stock, as applicable) will be issuable upon such conversion will be deemed to have become the holder or holders of record of the shares represented thereby.

(f) Fractional Shares; Dividends; Partial Conversion. No fractional shares will be issued upon conversion of Series F Preferred Stock into Common Stock and no payment or adjustment will be made upon any conversion on account of any cash dividends on the Common Stock issued upon conversion. If any fractional share of Common Stock would, except for the provisions of the first sentence of this Section 9.5(f), be delivered upon such conversion, the Corporation, in lieu of delivering such fractional share, will pay to the holder surrendering the Series F Preferred Stock for conversion an amount in cash equal to the current market price of such fractional share as determined in good faith by the Board.

(g) Stock to be Reserved. The Corporation will at all times reserve and keep available out of its authorized Common Stock, solely for the purpose of issuance upon the conversion of Series F Preferred Stock as herein provided, such number of shares of Common Stock as are then issuable upon the conversion of all outstanding shares of Series F Preferred Stock. All shares of Common Stock so issued will be duly and validly issued and fully paid and nonassessable. The Corporation will take all such action as may be necessary to assure that all such shares of Common Stock may be so issued without violation of any applicable law or regulation, or of any requirement of any national securities exchange upon which the Common Stock may be listed.

(h) No Reissuance of Series F Preferred Stock. Shares of Series F Preferred Stock that are converted into shares of Common Stock as provided herein will not be reissued as Series F Preferred Stock but will be generally available to be reissued pursuant to a separate statement of resolution adopted by the Board.

(i) Issue Tax. The issuance of certificates for shares of Common Stock upon conversion of Series F Preferred Stock will be made without charge to the holders thereof for any issuance tax in respect thereof, provided that the Corporation will not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of the holder of the Series F Preferred Stock which is being converted.

(j) Closing of Books. The Corporation will at no time close its transfer books against the transfer of any Series F Preferred Stock or of any shares of Common Stock issued or issuable upon the conversion of any shares of Series F Preferred Stock in any manner which interferes with the timely conversion of such Series F Preferred Stock, except as may otherwise be required to comply with applicable securities and corporate laws.

(k) Reorganization or Reclassification. If any capital reorganization, reclassification of the capital stock of the Corporation, stock split, or stock dividend (each a "***Distribution***") is effected in such a way that holders of Common Stock will be entitled to receive stock, securities or assets with respect to or in exchange for Common Stock, then, as a condition of such Distribution, lawful and adequate provisions will be made whereby each holder of a share or shares of Series F Preferred Stock will thereupon have the right to receive, subject to the terms and conditions specified herein and, as applicable, in lieu of the shares of Common Stock receivable upon the conversion of such share or shares of Series F Preferred Stock immediately prior to such Distribution, such shares of stock, securities or assets as may be issued or payable with respect to or, as applicable, in exchange for a number of outstanding shares of such Common Stock equal to the number of shares of such Common Stock receivable immediately prior to such Distribution upon such conversion had such Distribution not taken place. In any such case, appropriate adjustments to the provisions hereof shall be made with respect to

the rights and interests of such holder of Series F Preferred Stock after the Distribution to the end that the provisions hereof will thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise of such conversion rights.

Section 9.6. Senior Preferred Stock. Except as otherwise set forth in Section 9.2(b)(ii), the Corporation may, in its sole discretion, authorize additional classes and series of Preferred Stock with rights senior to, junior to, or *pari passu* with, the Series F Preferred Stock.

Section 9.7. Amendments to Series F Provisions of Articles. The Company may amend any of this ARTICLE NINE with the consent or affirmative vote of two-thirds (2/3) of the issued and outstanding shares of Series F Preferred Stock on the date of such consent or vote.

ARTICLE TEN — SERIES G PREFERRED STOCK.

Section 10.1. Series G Preferred Stock. 45,000,000 shares of Preferred Stock will be designated Series G Preferred Stock (the "***Series G Preferred Stock***"), which will have the following powers, preferences, rights and restrictions:

Section 10.2. Voting.

(a) General. Except as may be otherwise required by the DGCL or set forth in this Section 10.2, the Series G Preferred Stock will have the right to vote on all actions to be taken by the holders of Common Stock (other than the actions set forth in Section 10.2(b)), and each share of Series G Preferred Stock will entitle the record holder thereof (each a "***Series G Holder***") to such number of votes per share on each such action as will equal the number of shares of Common Stock (including fractions of a share) into which such share of Series G Preferred Stock is then convertible.

(b) Class Voting. So long as at least 60% of the greatest number of shares of Series G Preferred Stock (subject to adjustment for any stock split, reverse stock split, stock dividend or other such transaction applicable to the Series G Preferred Stock) ever outstanding remain outstanding, the Series G Preferred Stock will have the right to vote, as a separate class and not together with the holders of other stock, with respect to the following matters, each of which will require the consent or affirmative vote of two-thirds (2/3) of the issued and outstanding shares of Series G Preferred Stock on the date of such vote:

(i) Any amendment, alteration or repeal of any provision of the Certificate of Incorporation of the Corporation, as amended from time to time, that affects adversely the voting or other powers, preferences or other special rights or privileges or restrictions of the Series G Preferred Stock;

(ii) Any authorization or any designation, whether by reclassification or otherwise, of any new class or series of stock or any other securities convertible into equity securities of the Corporation ranking senior to the Series G Preferred Stock in right of liquidation preference or dividends ("***Series G Senior Securities***");

(iii) Any redemption of any shares of Common Stock (other than pursuant to equity incentive agreements with employees or service providers giving the Corporation the right to repurchase shares upon the termination of employment or services);

(iv) Any amendment of, or waiver with respect to, any provision of this ARTICLE TEN or the Corporation's Certificate of Incorporation or bylaws directly relating to the Series G Preferred Stock;

(v) Any increase in the authorized size of the Board; and

(vi) The declaration or payment of any dividend in respect of any Series G Junior Securities. "***Series G Junior Securities***" means any shares of Common Stock or other stock that is junior to the Series G Preferred Stock in right of dividends or in respect of Liquidation.

Section 10.3. Dividends. No Series G Holder will have the right to receive any dividends in respect of any share of Series G Preferred Stock unless, and only to the extent, such

dividends are declared by the Board and funds are legally available therefor. No dividends will be declared or paid in respect of the Common Stock or any shares ranking junior to the Series G Preferred Stock in respect of dividends unless an identical dividend amount (on an as-converted, per-share basis) is also simultaneously declared and paid in respect of the Series G Preferred Stock.

Section 10.4. Liquidation Preference.

(a) Upon any Liquidation, the Series G Holders will be entitled to receive, out of assets of the Corporation which remain after satisfaction in full of all valid claims of the Corporation's creditors and which are available for payment to stockholders (and subject to the rights of the holders of any Series G Senior Securities or the holders of shares of the Corporation ranking on a parity with the Series G Preferred Stock in respect of liquidation ("***Series G Parity Securities***")), before any amount will be paid to or distributed among the holders of Series G Junior Securities, distributions per share of Series G Preferred Stock equal to the sum of (i) $0.35 (the "***Series G Purchase Price***") (subject to adjustment for any stock split, reverse stock split, stock dividend or other such transaction applicable to the Series G Preferred Stock), plus (ii) the greater of (A) any dividends declared but unpaid in respect of such share and (B) the Series G Preferential Return (defined below). If upon any Liquidation the Series G Liquidation Payment and any amounts payable in respect of any Series G Parity Securities as to any such distribution are not paid in full, the Series G Holders and the holders of Series G Parity Securities will share ratably in any distribution of assets in proportion to the full respective amounts to which they are entitled. "***Series G Preferential Return***" means an amount equal to the lesser of (x) the Series G Purchase Price and (y) the amount of simple interest, calculated monthly, which would have accrued on a hypothetical principal amount equal to the Series G Purchase Price for the period beginning on the date that such Series G Holder's Series G Preferred Stock is issued (the "***Series G Purchase Date***") and ending on the date of the Liquidation payment at an interest rate for such period equal to the rate announced by Citibank N.A. as its prime rate two business days before the date of the Liquidation payment plus one percent.

(b) The Corporation will give written notice of any Liquidation to the Series G Holders, stating the payment date or dates when, and the place or places where, any payments under this Section 10.4 will be payable, at least 20 days prior to any payment date stated therein.

(c) A Sale/Merger Transaction will be deemed to be a Liquidation.

Section 10.5. Conversion.

(a) Optional Conversion. Subject to and in compliance with this Section 10.5, any share of Series G Preferred Stock may, at the option of the holder thereof, be converted at any time and from time to time into a number of shares of Common Stock equal to the then-applicable Series G Conversion Amount (defined below). Each Series G Holder who desires to convert any of its Series G Preferred Stock into Common Stock pursuant to this Section 10.5(a) will surrender the certificate or certificates therefor, duly

endorsed, at the office of the Corporation, and will give written notice to the Corporation at such office that such Series G Holder desires to convert such shares. Such notice will state the number of shares of Series G Preferred Stock being converted.

(b) Automatic Conversion. Each share of Series G Preferred Stock will automatically be converted into a number of shares of Common Stock equal to the then-applicable Series G Conversion Amount (defined below):

(i) simultaneously with the closing of the first underwritten public offering under an effective registration statement under the Securities Act of 1933, as amended, covering the offering and sale of Common Stock for the account of the Corporation on a firm commitment basis for proceeds of at least $30 million (before deduction of underwriting costs, commissions and expenses);

(ii) at the election of the holders of a number of shares of Series G Preferred Stock equal to at least two-thirds (2/3) of the then-outstanding shares of Series G Preferred Stock; or

(iii) upon the conversion of a number of shares of Series G Preferred Stock equal to at least 60% of the shares of Series G Preferred Stock outstanding (subject to adjustment for any stock split, reverse stock split, stock dividend or other such transaction applicable to the Series G Preferred Stock) on the Series G Purchase Date.

Upon the occurrence of an automatic conversion of the Series G Preferred Stock, the Series G Holders will surrender the certificates representing their shares at the office of the Corporation or transfer agent, and the rights, preferences and restrictions of the Series G Preferred Stock will terminate.

(c) Anti-Dilution.

(i) Definitions.

(A) "***Additional Common Stock***" for this ARTICLE TEN means shares of Common Stock issued by the Corporation or deemed to be issued under Section 10.5(d)(iii), whether or not subsequently reacquired or retired by the Corporation, other than shares issued (or deemed to be issued) (1) upon conversion of the Series G Preferred Stock; (2) to employees, officers or directors of, or consultants or advisors to, the Corporation or any subsidiary pursuant to stock purchase or stock option plans or other arrangements that are approved by the Board; (3) pursuant to the exercise of options, warrants or convertible securities outstanding as of the Restatement Date; (4) in connection with a Sale/Merger Transaction; (5) pursuant to any equipment leasing arrangement, commercial credit arrangement or debt financing from a bank or similar financial institution; (6) in connection with a transaction that causes an automatic conversion of the Series G Preferred Stock; and (7) for consideration other than cash pursuant to a merger, consolidation, share

exchange, acquisition or similar business combination approved by the Board.

(B) "***Aggregate Consideration***" for this ARTICLE TEN means, for any issuance or sale, or deemed issuance or sale, of Additional Common Stock, the net consideration received by the Corporation, as determined in accordance with GAAP.

(C) "***Convertible Securities***" for this ARTICLE TEN means rights or options for the purchase of, or stock or other securities convertible into, Additional Common Stock.

(D) "***Effective Price***" for this ARTICLE TEN means the quotient of (1) the Aggregate Consideration received in an issuance or sale (or deemed issuance or sale) of Additional Common Stock divided by (2) the total number of shares of Additional Common Stock issued or sold (or deemed to have been issued or sold) in such transaction.

(E) "***Series G Conversion Amount***" means the quotient of (1) the Series G Purchase Price divided by (2) the Series G Conversion Price.

(F) "***Series G Conversion Price***" means, as of the Restatement Date, the Series G Purchase Price, and will be adjusted from time to time thereafter in accordance with this Section 10.5. All references to the Series G Conversion Price are to the Series G Conversion Price as so adjusted.

(d) Adjustment for Diluting Issues. If at any time or from time to time after the Restatement Date the Corporation issues or sells, or is deemed by the express provisions of this Section to have issued or sold, for gross proceeds of at least $200,000, Additional Common Stock (other than as a dividend or other distribution on any class of stock, or as a subdivision or combination of shares of stock, in either case as provided in this Section 10.5(d)) for an Effective Price (determined in accordance with GAAP) less than the then-effective Series G Conversion Price, then and in each such case the then-existing Series G Conversion Price will be reduced, as of the opening of business on the date of such issue or sale, by multiplying it by the number determined by the following formula:

1/(1+w), where

w = [((X+Z)/(X+Y))–1]/(1–P);

P= C/(X+Y);

C= the number of shares of Series G Preferred Stock immediately prior to the time of such issuance or sale multiplied by the then-effective Series G Conversion Amount (the quotient of the Series G Purchase

Price divided by the Series G Conversion Price); and

X= the sum of the following: (i) the total number of shares of Common Stock issued and outstanding, or deemed to be issued and outstanding under this Section 10.5(d)(iii), (ii) the total number of shares of Common Stock reserved for nonexercised stock options granted, and (iii) the total number of shares Common Stock reserved and available for issuance under stock option plans, immediately prior to the time of such issuance or sale;

Y= the number of shares of Common Stock that could have been purchased for the Aggregate Consideration at the Series G Conversion Price in effect immediately prior to such reduction;

Z= the number of shares of Common Stock issued or sold, or deemed to be issued or sold under this Section 10.5(d)(iii), in such issuance or sale.

(i) Adjustment for Stock Splits and Combinations. If the Corporation at any time or from time to time after the Restatement Date effects a subdivision of the outstanding Common Stock without a corresponding subdivision of the Series G Preferred Stock, the Series G Conversion Price in effect immediately before that subdivision will be proportionately decreased. Conversely, if the Corporation at any time or from time to time combines the outstanding shares of Common Stock into a smaller number of shares without a corresponding combination of the Series G Preferred Stock, the Series G Conversion Price in effect immediately before the combination will be proportionately increased. Any adjustment under this Section 10.5(d)(i) will become effective at the close of business on the date the subdivision or combination becomes effective.

(ii) Adjustment for Common Stock Dividends and Distributions. If the Corporation at any time or from time to time after the Restatement Date makes, or fixes a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in additional shares of Common Stock, in each such event the Series G Conversion Price that is then in effect will be decreased as of the time of such issuance or, in the event such record date is fixed, as of the close of business on such record date, by multiplying the Series G Conversion Price then in effect by the result of the following formula:

X / (Y+Z), where

X = the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date;

Y = the total number of shares of Common Stock issued and outstanding immediately prior to the time of such issuance or the close of business on such record date; and

Z = the number of shares of Common Stock issuable in payment of such dividend or distribution;

provided, however, that if such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Series G Conversion Price will be recomputed accordingly as of the close of business on such record date and thereafter the Series G Conversion Price will be adjusted pursuant to this Section 10.5(d)(ii) to reflect the actual payment of such dividend or distribution.

(iii) Deemed Issuances or Sales. If the Corporation issues or sells any Convertible Securities after the Restatement Date and if the Effective Price of the Additional Common Stock underlying such Convertible Securities is less than the Series G Conversion Price, in each such case the Corporation will be deemed to have issued at the time of the issuance of such Convertible Securities the maximum number of shares of Additional Common Stock issuable upon exercise or conversion thereof and to have received as consideration for the issuance of such shares an amount equal to the total amount of the consideration, if any, received by the Corporation for the issuance of such Convertible Securities, plus, in the case of such rights or options, the minimum amounts of consideration, if any, payable to the Corporation upon the exercise or conversion of such Convertible Securities (other than by cancellation of liabilities or obligations evidenced by such Convertible Securities) upon the conversion thereof; provided, that, if the minimum amount of consideration payable to the Corporation upon the exercise or conversion of Convertible Securities is reduced over time or on the occurrence or non-occurrence of specified events other than by reason of anti-dilution adjustments, the Effective Price will be recalculated at such time using the figure to which such minimum amount of consideration is reduced; provided further, that if the minimum amount of consideration payable to the Corporation upon the exercise or conversion of such Convertible Securities is subsequently increased, the Effective Price will be again recalculated using the increased minimum amount of consideration payable to the Corporation upon the exercise or conversion of such Convertible Securities. No further adjustment of the Series G Conversion Price, as adjusted upon the issuance of such Convertible Securities, will be made as a result of the actual issuance of shares of Additional Common Stock on the exercise or conversion of any such Convertible Securities. If any Convertible Securities outstanding (including those outstanding as of the Restatement Date) expire without having been exercised or converted, the Series G Conversion Price will be adjusted to the Series G Conversion Price which would have been in effect absent the issuance of such expired Convertible Securities.

(e) Issuance of Certificates; Time Conversion Effected. Promptly after the automatic or optional conversion and surrender of the certificate or certificates (and notice, as applicable) for the share or shares of Series G Preferred Stock to be converted, the Corporation will issue and deliver, or

cause to be issued and delivered, to the holder thereof, registered in such name or names as such holder may direct, (A) a certificate or

certificates for the number of whole shares of Common Stock issuable upon the conversion of such share or shares of Series G Preferred Stock and (B), in the case of a partial optional conversion, a certificate or certificates for the number of whole shares of Series G Preferred Stock which the notice delivered by such holder specified were not to be converted, unless and to the extent the Board adopts a resolution providing that the Series G Preferred Stock or Common Stock shall be uncertificated or registered in book entry form. With respect to an automatic conversion, effective immediately upon such conversion, regardless of whether the certificate or certificates for such share or shares shall have been surrendered, the rights of the holder of such share or shares of Series G Preferred Stock will cease, and the person(s) in whose name or names any certificate, certificates or book entry for shares of Common Stock issued upon such conversion will be deemed to have become the holder or holders of record of the shares represented thereby. With respect to an optional conversion, the certificate or certificates for such converted share or shares will have been surrendered as aforesaid, and at such time the rights of the holder of such converted share or shares of Series G Preferred Stock will cease, and the person(s) in whose name or names any certificate or certificates for shares of Common Stock (or Series G Preferred Stock, as applicable) will be issuable upon such conversion will be deemed to have become the holder or holders of record of the shares represented thereby.

(f) Fractional Shares; Dividends; Partial Conversion. No fractional shares will be issued upon conversion of Series G Preferred Stock into Common Stock and no payment or adjustment will be made upon any conversion on account of any cash dividends on the Common Stock issued upon conversion. If any fractional share of Common Stock would, except for the provisions of the first sentence of this Section 10.5(f), be delivered upon such conversion, the Corporation, in lieu of delivering such fractional share, will pay to the holder surrendering the Series G Preferred Stock for conversion an amount in cash equal to the current market price of such fractional share as determined in good faith by the Board.

(g) Stock to be Reserved. The Corporation will at all times reserve and keep available out of its authorized Common Stock, solely for the purpose of issuance upon the conversion of Series G Preferred Stock as herein provided, such number of shares of Common Stock as are then issuable upon the conversion of all outstanding shares of Series G Preferred Stock. All shares of Common Stock so issued will be duly and validly issued and fully paid and nonassessable. The Corporation will take all such action as may be necessary to assure that all such shares of Common Stock may be so issued without violation of any applicable law or regulation, or of any requirement of any national securities exchange upon which the Common Stock may be listed.

(h) No Reissuance of Series G Preferred Stock. Shares of Series G Preferred Stock that are converted into shares of Common Stock as provided herein will not be reissued as Series G Preferred Stock but will be generally available to be reissued pursuant to a separate statement of resolution adopted by the Board.

(i) Issue Tax. The issuance of certificates for shares of Common Stock upon conversion of Series G Preferred Stock will be made without charge to the holders

thereof for any issuance tax in respect thereof, provided that the Corporation will not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of any certificate in a name other than that of the holder of the Series G Preferred Stock which is being converted.

(j) Closing of Books. The Corporation will at no time close its transfer books against the transfer of any Series G Preferred Stock or of any shares of Common Stock issued or issuable upon the conversion of any shares of Series G Preferred Stock in any manner which interferes with the timely conversion of such Series G Preferred Stock, except as may otherwise be required to comply with applicable securities and corporate laws.

(k) Reorganization or Reclassification. If any capital reorganization, reclassification of the capital stock of the Corporation, stock split, or stock dividend (each a "***Distribution***") is effected in such a way that holders of Common Stock will be entitled to receive stock, securities or assets with respect to or in exchange for Common Stock, then, as a condition of such Distribution, lawful and adequate provisions will be made whereby each holder of a share or shares of Series G Preferred Stock will thereupon have the right to receive, subject to the terms and conditions specified herein and, as applicable, in lieu of the shares of Common Stock receivable upon the conversion of such share or shares of Series G Preferred Stock immediately prior to such Distribution, such shares of stock, securities or assets as may be issued or payable with respect to or, as applicable, in exchange for a number of outstanding shares of such Common Stock equal to the number of shares of such Common Stock receivable immediately prior to such Distribution upon such conversion had such Distribution not taken place. In any such case, appropriate adjustments to the provisions hereof shall be made with respect to the rights and interests of such holder of Series G Preferred Stock after the Distribution to the end that the provisions hereof will thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise of such conversion rights.

Section 10.6. Senior Preferred Stock. Except as otherwise set forth in Section 10.2(b)(ii), the Corporation may, in its sole discretion, authorize additional classes and series of Preferred Stock with rights senior to, junior to, or *pari passu* with, the Series G Preferred Stock.

Section 10.7. Amendments to Series G Provisions of Articles. The Company may amend any of this ARTICLE TEN with the consent or affirmative vote of two-thirds (2/3) of the issued and outstanding shares of Series G Preferred Stock on the date of such consent or vote.

ARTICLE ELEVEN — MERGER, ETC.

Section 11.1. Merger, etc. The vote or consent of 2/3 of the issued and outstanding shares of Common Stock and Preferred Stock, voting together, will be necessary for the Corporation to effect any of the following events:

(a) Any merger, consolidation, share exchange or other similar transaction in which the Corporation is not the surviving entity; and

(b) Any sale by the Corporation of all or substantially all of the Corporation's assets:

Section 11.2. Adjustment in Authorized Common Stock. The number of authorized shares of Common Stock may be increased or decreased (but not below the number of shares of Common Stock then outstanding or reserved for issuance) by an affirmative vote of the holders of a majority of the capital stock of the Corporation entitled to vote (voting together on an as-converted basis) and without a separate class vote of the Common Stock, irrespective of the provisions of Section 242(b)(2) of the DGCL.

ARTICLE TWELVE — DENIAL OF PREEMPTIVE RIGHTS

The preemptive right of any stockholder of the Corporation is hereby denied, including any right to acquire additional, unissued or treasury shares of the Corporation, or securities of the Corporation convertible into or carrying a right to subscribe to or acquire shares of the Corporation. The Corporation may grant preemptive rights by contract or agreement to any person or entity.

ARTICLE THIRTEEN — REGISTERED OFFICE AND AGENT

The address of the initial registered office of Corporation in the State of Delaware is Corporation Trust Center, 1209 Orange Street, County of New Castle, Wilmington, Delaware 19801. The name of the initial registered agent for service of process on the Corporation in the State of Delaware is The Corporation Trust Company.

ARTICLE FOURTEEN — WAIVER OF LIABILITY

To the fullest extent permitted by the DGCL, as the same exists or may hereafter be amended, a director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for an act or omission in the director's capacity as a director. Any repeal or amendment of this ARTICLE FOURTEEN by the stockholders of the Corporation or by changes in applicable law will, to the extent permitted by applicable law, be prospective only, and shall not adversely affect any right or protection of a director of the Corporation existing at the time of, or increase the liability of any director of the Corporation with respect to any acts or omissions occurring prior to, such repeal or modification.

ARTICLE FIFTEEN — INDEMNIFICATION

Section 15.1. Right to Indemnification. The Corporation will indemnify and hold harmless, to the fullest extent permitted by the DGCL as it currently exists or may hereafter be amended, any person (a "***Covered Person***") who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative, arbitrative or investigative, any appeal in such an action, suit or proceeding, and any inquiry or investigation that could lead to such an action, suit or proceeding (a "***Proceeding***"), because he, or a person for whom he is the legal representative, is or was a director or officer of the Corporation or, while a director or officer of the Corporation, is or was serving at the request of the Corporation as a director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another corporation, employee benefit plan,

other enterprise or other entity, against all liability and loss suffered and expenses reasonably incurred by such Covered Person, including judgments, penalties, (including excise and similar taxes), fines, settlements, and reasonable expenses (including attorneys' and experts' fees) actually incurred by the such Covered Person. Notwithstanding the preceding sentence, the Corporation will be required to indemnify a Covered Person in connection with a Proceeding (or part thereof) commenced by such Covered Person only if the commencement of such Proceeding (or part thereof) by the Covered Person was authorized by the Board.

Section 15.2. Amendment or Repeal. Any repeal or modification of the foregoing provisions of this ARTICLE FIFTEEN will not adversely affect any right or protection hereunder of any Covered Person in respect of any act or omission occurring prior to the time of such repeal or modification.

ARTICLE SIXTEEN — WRITTEN CONSENTS

Any action that would otherwise be taken at any annual or special meeting of stockholders may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, will be signed by the holder or holders of shares having not less than the minimum number of votes that would be necessary to take such action at a meeting at which the holders of all shares entitled to vote on the action were present and voted.

ARTICLE SEVENTEEN — ELECTION OF DIRECTORS, ETC.

Election of directors need not be by written ballot. Any director or the entire Board may be removed, with or without cause, by the holders of a majority of the issued and outstanding shares then entitled to vote at an election of directors, except as otherwise provided by law. In furtherance and not in limitation of the powers conferred by statute, the Board is expressly authorized to amend or repeal the bylaws of the Corporation or to adopt new bylaws, subject to any limitations that may be contained herein and in such bylaws.

ARTICLE EIGHTEEN — INCORPORATOR

The name and mailing address of the incorporator is:

David Kuo
13115 Jess Pirtle Blvd.
Sugarland, TX 77478

[The next page is the signature page]

THE UNDERSIGNED, being the incorporator named above, for the purpose of forming a corporation pursuant to the DGCL, does make this certificate, hereby declaring and certifying that this is my act and deed and the facts herein stated are true, and accordingly have hereunto set my hand this 25th day of March,

2013.

/s/ David Kuo

David Kuo, Incorporator

Exhibit 3.3

BYLAWS

OF

APPLIED OPTOELECTRONICS, INC.

a Delaware corporation

(the "Company")

(Adopted as of March 25, 2013)

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BYLAWS

OF

APPLIED OPTOELECTRONICS, INC.

ARTICLE I

OFFICES

Section 1.1 **Registered Office**. The address of the registered office of Corporation in the State of Delaware is c/o The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, County of New Castle, Wilmington, Delaware 19801. The name and address of the registered agent for service of process on the Corporation in the State of Delaware is The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, County of New Castle, Wilmington, Delaware 19801.

Section 1.2 **Additional Offices**. The Company may, in addition to its registered office in the State of Delaware, have such other offices and places of business, both within and without the State of Delaware, as the Board of Directors of the Company (the "**Board**") may from time to time determine or as the business and affairs of the Company may require.

ARTICLE II

STOCKHOLDER'S MEETINGS

Section 2.1 **Annual Meetings**. Annual meetings of stockholders shall be held at a place and time on any weekday which is not a holiday and shall be designated by the Board and stated in the notice of the meeting, at which the stockholders shall elect the directors of the Company and transact such other business as may properly be brought before the meeting.

Section 2.2 **Special Meetings**. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by law or by the certificate of incorporation, (a) may be called by the chairman of the board, the chief executive officer or the president and (b) shall be called by the chief executive officer, the president or secretary at the request in writing of a majority of the Board or stockholders owning capital stock of the Company representing at least ten percent (10%) of the votes of all capital stock of the Company entitled to vote thereat. Such request of the Board or the stockholders shall state the purpose or purposes of the proposed meeting.

Section 2.3 **Notices**.

Section 2.3.1 Written or printed notice of each stockholders' meeting stating the place, date and hour of the meeting shall be given to each stockholder of record entitled to vote thereat by or at the direction of the chief executive officer, the president, the secretary or the officer or person calling such meeting not less than ten (10) nor more than sixty (60) days before the date of the meeting. If said notice is for a stockholders'

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meeting other than an annual meeting, it shall in addition state the purpose or purposes for which said meeting is called, and the business transacted at such meeting shall be limited to the matters so stated in said notice and any matters reasonably related thereto. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail addressed to each stockholder at his address as it appears on the stock transfer books of the Company, with postage thereon prepaid.

Section 2.3.2 Notice to stockholders may be given by personal delivery, mail, or, with the consent of the stockholder entitled to receive notice, by facsimile or other means of electronic transmission. If mailed, such notice shall be delivered by postage prepaid envelope directed to each stockholder at such stockholder's address as it appears in the records of the corporation and shall be deemed given when deposited in the United States mail. Notice given by electronic transmission pursuant to this subsection shall be deemed given: (1) if by facsimile telecommunication, when directed to a facsimile telecommunication number at which the stockholder has consented to receive notice; (2) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice; (3) if by posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; and (4) if by any other form of electronic transmission, when directed to the stockholder. An affidavit of the secretary or an assistant secretary or of the transfer agent or other agent of the corporation that the notice has been given by personal delivery, by mail, or by a form of electronic transmission shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

Section 2.3.3 Notice of any meeting of stockholders need not be given to any stockholder if waived by such stockholder either in a writing signed by such stockholder or by electronic transmission, whether such waiver is given before or after such meeting is held. If such a waiver is given by electronic transmission, the electronic transmission must either set forth or be submitted with information from which it can be determined that the electronic transmission was authorized by the stockholder

Section 2.4 **Quorum**. The presence at a stockholders' meeting of the holders, present in person or represented by proxy, of capital stock of the Company representing a majority of the votes of all capital stock of the Company entitled to vote thereat shall constitute a quorum at such meeting for the transaction of business except as otherwise provided by law, the certificate of incorporation or these Bylaws. If a quorum shall not be present or represented at any meeting of the stockholders, a majority of the stockholders entitled to vote thereat and present in person or represented by proxy shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At any such reconvened meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified. If the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the reconvened meeting, a notice of said reconvened meeting shall be given to each stockholder entitled to vote at said meeting. The stockholders present at a duly convened meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

Section 2.5 **Voting of Shares**.

Section 2.5.1 **Voting Lists**. The officer or agent who has charge of the stock transfer books of the Company shall prepare, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote thereat arranged in alphabetical order and showing the address and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any such stockholder, for any purpose germane to the meeting, during ordinary business hours for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held and at the registered office of the Company. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. The original stock transfer books shall be prima facie evidence as to who are the stockholders entitled to examine such list or transfer books or to vote at any meeting of stockholders. Failure to comply with the requirements of this section shall not affect the validity of any action taken at said meeting.

Section 2.5.2 **Votes Per Share**. Unless otherwise provided by law or in the certificate of incorporation, each stockholder shall be entitled to one vote, in person or by proxy, on each matter submitted to a vote at a meeting of the stockholders, for each share of capital stock held by such stockholder.

Section 2.5.3 **Proxies**. Every stockholder entitled to vote at a meeting or to express consent or dissent without a meeting or a stockholder's duly authorized attorney-in-fact may authorize another person or persons to act for him by proxy. Each proxy shall be in writing, executed by the stockholder group, the proxy or by his duly authorized attorney. No proxy shall be voted on or after eleven (11) months from its date, unless the proxy provides for a longer period. Each proxy shall be revocable unless expressly provided therein to be irrevocable and unless otherwise made irrevocable by law.

Section 2.5.4 **Required Vote**. When a quorum is present at any meeting, the vote of the holders of capital stock of the Company representing a majority of the votes of all capital stock of the Company entitled to vote thereat and present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which, by express provision of law or the certificate of incorporation or these Bylaws, a different vote is required, in which case such express provision shall govern and control the decision of such question.

Section 2.6 **Consents in Lieu of Meeting**. Any action required to be or which may be taken at any meeting of stockholders may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holder or holders of shares having not less than the minimum number of votes that would be necessary to take such action at a meeting at which the holders of all shares entitled to vote on the action were present and voted. Such signed consent shall have the same force and effect as a

unanimous vote of stockholders and shall be filed with the minutes of proceedings of the stockholders.

ARTICLE III

DIRECTORS

Section 3.1 **Purpose**. The business and affairs of the Company shall be managed by or under the direction of the Board, which may exercise all such powers of the Company and do all such lawful acts and things as are not by law, the certificate of incorporation or these Bylaws directed or required to be exercised or done by the stockholders. Directors need not be stockholders or residents of the State of Delaware.

Section 3.2 **Number**. The number of directors of the Corporation shall be no less than one and no more than eight, and shall be determined by resolution of the Board.

Section 3.3 **Election**. The holders of Common Stock, Series A Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock, Series G Preferred stock and any other class of capital stock or series within any such class that is given such voting rights, voting together and with the right to cumulative voting, will be entitled to elect, at each meeting or pursuant to each consent of the Corporation's shareholders for the election of directors, all members of the Board and to remove from office such directors and to fill any vacancy caused by the death, resignation or removal of such directors. The candidates for director receiving the highest number of cumulative votes shall be elected by the stockholders at each annual meeting of stockholders, except as hereinafter provided, and each director so elected shall hold office until his successor has been duly elected and qualified.

Section 3.4 **Vacancies and Newly-Created Directorships**.

Section 3.4.1 **Vacancies**. Any vacancy occurring in the Board may be filled in accordance with subsection 3.4.3 of this Section 3.4 or may be filled by the affirmative vote of a majority of the remaining directors though less than a quorum of the Board. A director elected to fill a vacancy shall be elected for the unexpired term of his predecessor in office.

Section 3.4.2 **Newly-Created Directorships**. A directorship to be filled by reason of an increase in the number of directors may be filled in accordance with Section 3.4.3 or may be filled by the Board for a term of office continuing only until the next election of one or more directors by the stockholders; provided, that the Board may not fill more than two such directorships during the period between any two successive annual meetings of stockholders.

Section 3.4.3 **Election by Stockholders**. Any vacancy occurring in the Board or any directorship to be filled by reason of an increase in the number of directors may be filled by election at an annual or special meeting of stockholders called for that purpose.

Section 3.5 **Removal**. Unless otherwise restricted by law, the certificate of incorporation or these Bylaws, any director or the entire Board may be removed, with or without

cause, by a majority vote of the shares then entitled to vote at an election of directors, if notice of the intention to act upon such matter shall have been given in the notice calling such meeting.

Section 3.6 **Compensation**. Unless otherwise restricted by the certificate of incorporation or these Bylaws, the Board shall have the authority to fix the compensation of directors. The directors may be reimbursed for their expenses, if any, of attendance at each meeting of the Board and may be paid either a fixed sum for attendance at each meeting of the Board or a stated salary as director. No such payment shall preclude any director from serving the Company in any other capacity and receiving compensation therefor. Members of committees of the Board may be allowed like compensation for attending committee meetings.

ARTICLE IV

BOARD MEETINGS

Section 4.1 **Annual Meetings**. The Board shall meet as soon as practicable after the adjournment of each annual stockholders' meeting at the place of such stockholders' meeting. No notice to the directors shall be necessary to legally convene this meeting, provided a quorum is present.

Section 4.2 **Regular Meetings**. Regularly scheduled, periodic meetings of the Board may be held without notice at such times and places as shall from time to time be determined by resolution of the Board and communicated to all directors.

Section 4.3 **Special Meetings**. Special meetings of the Board (i) may be called by the chairman of the board, the chief executive officer or president and (ii) shall be called by the chief executive officer, the president or secretary on the written request of two directors or the sole director, as the case may be. Notice of each special meeting of the Board shall be given, either personally or as hereinafter provided, to each director at least (i) twenty-four (24) hours before the meeting if such notice is delivered personally or by means of telephone, telegram, telex or facsimile transmission delivery; (ii) two days before the meeting if such notice is delivered by a recognized express delivery service; and (iii) three days before the meeting if such notice is delivered through the United States mail. Any and all business may be transacted at a special meeting which may be transacted at a regular meeting of the Board. Except as may be otherwise expressly provided by law, the certificate of incorporation or these Bylaws, neither the business to be transacted at, nor the purpose of, any special meeting need be specified in the notice or waiver of notice of such meeting.

Section 4.4 **Quorum, Required Vote**. A majority of the directors shall constitute a quorum for the transaction of business at any meeting of the Board, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board, except as may be otherwise specifically provided by law, the certificate of incorporation or these Bylaws. If a quorum shall not be present at any meeting, a majority of the directors present may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present.

Section 4.5 **Consent In Lieu of Meeting**. Unless otherwise restricted by the certificate of incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board or any committee thereof may be taken without a meeting, if a consent in writing, setting forth the action so taken, is signed by all the members of the Board or committee, as the case may be. Such signed consent shall have the same force and effect as a unanimous vote at a meeting and shall be filed with the minutes of proceedings of the Board or committee.

Section 4.6 **Board Observer**. If any person has been designated (in written notice directed to the Company's the chief executive officer or the president) to attend and observe board meetings under the stockholders' agreement, then that person shall be entitled to notice of, and to attend (but not participate) at, board meetings as if that person were a member of the board.

ARTICLE V

COMMITTEES OF DIRECTORS

Section 5.1 **Establishment; Standing Committees**. The Board may by resolution establish, name or dissolve one or more committees, each committee to consist of one or more of the directors. Each committee shall keep regular minutes of its meetings and report the same to the Board when required.

Section 5.2 **Available Powers**. Any committee established pursuant to Section 5.1, but only to the extent provided in the resolution of the Board establishing such committee or otherwise delegating specific power and authority to such committee and as limited by law, the certificate of incorporation and these Bylaws, shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the Company, and may authorize the seal of the Company to be affixed to all papers which may require it.

Section 5.3 **Alternate Members**. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of such committee.

Section 5.4 **Procedures**. Time, place and notice, if any, of meetings of a committee shall be determined by the members of such committee. At meetings of a committee, a majority of the number of members designated by the Board shall constitute a quorum for the transaction of business. The act of a majority of the members present at any meeting at which a quorum is present shall be the act of the committee, except as otherwise specifically provided by law, the certificate of incorporation or these Bylaws. If a quorum is not present at a meeting of a committee, the members present may adjourn the meeting from time to time, without notice other than an announcement at the meeting, until a quorum is present.

ARTICLE VI

OFFICERS

Section 6.1 **Elected Officers**. The Board shall elect a chairman of the board, chief executive officer, president, treasurer and a secretary (collectively, the "**Required Officers**")

having the respective duties enumerated below and may elect such other officers having the titles and duties set forth below which are not reserved for the Required Officers or such other titles and duties as the Board may by resolution from time to time establish:

Section 6.1.1 **Chairman of the Board**. The Board may appoint a chairman of the board. If the Board appoints a chairman of the board, he shall perform such duties and possess such powers as are assigned to the chairman by the Board and these Bylaws. Unless otherwise provided by the Board, he shall preside at all meetings of the Board.

Section 6.1.2 **Chief Executive Officer**. The chief executive officer shall, subject to the direction of the Board, have general supervision, direction and control of the business and the officers of the Company. He shall preside at all meetings of the stockholders and, in the absence or nonexistence of a chairman of the board, at all meetings of the Board. He shall have the general powers and duties of management usually vested in the chief executive officer of a corporation, including general supervision, direction and control of the business and supervision of other officers of the Company, and shall have such other powers and duties as may be prescribed by the Board of Directors or these Bylaws.

Section 6.1.3 **President**. Subject to the direction of the Board and such supervisory powers as may be given by these Bylaws or the Board to the chairman of the board or the chief executive officer, if such titles be held by other officers, the president shall have general supervision, direction and control of the business and supervision of other officers of the Company. Unless otherwise designated by the Board, the president shall be the chief executive officer of the Company. The president shall have such other powers and duties as may be prescribed by the Board or these Bylaws. He shall have power to sign stock certificates, contracts and other instruments of the Company which are authorized and shall have general supervision and direction of all of the other officers, employees and agents of the corporation, other than the chairman of the board and the chief executive officer.

Section 6.1.4 **Vice President**. In the absence of the president or in the event of his inability or refusal to act, the vice president (or in the event there be more than one vice president, the vice presidents in the order designated by the Board, or in the absence of any designation, then in the order of their election or appointment) shall perform the duties of the president, and when so acting, shall have all the powers of and be subject to all the restrictions upon the president. The vice presidents shall perform such other duties and have such other powers as the Board may from time to time prescribe.

Section 6.1.5 **Secretary**. The secretary shall attend all meetings of the stockholders, the Board and (as required) committees of the Board and shall record all the proceedings of such meetings in minute books to be kept for that purpose. He shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board and shall perform such other duties as may be prescribed by the Board, the chief executive officer or the president. He shall have custody of the corporate seal of the Company and he, or an assistant secretary, shall have authority to affix the same to any instrument requiring it, and when so affixed, it may be attested by his signature or by the

signature of such assistant secretary. The Board may give general authority to any other officer to affix the seal of the Company and to attest the affixing thereof by his signature.

Section 6.1.6 **Assistant Secretaries**. The assistant secretary, or if there be more than one, the assistant secretaries in the order determined by the Board (or if there be no such determination, then in the order of their election or appointment) shall, in the absence of the secretary or in the event of his inability or refusal to act, perform the duties and exercise the powers of the secretary and shall perform such other duties and have such other powers as the Board may from time to time prescribe.

Section 6.1.7 **Treasurer**. Unless the Board by resolution otherwise provides, the treasurer shall be the chief accounting and financial officer of the Company. The Treasurer shall have the custody of the corporate funds and securities, shall keep full and accurate accounts of receipts and disbursements in books belonging to the Company and shall deposit all moneys and other valuable effects in the name and to the credit of the Company in such depositories as may be designated by the Board. He shall disburse the funds of the Company as may be ordered by the Board, taking proper vouchers for such disbursements, and shall render to the chief executive officer, the president and the Board, at its regular meetings, or when the Board so requires, an account of all his transactions as treasurer and of the financial condition of the Company.

Section 6.1.8 **Assistant Treasurers**. The assistant treasurer, or if there shall be more than one, the assistant treasurers in the order determined by the Board (or if there be no such determination, then in the order of their election or appointment) shall, in the absence of the treasurer or in the event of his inability or refusal to act, perform the duties and exercise the powers of the treasurer and shall perform such other duties and have such other powers as the Board may from time to time prescribe.

Section 6.1.9 **Divisional Officers**. Each division of the Company, if any, may have a president, secretary, treasurer or controller and one or more vice presidents, assistant secretaries, assistant treasurers and other assistant officers. Any number of such offices may be held by the same person. Such divisional officers will be appointed by, report to and serve at the pleasure of the Board and such other officers that the Board may place in authority over them. The officers of each division shall have such authority with respect to the business and affairs of that division as may be granted from time to time by the Board, and in the regular course of business of such division may sign contracts and other documents in the name of the division where so authorized; provided that in no case and under no circumstances shall an officer of one division have authority to bind any other division of the Company except as necessary in the pursuit of the normal and usual business of the division of which he is an officer.

Section 6.2 **Election**. All elected officers shall serve until their successors are duly elected and qualified or until their earlier death, disqualification, retirement, resignation or removal from office.

Section 6.3 **Appointed Officers**. The Board may also appoint or delegate the power to appoint such other officers, assistant officers and agents, and may also remove such officers

and agents or delegate the power to remove same, as it shall from time to time deem necessary, and the titles and duties of such appointed officers may be as described in Section 6.1 hereof for elected officers; provided that the officers and any officer possessing authority over or responsibility for any functions of the Board shall be elected officers.

Section 6.4 **Multiple Officeholders, Stockholder and Director Officers**. Any number of offices may be held by the same person, unless the certificate of incorporation or these Bylaws otherwise provide. Officers need not be stockholders or residents of the State of Delaware. Officers, such as the chairman of the board, possessing authority over or responsibility for any function of the Board must be directors.

Section 6.5 **Compensation, Vacancies**. The compensation of elected officers shall be set by the Board. The Board shall also fill any vacancy in an elected office. The compensation of appointed officers and the filling of vacancies in appointed offices may be delegated by the Board to the same extent as permitted by these Bylaws for the initial filling of such offices.

Section 6.6 **Additional Powers and Duties**. In addition to the foregoing especially enumerated powers and duties, the several elected and appointed officers of the Company shall perform such other duties and exercise such further powers as may be provided by law, the certificate of incorporation or these Bylaws or as the Board may from time to time determine or as may be assigned to them by any competent committee or superior officer.

Section 6.7 **Removal**. Any officer or agent or member of a committee elected or appointed by the Board may be removed by the Board whenever in its judgment the best interest of the Company will be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment of an officer or agent or member of a committee shall not of itself create contract rights.

ARTICLE VII

SHARE CERTIFICATES

Section 7.1 **Entitlement to Certificates**. Every holder of the capital stock of the Company, unless and to the extent the Board by resolution provides that any or all classes or series of stock shall be uncertificated, shall be entitled to have a certificate, in such form as is approved by the Board and conforms with applicable law, certifying the number of shares owned by him. Each certificate representing shares shall state upon the face thereof:

(A) the name of the person to whom issued;

(B) the number and class of shares and the designation of the series, if any, which such certificate represents; and

(C) the par value of each share represented by such certificate, or a statement that the shares are without par value.

Section 7.2 **Signatures**. Each certificate representing capital stock of the Company shall be signed by or in the name of the Company by (1) the chairman of the board, the chief

executive officer, the president or a vice president; and (2) the treasurer, an assistant treasurer, the secretary or an assistant secretary of the Company. The signatures of the officers of the Company may be facsimiles. In case any officer who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to hold such office before such certificate is issued, it may be issued by the Company with the same effect as if he held such office on the date of issue.

Section 7.3 **Insurance and Payment**. The Board or, in the case of shares to be issued pursuant to a plan of conversion by a corporation that is a converted entity, the plan of conversion, or, in the case of shares to be issued pursuant to a plan of merger by a corporation created pursuant to the plan of merger, the plan of merger may authorize shares to be issued for consideration consisting of any tangible or intangible benefit to the Company or other property of any kind or nature, including, cash, promissory notes, services performed, contracts for services to be performed, other securities of the Company or securities of any other corporation, domestic or foreign, or other entity. Shares may not be issued until the full amount of the consideration, fixed as provided by law, has been paid or delivered as required in connection with the authorization of the shares. When such consideration shall have been paid or delivered the shares shall be deemed to have been issued and the subscriber or shareholder entitled to receive such issue shall be a shareholder with respect to such shares, and the shares shall be considered fully paid and non-assessable. In the absence of fraud in the transaction, the judgment of the Board or the shareholders, or the party or parties approving the plan of conversion or the plan of merger, as the case may be, as to the value of the consideration received for shares shall be conclusive.

Section 7.4 **Lost Certificates**. The Board may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Company alleged to have been lost, stolen or destroyed upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the Board may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or to give the Company a bond in such sum as it may direct as indemnity against any claim that may be made against the Company with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 7.5 **Transfer of Stock**. Upon surrender to the Company or its transfer agent, if any, of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer and of the payment of all taxes applicable to the transfer of said shares, the Company shall be obligated to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books; provided, however, that the Company shall not be so obligated unless such transfer was made in compliance with applicable state and federal securities laws.

Section 7.6 **Registered Shareholders**. The Company shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, vote and be held liable for calls and assessments and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any person other

than such registered owner, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

ARTICLE VIII

INDEMNIFICATION

Section 8.1 Definitions. For purposes of this Article VIII:

(A) ***"Corporation"*** includes any domestic or foreign predecessor entity of the Company in a merger, conversion, or other transaction in which some or all of the liabilities of the predecessor are transferred to the Company by operation of law and in any other transaction in which the Company assumes the liabilities of the predecessor but does not specifically exclude liabilities that are the subject matter of this article;

(B) ***"Director"*** means any person who is or was a director of the Company and any person who, while a director of the Company, is or was serving at the request of the Company as a director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic corporation, employee benefit plan, other enterprise or other entity;

(C) ***"Expenses"*** include court costs and attorneys' fees;

(D) "***Official capacity***" means

(i) when used with respect to a Director, the office of Director in the Company, but does not include service for any other foreign or domestic corporation or any employee benefit plan, other enterprise or other entity;

(ii) when used with respect to a person other than a Director, the elective or appointive office in the Company held by the officer or the employment or agency relationship undertaken by the employee or agent on behalf of the Company, but does not include service for any other foreign or domestic corporation, employee benefit plan, other enterprise or other entity; and

(E) ***"Proceeding"*** means any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, arbitrative or investigative, any appeal in such an action, suit or proceeding, and any inquiry or investigation that could lead to such an action, suit or proceeding.

Section 8.2 **Mandatory Indemnification**. The Company shall indemnify a person who was, is, or is threatened to be made a named defendant or respondent in a Proceeding because the person is or was a Director only if it is determined in accordance with Section 8.6 hereof that the person:

(A) conducted himself in good faith;

(B) reasonably believed:

(i) in the case of conduct in his Official Capacity as a Director of the Company, that his conduct was in the Company's best interests; and

(ii) in all other cases, that his conduct was at least not opposed to the Company's best interests; and

(C) in the case of any criminal proceeding, had no reasonable cause to believe his conduct was unlawful.

Section 8.3 **Prohibited Indemnification**. Except to the extent permitted by Section 8.5 hereof, a Director may not be indemnified under Section 8.2 hereof in respect of a proceeding:

(A) in which the person is found liable on the basis that personal benefit was improperly received by him, whether or not the benefit resulted from an action taken in the person's Official Capacity; or

(B) in which the person is found liable to the Company.

Section 8.4 **Termination of Proceedings**. The termination of a proceeding by judgment, order, settlement or conviction, or on a plea of nolo contendere or its equivalent is not of itself determinative that the person did not meet the requirements set forth in Section 8.2 hereof. A person shall be deemed to have been found liable in respect of any claim, issue or matter only after the person shall have been so adjudged by a court of competent jurisdiction after exhaustion of all appeals therefrom.

Section 8.5 **Judgments, Expenses, etc**. A person may be indemnified under Section 8.2 hereof against judgments, penalties (including excise and similar taxes), fines, settlements and reasonable expenses actually incurred by the person in connection with the proceeding; but if the person is found liable to the Company or is found liable on the basis that personal benefit was improperly received by the person, the indemnification (1) is limited to reasonable expenses actually incurred by the person in connection with the proceeding and (2) shall not be made in respect of any proceeding in which the person shall have been found liable for willful or intentional misconduct in the performance of his duty to the Company.

Section 8.6 **Determination of Indemnification**. A determination of indemnification under Section 8.2 hereof must be made:

(A) by a majority vote of a quorum consisting of directors who at the time of the vote are not named defendants or respondents in the proceeding;

(B) if such a quorum cannot be obtained, by a majority vote of a committee of the Board, designated to act in the matter by a majority vote of all directors, consisting solely of two or more directors who at the time of the vote are not named defendants or respondents in the proceeding;

(C) in a written opinion by independent legal counsel selected by the Board or a committee thereof by vote as set forth in subsection (a) or (b) of this Section 8.6, or if

such a quorum cannot be obtained and such a committee cannot be established, by a majority vote of all Directors; or

(D) by the shareholders of the Company in a vote that excludes the shares held by Directors who are named defendants or respondents in the proceeding.

Section 8.7 **Determination of Reasonableness of Expenses**. Determination as to reasonableness of expenses must be made in the same manner as the determination that indemnification is permissible, except that if the determination that indemnification is permissible is made by independent legal counsel, determination as to reasonableness of expenses must be made in the manner specified by subsection (c) of Section 8.6 hereof for the selection of independent legal counsel.

Section 8.8 **Indemnification Against Reasonable Expenses**. The Company shall indemnify a Director against reasonable expenses incurred by him in connection with a proceeding in which he is a named defendant or respondent because he is or was a Director if he has been wholly successful, on the merits or otherwise, in the defense of the proceeding.

Section 8.9 **Payments in Advance of Disposition**. Reasonable expenses incurred by a Director who was, is, or is threatened to be made a named defendant or respondent in a proceeding shall be paid or reimbursed by the Company, in advance of the final disposition of the proceeding and without any of the determinations specified in Section 8.6 and Section 8.7 hereof, after the Company receives a written affirmation by the Director of his good faith belief that he has met the standard of conduct necessary for indemnification under this Article VIII and a written undertaking by or on behalf of the Director to repay the amount paid or reimbursed if it is ultimately determined that he has not met those requirements.

Section 8.10 **Written Undertaking**. The written undertaking required by Section 8.9 hereof must be an unlimited general obligation of the Director but need not be secured. It may be accepted without reference to financial ability to make repayment.

Section 8.11 **Consistency with Certificate of Incorporation**. Any provision for the Company to indemnify or to advance expenses to a Director who was, is, or is threatened to be made a named defendant or respondent in a proceeding, whether contained in the certificate of incorporation, these Bylaws, a resolution of stockholders or Directors, an agreement, or otherwise, except in accordance with Section 8.16 hereof, is valid only to the extent it is consistent with this Article VIII as limited by the certificate of incorporation, if such a limitation exists.

Section 8.12 **Other Expenses**. Notwithstanding any other provision of this Article VIII, the Company may pay or reimburse expenses incurred by a Director in connection with his appearance as a witness or other participation in a proceeding at a time when he is not a named defendant or respondent in the proceeding.

Section 8.13 **Officers, Employees and Agents**. An officer, employee or agent of the Company shall be indemnified as, and to the same extent, provided by Section 8.8 hereof for a Director and is entitled to seek indemnification under such section to the same extent as a Director if such officer, employee or agent was, is or is threatened to be named as a defendant or

respondant in any Proceeding because such person is or was an officer, employee or agent of the Company. The Company shall advance expenses to an officer and may advance expenses to an employee or agent of the Company to the same extent that it shall advance expenses to Directors under this Article VIII.

Section 8.14 **Other Capacities**. A corporation may indemnify and advance expenses to persons who are not or were not officers, employees, or agents of the Company, but who are or were serving at the request of the Company as a director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic corporation, employee benefit plan, other enterprise, or other entity to the same extent that it shall indemnify and advance expenses to Directors under this Article VIII.

Section 8.15 **Further Indemnification**. The Company may indemnify and advance expenses to an officer, employee, agent, or person identified in Section 8.14 hereof and who is not a Director to such further extent, consistent with law, as may be provided by the articles of incorporation, these Bylaws, general or specific action of the Board, or contract or as permitted or required by common law.

Section 8.16 **Insurance**. The Company may purchase and maintain insurance or another arrangement on behalf of any person who is or was a Director, officer, employee or agent of the Company or who is or was serving at the request of the Company as a director, officer, partner, venturer, proprietor, trustee, employee, agent or similar functionary of another foreign or domestic corporation, employee benefit plan, other enterprise, or other entity against any liability asserted against him and incurred by him in such a capacity or arising out of his status as such a person, whether or not the Company would have the power to indemnify him against that liability under this Article VIII. If the insurance or other arrangement is with a person or entity that is not regularly engaged in the business of providing insurance coverage, the insurance or arrangement may provide for payment of a liability with respect to which the Company would not have the power to indemnify the person only if including coverage for the additional liability has been approved by the stockholders of the Company. Without limiting the power of the Company to procure or maintain any kind of insurance or other arrangement, the Company may, for the benefit of persons indemnified by the Company, (1) create a trust fund; (2) establish any form of self-insurance; (3) secure its indemnity obligation by grant of a security interest or other lien on the assets of the Company; or (4) establish a letter of credit, guaranty, or surety arrangement. The insurance or other arrangement may be procured, maintained, or established within the Company or with any insurer or other person deemed appropriate by the Board regardless of whether all or part of the stock or other securities of the insurer or other person are owned in whole or part by the Company. In the absence of fraud, the judgment of the Board as to the terms and conditions of the insurance or other arrangement and the identity of the insurer or other person participating in an arrangement shall be conclusive and the insurance or arrangement shall not be voidable and shall not subject the Directors approving the insurance or arrangement to liability, on any ground, regardless of whether Directors participating in the approval are beneficiaries of the insurance or arrangement.

ARTICLE IX

INTERESTED DIRECTORS, OFFICERS AND STOCKHOLDERS

Section 9.1 **Validity; Disclosure; Approval**. An otherwise valid contract or transaction between the Company and one or more of its directors or officers, or between the Company and any other domestic or foreign corporation, or other entity in which one or more of its directors or officers are directors or officers or have a financial interest, shall be valid notwithstanding whether the director or officer is present at or participates in the meeting of the Board or committee thereof which authorizes the contract or transaction, or solely because his or their votes are counted for such purpose, if any one of the following is satisfied:

(A) the material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the Board or the committee, and the Board or committee in good faith authorizes the contract or transaction by the affirmative vote of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or

(B) the material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or

(C) the contract or transaction is fair as to the Company as of the time it is authorized, approved, or ratified by the Board, a committee thereof or the stockholders.

Section 9.2 **Quorum**. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board or by a committee which authorizes the contract or transaction.

Section 9.3 **Non-exclusive**. This Article IX shall not be construed to invalidate any contract or transaction which would be valid in the absence of this Article IX.

ARTICLE X

MISCELLANEOUS

Section 10.1 **Place of Meetings**. All stockholders, directors and committee meetings shall be held at such place or places, within or without the State of Delaware, as shall be designated from time to time by the Board or such committee and stated in the notices thereof. If no such place is so designated, said meetings shall be held at the principal business office of the Company.

Section 10.2 **Fixing Record Dates**.

(A) In order that the Company may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, to receive payment of any dividend or other distribution or allotment of any rights, to exercise any

rights in respect of any change, conversion or exchange of stock or to effect any other lawful action, or to make a determination of stockholders for any other proper purpose (other than determining stockholders entitled to consent to action by stockholders proposed to be taken without a meeting of stockholders), the Board may fix, in advance, a record date for any such determination of stockholders, which shall not be more than sixty (60) nor less than ten (10) days prior to the date on which the particular action requiring such determination of stockholders is to be taken. In the absence of any action by the Board, the date on which a notice of meeting is given, or the date the Board adopts the resolution declaring a dividend or other distribution or allotment or approving any change, conversion or exchange, as the case may be, shall be the record date. A record date validly fixed for any meeting of stockholders and the determination of stockholders entitled to vote at such meeting shall be valid for any adjournment of said meeting except where such determination has been made through the closing of stock transfer books and the stated period of closing has expired.

(B) In order that the Company may determine the stockholders entitled to consent to corporate action in writing without a meeting, the Board may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board, and which date shall not be more than ten (10) days after the date upon which the resolution fixing the record date is adopted by the Board. If no record date has been fixed by the Board, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the Board is otherwise required, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the Company by delivery to its registered office in the State of Delaware, its principal place of business, or an officer or agent of the Company having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to the Company's registered office shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the Board and prior action by the Board is required, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the day on which the Board adopts the resolution taking such prior action.

Section 10.3 **Waiver of Notice**. Whenever any notice is required to be given under law, the certificate of incorporation or these Bylaws, a written waiver of such notice, signed before or after the date of such meeting by the person or persons entitled to said notice, shall be deemed equivalent to such required notice. All such waivers shall be filed with the corporate records. Attendance at a meeting shall constitute a waiver of notice of such meeting, except where a person attends for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

Section 10.4 **Attendance via Communications Equipment**. Unless otherwise restricted by law, the certificate of incorporation or these Bylaws, members of the Board, members of any committee thereof or the stockholders may hold a meeting by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can effectively communicate with each other. Such participation in a meeting shall constitute presence in person at the meeting, except where a person participates

in the meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened.

Section 10.5 **Dividends**. Dividends on the capital stock of the Company, paid in cash, property or securities of the Company, or any combination thereof, and as may be limited by applicable law and applicable provisions of the certificate of incorporation (if any), may be declared by the Board at any regular or special meeting.

Section 10.6 **Reserves**. Before payment of any dividend, there may be set aside out of any funds of the Company available for dividends such sum or sums as the Board from time to time, in its absolute discretion, thinks proper as a reserve or reserves to meet contingencies, for equalizing dividends, for repairing or maintaining any property of the Company, or for such other purpose as the Board shall determine to be in the best interest of the Company; and the Board may modify or abolish any such reserve in the manner in which it was created.

Section 10.7 **Contracts and Negotiable Instruments**. Except as otherwise provided by law or these Bylaws, any contract or other instrument relative to the business of the Company may be executed and delivered in the name of the Company and on its behalf by the chairman of the board, the chief executive officer, the president or any vice president; and the Board may authorize any other officer or agent of the Company to enter into any contract or execute and deliver any contract in the name and on behalf of the Company, and such authority may be general or confined to specific instances as the Board may by resolution determine. All bills, notes, checks or other instruments for the payment of money shall be signed or countersigned by such officer, officers, agent or agents and in such manner as are permitted by these Bylaws and/or as, from time to time, may be prescribed by resolution (whether general or special) of the Board. Unless authorized so to do by these Bylaws or by the Board, no officer, agent or employee shall have any power or authority to bind the Company by any contract or engagement, or to pledge its credit, or to render it liable pecuniarily for any purpose or to any amount.

Section 10.8 **Fiscal Year**. The fiscal year of the Company shall be fixed by resolution of the Board.

Section 10.9 **Seal**. The seal of the Company shall be in such form as shall from time to time be adopted by the Board. The seal may be used by causing it or a facsimile thereof to be impressed, affixed or otherwise reproduced.

Section 10.10 **Books and Records**. The Company shall keep correct and complete books and records of account and shall keep minutes of the proceedings of its stockholders, Board and committees and shall keep at its registered office or principal place of business, or at the office of its transfer agent or registrar, a record of its stockholders, giving the names and addresses of all stockholders and the number and class of the shares held by each.

Section 10.11 **Resignation**. Any director, committee member, officer or agent may resign by giving written notice to the chairman of the board, the chief executive officer, the president or the secretary. The resignation shall take effect at the time specified therein, or

immediately if no time is specified. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 10.12 **Surety Bonds**. Such officers and agents of the Company (if any) as the chairman of the board, the chief executive officer, the president or the Board may direct, from time to time, shall be bonded for the faithful performance of their duties and for the restoration to the Company, in case of their death, resignation, retirement, disqualification or removal from office, of all books, papers, vouchers, money and other property of whatever kind in their possession or under their control belonging to the Company, in such amounts and by such surety companies as the chairman of the board, the chief executive officer, the president or the Board may determine. The premiums on such bonds shall be paid by the Company and the bonds so furnished shall be in the custody of the Secretary.

Section 10.13 **Proxies in Respect of Securities**. The chairman of the board, the chief executive officer, the president, any vice president or the secretary may from time to time appoint an attorney or attorneys or an agent or agents for the Company to exercise, in the name and on behalf of the Company, the powers and rights which the Company may have as the holder of stock or other securities in any other corporation to vote or consent in respect of such stock or other securities, and the chairman of the board, the chief executive officer, the president, any vice president or the secretary may instruct the person or persons so appointed as to the manner of exercising such powers and rights; and the chairman of the board, the chief executive officer, the president, any vice president or the secretary may execute or cause to be executed, in the name and on behalf of the Company and under its corporate seal or otherwise, all such written proxies or other instruments as he may deem necessary or proper in order that the Company may exercise such powers and rights.

Section 10.14 **Amendments**. These Bylaws may be altered, amended, repealed or replaced by the stockholders, or by the Board when such power is conferred upon the Board by the certificate of incorporation, at any annual stockholders meeting or annual or regular meeting of the Board, or at any special meeting of the stockholders or of the Board if notice of such alteration, amendment, repeal or replacement is contained in the notice of such special meeting. If the power to adopt, amend, repeal or replace these Bylaws is conferred upon the Board by the certificate of incorporation, the power of the stockholders to so adopt, amend, repeal or replace these Bylaws shall not be divested or limited thereby.

Exhibit 4.1

APPLIED OPTOELECTRONICS, INC.

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this "***Agreement***"), dated as of the Effective Date (defined herein), is by and between Applied Optoelectronics, Inc., a Texas corporation (the "***Company***") and the ***Holder*** (specified on the signature page).

RECITALS

WHEREAS, the Company and the Holder are parties to the Subscription Agreement of even date herewith (the "***Purchase Agreement***"); and

WHEREAS, in order to induce the Company to enter into the Purchase Agreement and to induce the Holder to invest funds in the Company pursuant to the Purchase Agreement, the Holder and the Company hereby agree that this Agreement shall govern the rights of the Holder to cause the Company to register shares of Common Stock issuable to the Holder and certain other matters as set forth herein.

NOW, THEREFORE, THE PARTIES HERETO HEREBY AGREE AS FOLLOWS:

1. Definitions.

1.1 Capitalized Terms. Capitalized terms used herein but not defined herein shall have the meanings ascribed to such terms in the Purchase Agreement.

1.2 Definitions. The following capitalized terms as used in this Agreement shall have the meanings set forth below.

(a) An "***Affiliate***" of any Person shall mean a Person that directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with the first mentioned Person. A Person shall be deemed to control another Person if such first Person possesses directly or indirectly the power to direct, or cause the direction of, the management and policies of the second Person, whether through the ownership of voting securities, by contract or otherwise.

(b) The term "***Board of Directors***" shall mean the Board of Directors of the Company.

(c) The term "***Common Stock***" shall mean the Common Stock, and any other securities into which the Common Stock may be converted or exchanged pursuant to a plan of recapitalization, reorganization, merger, sale of assets or otherwise.

(d) The term "***Form S-3***" shall mean such form under the Securities Act as in effect on the date hereof or any registration form under the Securities Act subsequently adopted by the SEC in lieu of such form as currently in effect which similarly permits inclusion or incorporation of substantial information by reference to other documents filed by the Company with the SEC.

(e) The term "***Holder***" shall mean any person owning or having the right to acquire Registrable Securities or any assignee thereof.

(f) The term "***Initial Public Offering***" shall mean the initial sale of Common Stock pursuant to an effective registration statement filed by the Company under the Securities Act (as hereinafter defined) in connection with a firm commitment underwritten offering of such securities to the general public.

(g) The term "***1934 Act***" shall mean the Securities Exchange Act of 1934, as amended.

(h) The term "***Person***" shall mean an individual, a corporation, a partnership, a joint venture, a trust, an unincorporated organization, a limited liability company, and any other entity or organization, governmental or otherwise.

(i) The term "***Preferred Stock***" shall mean the Series · Convertible Preferred Stock, and any other securities into which the Preferred Stock may be converted or exchanged pursuant to a plan or recapitalization, reorganization, merger, sale of assets or otherwise.

(j) The terms "register," "registered," and "registration" shall refer to a registration effected by preparing and filing a registration statement or similar document in compliance with the Securities Act, and the declaration or ordering of effectiveness of such registration statement or document.

(k) The term "***Registrable Securities***" shall mean the Common Stock issuable or issued upon conversion of the Preferred Stock and any shares of Common Stock issued or issuable with respect to any such shares described above by way of a stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or other reorganization; provided, however, that notwithstanding anything to the contrary contained herein, "Registrable Securities" shall not at any time include any securities (i) registered and sold pursuant to the Securities Act, (ii) sold to the public pursuant to Rule 144 promulgated under the Securities Act ("Rule 144"), (iii) that may be sold to the public under Rule 144, or (iv) that have otherwise been transferred and a new certificate or other evidence of ownership for them not bearing a restrictive legend and not subject to any stop transfer order has been delivered by or on behalf of the Company and no other restriction on transfer exists by operation of law.

(l) The number of shares of "Registrable Securities then outstanding" shall be determined by the number of shares of Common Stock outstanding which are, and the number of shares of Common Stock issuable pursuant to then exercisable or convertible securities which are, Registrable Securities.

(m) The term "***SEC***" shall mean the Securities and Exchange Commission.

(n) The term "***Securities Act***" shall mean the Securities Act of 1933, as amended.

2. Registration Rights.

2.1 Demand Registration Rights.

(a) If the Company shall receive at any time after one hundred and eighty (180) days after the effective date of the first registration statement for an Initial Public Offering of securities of the Company (other than a registration statement relating either to the sale of securities to employees of the Company pursuant to a stock option, stock purchase or similar plan or a SEC Rule 145 transaction), a written request from the Holders of more than 50% of the Registrable Securities then outstanding that the Company file a registration statement under the Securities Act covering the registration and sale of Registrable Securities and such other securities (if any) then outstanding and held by the Holders, then the Company shall:

(i) within ten (10) days of the receipt thereof, give written notice of such request to all Holders; and

(ii) file, as soon as practicable and in any event within ninety (90) days of the receipt of such request, a registration statement with the SEC under the Securities Act covering all Registrable Securities which the Holders request to be registered (such request having been made within twenty (20) days of the mailing of such notice by the Company in accordance with Section 3.5) subject to the limitations of Section 2.1(b), and thereafter to use its reasonable best efforts to cause the registration statement to be declared effective as soon as practicable.

(b) If the Holders initiating the registration request hereunder (the "***Initiating Holders***") intend to distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise the Company as a part of their request made pursuant to Section 2.1(a) and the Company shall include such information in the written notice referred to in Section 2.1(a). The managing underwriter will be selected by the Company and shall be reasonably acceptable to a majority in interest of the Initiating Holders. In such event, the right of any Holder to include its Registrable Securities in such registration shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting (unless otherwise mutually agreed by a majority in interest of the Initiating Holders and such Holder) to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall (together with the Company as provided in Section 2.3(j)) enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting.

(c) The Company agrees, if requested by the Initiating Holders, not to effect a public or private sale or distribution of its Common Stock, or any securities convertible into or exchangeable for such securities (other than any such sale or distribution of such securities in connection with any merger or consolidation by the Company or a subsidiary thereof or the acquisition by the Company or a subsidiary thereof of the capital stock or assets of any other Person or registration on Form S-4 or Form S-8 or any successor forms) during the 15-day period prior to filing through the 90-day period beginning on the effective date of any firm underwritten Registration Statement filed pursuant to Sections 2(a) hereof unless the underwriters managing the requested public offering otherwise agree; *provided*, *however*, that

the provisions of this paragraph (c) shall not prevent the sale, distribution, conversion or exchange of any securities and grants of options during such periods pursuant to stock option or benefit plans of the Company.

(d) In addition, the Company shall not be obligated to effect, or to take any action to effect, any registration pursuant to this Section 2.1:

(i) After the Company has effected one (1) registration requested pursuant to this Section 2.1;

(ii) During the period starting with the date sixty (60) days prior to the Company's good faith estimate of the date of filing of, and ending on a date ninety (90) days after the effective date of, a registration subject to Section 2.2 hereof; provided that the Company is actively employing in good faith its reasonable best efforts to cause such registration statement to become effective;

(iii) If the Holders propose to dispose of shares of Registrable Securities that may be immediately registered on Form S-3 pursuant to a request made pursuant to Section 2.11 below and such registration statement has been declared or ordered effective; or

(iv) If there is requested to be included in such registration less than $2.0 million of Registrable Securities (unless all remaining Registrable Securities are included in such registration).

2.2 Company Registration. If the Company at any time proposes to register (including for this purpose a registration effected by the Company for stockholders other than the Holders) any of its stock or other securities under the Securities Act in connection with the public offering of such securities solely for cash (other than a registration statement relating either to the sale of securities to employees of the Company pursuant to a stock option, stock purchase or similar plan or a SEC Rule 145 transaction), the Company shall, at such time, promptly give each Holder at least thirty (30) days written notice of its intention to do so. Upon the written request of each Holder given within twenty (20) days after receipt of such notice by the Holder in accordance with Section 3.5, the Company shall use its reasonable best efforts to cause to be included in such registration all of the Registrable Securities that each such Holder has requested to be registered; provided, however, that if the Company is advised in writing in good faith by any managing underwriter of the Company's securities being offered in an underwritten public offering pursuant to such registration statement that the amount to be sold by persons other than the Company (collectively, "***Selling Stockholders***") is greater than the amount which can be offered without adversely affecting the offering, the Company may reduce the amount offered for the accounts of Selling Stockholders (including such holders of Registrable Securities) to a number deemed satisfactory by such managing underwriter (which reduction shall be pro rata among such Selling Shareholders on the basis of the number of shares requested by such Selling Shareholders to be included in such registration).

2.3 Obligations of the Company. Whenever required under this Section 2 to effect the registration of any Registrable Securities, the Company shall, as expeditiously as reasonably possible:

(a) Prepare and file with the SEC, within ninety (90) days of the receipt of a request pursuant to this Section 2, a registration statement on the appropriate form under the Securities Act with respect to such securities, which form shall comply in all material respects with the requirements of the SEC, and use its reasonable best efforts to cause such registration statement to become and remain effective until the completion of the proposed offering (but for no more than One Hundred Eighty (180) days); provided, however, that (i) such One Hundred Eighty (180) day period shall be extended for a period of time equal to the period the Holder refrains from selling any securities included in such registration at the request of an underwriter of Common Stock (or other securities) of the Company; and (ii) in the case of any registration of Registrable Securities on Form S-3 which are intended to be offered on a continuous or delayed basis, such One Hundred Eighty (180) day period shall be extended, if necessary, to keep the registration statement effective until all such Registrable Securities are sold or such securities are no longer Registrable Securities, provided that Rule 415, or any successor rule under the Securities Act, permits an offering on a continuous or delayed basis, and provided further that applicable rules under the Securities Act governing the obligation to file a post-effective amendment permit, in lieu of filing a post-effective amendment which (I) includes any prospectus required by Section 10(a)(3) of the Securities Act or (II) reflects facts or events representing a material or fundamental change in the information set forth in the registration statement, the incorporation by reference of information required to be included in (I) and (II) above to be contained in periodic reports filed pursuant to Section 13 or 15(d) of the 1934 Act in the registration statement;

(b) Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the sale or other disposition of all of the securities covered by such registration statement;

(c) Furnish to the Holders whose Registrable Securities are included in such registration statement and the underwriters, if any, such numbers of copies of such registration statement, any amendments thereto, any documents incorporated by reference therein, the prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the sale or other disposition of the securities owned by them;

(d) Use its reasonable best efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the applicable Holders and do any and all other acts and things that may be necessary under such securities and blue sky laws to enable such selling Holders to consummate the sale or other disposition of the securities owned by them; provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions, unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act;

(e) Within a reasonable time before each filing of the registration statement or prospectus or amendments or supplements thereto with the SEC, furnish

to counsel selected by any holders of Registrable Securities copies of such documents proposed to be filed, which documents shall be subject to the reasonable approval of such counsel;

(f) Promptly notify each selling Holder of Registrable Securities, such selling Holder's counsel and any applicable underwriter and (if requested by any such Person) confirm such notice in writing, of the happening of any event which makes any statement made in the registration statement or related prospectus untrue or which requires the making of any changes in such registration statement or prospectus so that they will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein in the light of the circumstances under which they were made not misleading; and, as promptly as practicable thereafter, prepare and file with the SEC and furnish a supplement or amendment to such prospectus so that, as thereafter deliverable to the purchasers of such Registrable Securities, such prospectus will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(g) Use its reasonable best efforts to prevent the issuance of any order suspending the effectiveness of a registration statement and, if one is issued, use its reasonable best efforts to obtain the withdrawal of any order suspending the effectiveness of a registration statement at the earliest possible moment;

(h) If requested by the managing underwriter or underwriters (if any), any selling Holder, or such selling Holder's counsel, promptly incorporate in a prospectus supplement or post-effective amendment such information as such Person requests to be included therein with respect to the selling Holder or the securities being sold, including, without limitation, with respect to the securities being sold by such selling Holder to such underwriter or underwriters, the purchase price being paid therefor by such underwriter or underwriters and with respect to any other terms of an underwritten offering of the securities to be sold in such offering, and promptly make all required filings of such prospectus supplement or post-effective amendment;

(i) Make available to each selling Holder, any underwriter participating in any disposition pursuant to a registration statement, and any attorney, accountant or other agent or representative retained by any such selling Holder or underwriter (collectively, the "Inspectors"), upon request, all financial and other records, pertinent corporate documents and properties of the Company (collectively, the "Records"), as shall be reasonably necessary to enable them to exercise their due diligence responsibility, and cause the Company's officers, directors and employees to supply all information reasonably requested by any such Inspector in connection with such registration statement subject, in each case, to such confidentiality agreements as the Company shall reasonably request; *provided, however*, that any records, information or documents that are designated by the Company in writing as confidential shall be kept confidential by such Persons unless (i) such information or documents are in the public domain at the relevant time (other than by reason of breach of this Agreement) or (ii) disclosure of such records, information or documents is required by court or administrative order; *provided, further*, if any Holder or such representative, counsel or accountant is ordered to disclose any of such records, documents or information, such Holder or such representative, counsel or accountant will provide the Company with prompt written notice of such requirement so that the

Company at its expense may seek a protective order or other appropriate remedy and/or waive compliance with this Section 2.3(i), and, in the event that such protective order or other remedy is not obtained, or that the Company waives compliance with the provisions hereof, such Holder and such representative, counsel and accountant agrees to furnish only that portion of such records, documents or information which such Holder or such representative, counsel or accountant is legally required to disclose in the opinion of the special counsel or counsel representing the Holders or such representative, underwriter or accountant;

(j) In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter or underwriters of such offering;

(k) Cause all such Registrable Securities registered pursuant to such registration statement to be listed on each securities exchange or quoted on the quotation system on which the Company's Common Stock is then listed or quoted;

(l) Provide a transfer agent and registrar for all Registrable Securities registered pursuant hereunder and a CUSIP number for all such Registrable Securities, in each case not later than the effective date of such registration;

(m) Otherwise use its reasonable best efforts to comply with all applicable rules and regulations of the SEC and make generally available to its security holders, in each case as soon as practicable, but not later than 45 days after the close of the period covered thereby, an earnings statement of the Company which will satisfy the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder (or any comparable successor provisions);

(n) Furnish, at the request of any Holder requesting registration of Registrable Securities pursuant to this Section 2, on the date that such Registrable Securities are delivered to the underwriters for sale in connection with a registration pursuant to this Section 2, if such securities are being sold through underwriter(s), (i) an opinion, dated such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriter(s), and (ii) a letter dated such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriter(s); and

(o) Otherwise cooperate with the underwriter(s), the SEC and other regulatory agencies and take all reasonable actions and execute and deliver or cause to be executed and delivered all documents reasonably necessary to effect the registration of any securities under this Agreement.

2.4 Furnish Information. It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Section 2 with respect to the Registrable Securities of any selling Holder that such Holder shall furnish to the Company such information regarding itself, the Registrable Securities held by it, and the intended method of disposition of such securities as shall reasonably be required to effect the registration of such Holder's Registrable Securities.

2.5 Expenses of Registration. All expenses incident to the Company's performance of or compliance with this Agreement, including without limitation SEC registration and filing fees, fees with respect to filings required to be made with the National Association of Securities Dealers, Inc., fees and expenses in compliance with state securities, or blue sky, laws (including fees and disbursements of counsel for the underwriters in connection with blue sky qualifications of the Registrable Securities), printing expenses, and fees and disbursements of counsel for the Company and of all independent certified public accountants of the Company (including the expenses of any special audit and "cold comfort" letters required by or incident to such performance) and the fees and expenses incurred in connection with the listing of the securities to be registered on each securities exchange on which similar securities issued by the Company are then listed in connection with the demand registration or any piggyback registration hereunder will be borne by the Company; *provided*, that all underwriting discounts and selling commissions applicable to the sale of the Registrable Securities and all other expenses of the Holders incurred in connection with the distribution of Registrable Securities (including all fees and expenses of the consultants, advisors, attorneys, special experts and other Persons engaged by the Holders, and all relevant taxes, including transfer taxes) will be borne by the Holders.

2.6 Underwriting Requirements. In connection with any offering involving an underwriting of shares of the Company's capital stock, the Company shall not be required under Section 2.2 to include any of the Holders' securities in such underwriting unless such Holders accept the terms of the underwriting as agreed upon between the Company and the underwriters selected by the Company (or by other persons entitled to select the underwriters) and then only in such quantity as the underwriters determine in their sole discretion will not, jeopardize the success of the offering by the Company.

2.7 Blackouts. Notwithstanding the foregoing, (a) the Company may delay the filing of any registration statement, any amendment thereof or any supplement to the related prospectus, and may withhold efforts to cause any registration statement to become effective, and (b) the Company may prohibit offers and sales of Registrable Securities pursuant to a registration statement at any time, if (i)(A) the Company is in possession of material non-public information, (B) an executive officer of the Company (the "Executive Officer"), after consultation with the Board of Directors of the Company (the "Board"), reasonably determines that such prohibition is necessary in order to avoid an obligation to disclose such information and (C) the Executive Officer, after consultation with the Board, determines in good faith that disclosure of such information would not be in the best interest of the Company or its stockholders or (ii) the Company has made a public announcement relating to an acquisition or business combination transaction including the Company and/or one or more of its subsidiaries for which the Executive Officer, after consultation with the Board, determines in good faith that offers and sales of Registrable Securities pursuant to a registration statement prior to the consummation of such transaction (or such earlier date as the Executive Officer, after consultation with the Board shall determine) would not be in the best interest of the Company or its stockholders; *provided, however,* that the duration of all such delays or periods in which shares of Registrable Securities may not be sold pursuant to an effective registration statement shall not exceed 90 days in any 12-month period in the aggregate; *provided, further*, that the Company shall be required to keep such registration statement effective for an additional period of time beyond the first anniversary of the date hereof equal to the number of days the effectiveness thereof is suspended pursuant to this proviso.

2.8 Damages. The Company recognizes and agrees that each holder of Registrable Securities will not have an adequate remedy if the Company fails to comply with the terms and provisions of this Agreement and that damages will not be readily ascertainable, and the Company expressly agrees that, in the event of such failure, it shall not oppose an application by any holder of Registrable Securities or any other Person entitled to the benefits of this Agreement requiring specific performance of any and all provisions hereof or enjoining the Company from continuing to commit any such breach of this Agreement.

2.9 Indemnification. In the event any Registrable Securities are included in a registration statement under this Section 2:

(a) The Company shall indemnify and hold harmless each selling Holder, each underwriter (as defined in the Securities Act) and each Person who participates in the offering of securities under such registration statement, and each other Person, if any, who controls (within the meaning of the Securities Act) such seller, underwriter or participating Person (individually and collectively, the "Indemnified Person"), against any losses, claims, damages or liabilities (joint or several) to which they become subject under the Securities Act, the 1934 Act or other federal or state law, insofar as such losses, claims, damages, or liabilities (joint or several), or actions in respect thereof, to which such Indemnified Person becomes subject under the Securities Act or any other statute or at common law which arise out of or are based upon: (i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading, or (iii) any violation or alleged violation by the Company of the Securities Act, the 1934 Act, any state securities law or any rule or regulation promulgated under the Securities Act, the 1934 Act or any state securities law in connection with an offering pursuant to Section 2.1, 2.2 or 2.11 hereof or including Registrable Securities pursuant to Section 2.3 hereof, and the Company shall pay to each such Indemnified Person, as incurred, any reasonable legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the Company shall not be liable to any Indemnified Person in any such case for any such loss, claim, damage, liability, or action to the extent that it arises out of or is based upon any untrue statement or alleged untrue statement or omission or alleged omission in such registration statement, preliminary or final prospectus, or amendment or supplement thereto, in reliance upon and in conformity with written furnished to the Company by such Person expressly for use therein; and provided, further, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage, or liability arises out of or is based upon an untrue statement or omission, or alleged untrue statement or omission, in a prospectus, if such untrue statement or omission, or alleged untrue statement or omission, is corrected in an amendment or supplement to such prospectus and if the Holders or the underwriter, as the case may be, thereafter fail to deliver such prospectus as so amended or supplemented prior to or concurrently with the sale by the Holders or the underwriter, as the case may be, of the Registrable Securities to the Person asserting such loss, claim, damage, liability or expense.

(b) To the extent permitted by law, each selling Holder of Registrable Securities included in such registration being effected shall indemnify and hold harmless the Company, each of its directors, each of its officers who has signed the registration

statement, each underwriter, any other Holder selling securities in such registration statement and any Person who controls (within the meaning of the Securities Act) the Company, such underwriter or such Holder (individually or collectively, also the "Indemnified Person"), against any losses, claims, damages, or liabilities (joint or several), or actions in respect thereof, to which they may become subject, under the Securities Act or any other statute or at common law, which arise out of or are based upon any other statute or at common law, which arises out of or is based upon (i) any untrue statement or alleged untrue statement of any material fact contained, on the effective date thereof, in any registration statement under which securities were registered under the Securities Act, any preliminary prospectus or final prospectus contained therein, or any amendment or supplement thereto, or (ii) any omission or alleged omission by such selling Holder to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading under the circumstances in which such statements were made, in the case of (i) and (ii) to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in such registration statement, preliminary or final prospectus, amendment or supplement thereto in reliance upon and in conformity with information furnished to the Company by such selling Holder specifically for use therein; and such selling Holder shall reimburse any Indemnified Person for any legal fees incurred in investigating or defending any such liability; provided, however, that such selling Holder's obligations hereunder shall be limited to an amount equal to the proceeds (net of underwriting discounts, commissions and expenses) to such selling Holder of the securities sold in any such registration; and provided further, that no selling Holder shall be required to indemnify any Person against any liability arising from any untrue or misleading statement or omission contained in any preliminary prospectus if such deficiency is corrected in the final prospectus or for any liability which arises out of the failure of any Person to deliver a prospectus as required by the Securities Act.

(c) Promptly after receipt by an indemnified party under this Section 2.9 of a complaint, claim or notice of the commencement of any liability or action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 2.9, promptly notify the indemnifying party of such complaint, claim, notice or action, and such indemnifying party shall have the right to investigate and assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party (together with all other indemnified parties which may be represented without conflict by one counsel) shall have the right to retain one separate counsel, with the reasonable fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding. The Person claiming indemnification shall have the right to employ separate counsel in any such action and to participate in the defense thereof but the fees and the expenses of such counsel shall not be at the expense of the Person against whom indemnification is sought (unless the indemnifying party fails to promptly defend, in which case the reasonable fees and expenses of such separate counsel shall be borne by the Person against whom indemnification is sought). The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action, if materially prejudicial to its ability to defend such action, shall relieve such indemnifying party of any liability to the indemnified party for any losses, claims, damages or liabilities emanating from such action for which indemnification would otherwise be available under this Section 2.9, but the omission to so deliver written notice to the

indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 2.9. In no event shall a Person against whom indemnification is sought be obligated to indemnify any Person for any settlement of any claim or action effected without the indemnifying Person's prior written consent which shall not be unreasonably withheld.

(d) If the indemnification provided for in this Section 2.9 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, liability, claim, damage, or expense referred to therein, then each indemnifying party, in lieu of indemnifying such indemnified party hereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such loss, liability, claim, damage, or expense (i) in such proportion as is appropriate to reflect the relative benefits received by the Company, the other Selling Stockholders and the underwriters from the offering of the Registrable Securities or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company, the selling Holders of Registrable Securities and the underwriters in connection with the statements or omissions which resulted in such losses, claims, damages, expenses or liabilities, as well as any other relevant equitable considerations. The relative benefits received by the Company, the selling Holders of Registrable Securities and the underwriters shall be deemed to be in the same respective proportions that the proceeds from the offering received by the Company and the selling Holders of Registrable Securities and the underwriting discount received by the underwriters, in each case as set forth in the table on the cover page of the applicable prospectus, bear to the aggregate public offering price of the Registrable Securities. The relative fault of the Company, the selling Holders of Registrable Securities and the underwriters shall be

determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company, the selling Holders of Registrable Securities or the underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company and the selling Holders of Registrable Securities agree that it would not be just and equitable if contribution pursuant to this Section 2.9 were determined by pro rata or per capita allocation or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraph. In no event, however, shall a Selling Stockholder be required to contribute any amount under this Section 2.8 in excess of the proceeds (net of underwriting discounts, commissions and expenses) received by such Selling Stockholder from its sale of Registrable Securities under such registration statement. No person found guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not found guilty of such fraudulent misrepresentation.

(e) The obligations of the Company and Holders under this Section 2.8 shall survive the completion of any offering of Registrable Securities in a registration statement under this Section 2, and otherwise, and the termination of this Agreement.

2.10 Reports Under Securities Exchange Act of 1934. With a view to making available to the Holders the benefits of Rule 144 (together, with any successor rule, Rule

144) promulgated under the Securities Act and any other rule or regulation of the SEC that may at any time permit a Holder to sell securities of the Company to the public without registration or pursuant to a registration on Form S-3, provided the Company is qualified to register securities on Form S-3 (or any successor form), the Company agrees to use its reasonable efforts to:

(a) make and keep public information available, as those terms are understood and defined in SEC Rule 144, at all times after the effective date of the first registration statement filed by the Company for the offering of its securities to the general public, and all action as may be required as a condition to the availability of SEC Rule 144;

(b) take such action, including the voluntary registration of its Common Stock under Section 12 of the 1934 Act, as is necessary to enable the Holders to utilize Form S-3 for the sale of their Registrable Securities, such action to be taken as soon as practicable after the end of the fiscal year in which the first registration statement filed by the Company for the offering of its Common Stock to the general public is declared effective;

(c) file with the SEC in a timely manner all reports and other documents required of the Company under the Securities Act and the 1934 Act;

(d) furnish to any Holder, so long as the Holder owns any Registrable Securities, forthwith upon request (i) a written statement by the Company that it has complied with the reporting requirements of SEC Rule 144, the Securities Act and the 1934 Act (at any time after it has become subject to such reporting requirements), or that it qualifies as a registrant whose securities may be resold pursuant to Form S-3 (at any time after it so qualifies), (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, and (iii) such other information as may be reasonably requested in availing any Holder of any rule or regulation of the SEC which permits the selling of any such securities without registration or pursuant to such form; and

(e) facilitate and expedite transfers of Registrable Securities pursuant to SEC Rule 144, including providing timely notice to its transfer agent to expedite such transfers.

2.11 Form S-3 Registration. After the first public offering of its Common Stock registered under the Securities Act, the Company shall use its reasonable efforts to qualify and remain qualified to register securities on Form S-3 (or any successor form) under the Securities Act. In case the Company shall receive from any Holder or Holders a written request or requests that the Company effect a registration on Form S-3 and any related qualification or compliance with respect to all or a part of the Registrable Securities owned by such Holder or Holders, the Company will:

(a) promptly give at least thirty (30) days written notice of the proposed registration, and any related qualification or compliance, to all other Holders; and

(b) as soon as practicable, effect such registration and all such qualifications and compliances as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Holder's or Holders' Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any other Holder or Holders joining in such request as are specified in a written request given within

fifteen (15) days after receipt of such written notice from the Company; provided, however, that the Company shall not be obligated to effect any such registration, qualification or compliance, pursuant to this Section 2.11: (1) if Form S-3 is not available for such offering by the Holders; (2) if the Holders, together with the holders of any other securities of the Company entitled to inclusion in such registration, propose to sell Registrable Securities and such other securities (if any) at an aggregate price to the public (net of any underwriters' discounts or commissions) of less than Two Million Dollars ($2,000,000); or (3) if (i)(A) the Company is in possession of material non-public information, (B) an Executive Officer, after consultation with the Board, reasonably determines that such prohibition is necessary in order to avoid an obligation to disclose such information and (C) the Executive Officer, after consultation with the Board, determines in good faith that disclosure of such information would not be in the best interest of the Company or its stockholders or (ii) the Company has made a public announcement relating to an acquisition or business combination transaction including the Company and/or one or more of its subsidiaries for which the Executive Officer, after consultation with the Board, determines in good faith that offers and sales of Registrable Securities pursuant to a registration statement prior to the consummation of such transaction (or such earlier date as the Executive Officer, after consultation with the Board shall determine) would not be in the best interest of the Company or its stockholders, in which event the Company shall have the right to defer the filing of the Form S-3 registration statement for a period of not more than ninety (90) days after receipt of the request of the Holder or Holders under this Section 2.11; provided, however, that the Company shall not utilize this right more than once in any twelve (12) month period.

(c) Subject to the foregoing, the Company shall file a registration statement covering the Registrable Securities and other securities so requested to be registered as soon as practicable after receipt of the request or requests of the Holders. Registrations effected pursuant to this Section 2.11 shall not be counted as demands for registration or registrations effected pursuant to Sections 2.1 or 2.2, respectively.

2.12 Assignment of Registration Rights. The rights to cause the Company to register Registrable Securities pursuant to this Section 2 may be assigned (but only with all related obligations) by a Holder to any subsequent Holder of Registrable Securities, provided that: (a) the Company is furnished with written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned; (b) such transferee or assignee agrees in writing to be bound by and subject to the terms and conditions of this Agreement; and (c) the transferee or assignee acquires at least 20% of the total number of Registrable Securities on the date hereof except that this Section 2.12(c) will not apply to transfers to an Affiliate of any Holder (subject to adjustment for stock splits and stock dividends).

2.13 Limitations. From and after the date of this Agreement, the Company shall not, without the prior written consent of the Holders holding a majority of the outstanding Registrable Securities, allow purchasers of the Company's securities to become a party to this Agreement.

2.14 Superior Registration Rights. If any other registration rights are granted to any other party that are superior to the rights granted by this Agreement, then this Agreement shall be automatically deemed to have been amended without any action required from either the Company or the Holder to the extent necessary to provide the Holder with no less

favorable terms, deliveries, conditions, covenants or other registration rights or benefits provided to the other party.

3. Miscellaneous.

3.1 Successors and Assigns. Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

3.2 Governing Law. This Agreement shall be governed by and construed under the laws of the State of Texas, exclusive of the provisions thereof governing conflicts of laws.

3.3 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

3.4 Titles and Subtitles; Gender. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement. The use in this Agreement of the masculine pronoun in reference to a party hereto shall be deemed to include the feminine member, and vice versa as the context may require.

3.5 Notices. Any notice, request, demand or other communication required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery to the party to be notified, upon the date of transmittal of services via telecopy to the party to whom notice is being given, or on the fifth day after deposit in the United States Post Office, by registered or certified mail, with postage and fees prepaid, return receipt requested, and addressed to the other party to:

(a) if to the Company, to:

Applied Optoelectronics, Inc.
Attn: Thompson Lin
Attn: N. Stephan Kinsella
13115 Jess Pirtle Blvd.
Sugar Land, TX 77478
Telephone Number: (281) 295-1800
Facsimile Number: (281) 295-1889

or such other address designated by the Company to the Holders and the other parties hereto in writing;

(b) if to the Holders, to each Holder at the mailing address as shown on the signature pages hereto, or at such other address designated by a Holder to the Company and the other Holders in writing.

3.6 Expenses. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which such party may be entitled.

3.7 Amendments and Waivers. Any term of this Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company and the Holders of sixty-six and two-thirds percent (66.67%) of Registrable Securities, voting together as a single class.

3.8 Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, such provision shall be excluded from this Agreement and the balance of the Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms.

3.9 Aggregation of Stock. All shares of Preferred Stock held or acquired by affiliated entities or persons shall be aggregated together for the purpose of determining the availability of any rights under this Agreement.

3.10 Entire Agreement; Amendment; Waiver. This Agreement and the documents referred to herein constitute the entire agreement among the parties with regard to the subjects hereof and thereof.

3.11 Termination. This Agreement shall automatically terminate, with no action required by any party hereto, (a) when there are no Registrable Securities or (b) on the date occurring five years after the Initial Public Offering (plus the aggregate number of days of all blackouts invoked by the Company pursuant to Sections 2.7 and 2.11(b)), except, in each such case, Sections 2.9 and 3.2, which shall survive termination of this Agreement.

IN WITNESS WHEREOF, the parties have caused this Registration Rights Agreement to be duly executed and delivered as of , 20 (the "***Effective Date***").

THE COMPANY:

Applied Optoelectronics, Inc.

By: _____
Name: Chih-Hsiang (Thompson) Lin
Title: President and Chief Executive Officer

HOLDER:

[ ]
PRINTED NAME OF HOLDER

By: _____
SIGNATURE

Name: _____
PRINTED NAME OF PERSON SIGNING

Title: _____
PRINTED TITLE OF PERSON SIGNING

Address: [ ]
[ ]
[ ]

THIRD AMENDED AND RESTATED SHAREHOLDERS' AGREEMENT OF APPLIED OPTOELECTRONICS, INC.

This Third Amended and Restated Shareholders' Agreement, dated effective as of September 15, 2006 (as amended, restated, supplemented or otherwise modified from time to time, this "***Agreement***"), is by and among Applied Optoelectronics, Inc., a Texas corporation (the "***Company***"), the holders of the Company's Common Stock (defined below) (the "***Common Shareholders***"), the holders of the Company's Preferred Stock (defined below) (the "***Preferred Shareholders***"), and such other persons or entities who execute this Agreement from time to time (collectively, the "***Shareholders***").

RECITALS:

A. The Common Shareholders own shares of common stock, no par value ("***Common Stock***"), of the Company, and the Preferred Shareholders own Preferred Stock, no par value ("***Preferred Stock***"), as designated pursuant to the Company's Articles of Incorporation (as amended, restated, supplemented or otherwise modified from time to time).

B. Certain of the Shareholders entered into the First Amended and Restated Shareholders' Agreement dated as of May 4, 2001 and the Second Amended and Restated Shareholders' Agreement dated as of December 9, 2004 (collectively, the "***Previous Agreements***") with the Company, which agreements provided that they could be amended, modified or replaced by a writing signed by the Company and Shareholders holding Shares equal or greater than $^2/_3$ of the outstanding Common Stock (on an as-converted basis), and this Agreement has been signed by the Company and Shareholders holding at least the requisite amount of Common Stock, all of whom desire to amend, restate, and replace the Previous Agreements with this Agreement.

C. From time to time after the date of this Agreement, at the Company's option, Persons (herein defined) who acquire Shares (herein defined) may execute this Agreement and become party hereto.

AGREEMENT:

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements contained herein and other good and valuable consideration (the receipt and sufficiency of which are hereby stipulated and acknowledged), the parties hereto agree as follows:

ARTICLE 1
AMENDMENT AND RESTATEMENT OF PREVIOUS AGREEMENTS

The parties hereto hereby amend and restate, and replace in their entirety, the Previous Agreements with this Agreement.

ARTICLE 2
DEFINITIONS

2.1 Specific Definitions. The following capitalized terms have the following definitions:

"***Action***" means any action, appeal, petition, plea, charge, complaint, claim, suit, demand, litigation, arbitration, mediation, hearing, inquiry, investigation or similar event, occurrence, or proceeding.

"***Agreement***" is defined in the Preamble.

"***Board***" means the Company's Board of Directors.

"***Breach***" means any breach, inaccuracy, failure to perform, failure to comply, conflict with, default, violation, acceleration, termination, cancellation, modification, or required notification.

"***Common Shareholders***" is defined in the Preamble.

"***Common Stock***" is defined in the Recitals.

"***Company***" is defined in the Preamble.

"***Company Equity***" means the Company's Common Stock and the Company's Preferred Stock.

"***Consent***" means any consent, approval, notification, waiver, or other similar action that is necessary or convenient.

"***Contract***" means any contract, agreement, arrangement, commitment, letter of intent, memorandum of understanding, promise, obligation, right, instrument, document, or other similar understanding, whether written or oral.

"***Exchange Act***" means the Securities Exchange Act of 1934, as amended.

"***Fair Market Value***" means the fair market value of the applicable Shares on the date of the applicable purchase as determined by an independent appraiser, which independent appraiser shall be an investment banking firm, an accounting firm or a similar firm with expertise valuing businesses similar to the Company.

"***Governmental Authority***" means any legislature, agency, bureau, branch, department, division, commission, court, tribunal, magistrate, justice, multi-national organization, quasi-governmental body, or other similar recognized organization or body of any federal, state, county, municipal, local, or foreign

government or other similar recognized organization or body exercising similar powers or authority.

"***IPO***" means an underwritten public offering under an effective registration statement under the Securities Act, covering the offering and sale of Common Stock for the account of the Company.

"***Law***" means any law (statutory, common, or otherwise), constitution, treaty, convention, ordinance, equitable principle, code, rule, regulation, executive order, or other similar authority enacted, adopted, promulgated, or applied by any Governmental Authority and any rule or regulation of any stock exchange upon which any Common Stock is listed, each as amended and now in effect.

"***Major Investor***" means any Person who owns of record a number of shares of Company Equity equal to, on an as-converted basis, 2,000,000 shares of Common Stock (as adjusted for stock splits, reverse stock splits, stock dividends and similar transactions).

"***Offer Exercise Period***" is defined in Section 5.3(b).

"***Offer Notice***" is defined in Section 5.3(a).

"***Offered Shares***" is defined in Section 5.3(a).

"***Offering Holder***" is defined in Section 5.3(a).

"***Order***" means any order, ruling, decision, verdict, decree, writ, subpoena, mandate, precept, command, directive, consent, approval, award, judgment, injunction, or other similar determination or finding by, before, or under the supervision of any Governmental Authority, arbitrator, or mediator.

"***Parties***" means the Company and the Shareholders.

"***Permit***" means any permit, license, certificate, approval, consent, notice, waiver, franchise, registration, filing, accreditation, or other similar authorization required by any Law, Governmental Authority, or Contract.

"***Person***" means any individual, partnership, limited liability company, corporation, association, joint stock company, trust, joint venture, labor organization, unincorporated organization, or governmental authority (including any administrative, legislative or judicial department thereof).

"***Preferred Shareholders***" is defined in the Preamble.

"***Preferred Stock***" is defined in the Recitals.

"***Previous Agreements***" is defined in the Recitals.

"***SEC***" means the Securities and Exchange Commission.

"***Securities Act***" means the Securities Act of 1933, as amended.

"***Shareholders***" is defined in the Preamble.

"***Series D Lead VC***" means CTB Financial Management & Consulting Co., so long as it and its affiliates own at least 1,000,000 shares of the Company's Series D Preferred Stock.

"***Shares***" means, at any time, all shares of capital stock of the Company owned by the applicable Shareholder.

"***Significant Investor***" means any Person that owns of record a number of shares of Company equal to, on an as-converted basis, 1,000,000 shares of Common Stock (as adjusted for stock splits, reverse stock splits, stock dividends and similar transactions).

"***Spouse's Interest***" means that portion of a Shareholder's Shares that such Shareholder's spouse or the spouse's estate owns by virtue of the spouse's community interest in the Shares or otherwise.

"***Transfer***" means any sale, assignment, transfer, pledge, encumbrance or other disposal or alienation , whether directly or indirectly, voluntarily or involuntarily, with or without consideration, by gift, operation of law or otherwise (including by merger, consolidation, share exchange, sale of all or substantially all of a Person's assets, or by change of control of a Person).

ARTICLE 3
OWNERSHIP OF EQUITY INTERESTS

3.1 Ownership; Applicability of this Agreement. Each Shareholder represents and warrants that it owns (beneficially and of record) the Shares set forth next to such Shareholder's name on such Shareholder's signature page hereto. All Shares owned (now or hereafter) by each Shareholder will be subject to all of the terms and provisions of this Agreement, and each certificate representing Shares shall contain the legends set forth in Section 11.5.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES

4.1 Representations and Warranties. Each Shareholder represents and warrants to the other Parties that the statements contained in this Section 4.1 are true and correct as of the date of this Agreement.

(a) If such Shareholder is an entity:

(i) such Shareholder is (A) an entity duly created, formed or organized, validly existing, (B) in good standing under the Laws of the jurisdiction of its creation, formation, or organization, (C) duly authorized to conduct its business and (D) in good standing under the Laws of each jurisdiction where such qualification is required;

(ii) such Shareholder (A) has the corporate power and authority to execute and deliver this Agreement, and to perform and consummate all transactions contemplated hereby, (B) has taken all actions necessary to authorize the

execution and delivery of this Agreement, the performance of its obligations hereunder, and the consummation of all transactions contemplated hereby; and

(iii) the execution and the delivery of this Agreement by such Shareholder do not, and the performance and consummation of the transactions contemplated hereby by such Shareholder will not, (A) Breach any Law or Order to which such Shareholder is subject or any provision of its articles of incorporation or bylaws, (B) Breach any Contract, Order, or Permit to which such Shareholder is a party or by which such Shareholder is bound or to which any of such Shareholder's assets is subject, or (C) require any Consent.

(b) If such Shareholder is a natural person, such Shareholder is an adult, with the legal capacity to enter into this Agreement and perform his or her obligations hereunder.

(c) This Agreement has been duly authorized, executed, and delivered by, and is enforceable against, such Shareholder (subject to the effects of bankruptcy, insolvency, reorganization, moratorium, or other Laws relating to or affecting the rights of creditors, and general principles of equity).

(d) Other than this Agreement, such Shareholder's Shares are not subject to any voting agreement, shareholder agreement, proxy or other similar Contract.

ARTICLE 5
TRANSFER RESTRICTIONS

5.1 Transfer Restrictions. No Shareholder shall Transfer, or permit to be Transferred, any Shares except in accordance with this ARTICLE 5.

5.2 Permitted Transfers. Subject to Section 5.6, the following Transfers may be effected without being subject to the provisions of Section 5.3.

(a) Any Shareholder that is a natural person may Transfer any of his or her Shares to one of the following: (a) a member of such Shareholder's immediate family or (b) a trust for any natural person's benefit, the beneficial interests in which are not readily transferable, owned by such person; *provided* that, in each case, such transferee agrees in writing (satisfactory to the Company in its sole discretion) to take such Shares subject to this Agreement. Any such Transfer to a child who is then under 21 years old must be conditioned upon the transferor retaining and reserving for itself the right to do any act with respect to the transferred Shares on behalf of such transferee that is permitted, authorized or required hereby.

(b) Notwithstanding anything to the contrary herein, any Shareholder that is not a natural person may Transfer any of its Shares to an Affiliate of such Shareholder that remains an Affiliate of such Shareholder or pledge any of its Shares as part of a bona fide financing transaction. Notwithstanding the foregoing, any

Shareholder that is a limited partnership and has ever owned of record at least 200,000 shares of Common Stock (on an as-converted basis) may Transfer any of its Shares to its limited and general partners, but only to the extent that (1) such Persons are "accredited investors" (as defined in the Securities Act and (2) such Transfers do not subject the Company to the registration requirements of Section 12(g) of the Exchange Act; *provided* that, in each case, such transferee executes (and delivers to the Company) a signature page to this Agreement."

(c) Notwithstanding anything to the contrary herein, any Shareholder may Transfer any of its Shares to any transferee if the Company consents to said Transfer; *provided* that such transferee executes (and delivers to the Company) a signature page to this Agreement.

5.3 Right of First Refusal. Subject to Sections 5.3(d) and 5.6, no Shareholder shall Transfer any shares of Company Equity except in accordance with the following:

(a) If a holder of shares of Company Equity receives a bona fide offer from any unaffiliated third party that such holder desires to accept for the Transfer of all or a portion of his shares of Company Equity (or any rights or interest therein), such holder (the "***Offering Holder***"), shall give written notice (the "***Offer Notice***") of such offer to the Company. The Offer Notice must set forth the name of the proposed transferee, the number of shares of Company Equity to be Transferred, the price per share, and a summary of the material terms and conditions of the proposed Transfer. The shares to be Transferred are hereinafter referred to as the "***Offered Shares***."

(b) The Company shall have the exclusive and irrevocable right and option, exercisable at any time for 30 days (the "***Offer Exercise Period***") from the date of its receipt of the Offer Notice, to purchase the Offered Shares at the same price (or equivalent cash value) and on the same terms and conditions as set out in such notice. If the Company elects to exercise the option, it shall give written notification thereof to the Offering Holder, and said sale and purchase shall be closed within 30 days thereafter.

(c) If the Company does not provide the Offering Holder with notice of its election to purchase the Offered Shares within the Offer Exercise Period, the Company shall be deemed to have elected not to exercise its option to purchase the Offered Shares, and the Offering Holder shall have the

right to Transfer the Offered Shares to the prospective third party purchaser, provided, however, that, (i) such Transfer must be on terms and conditions at least as favorable in all respects to the Offering Holder as the terms and conditions described in the Offer Notice, (ii) such Transfer must be consummated within 60 days after the end of the Offer Exercise Period, and (iii) as a condition precedent to such Transfer, such prospective purchaser must become a party to, and agree in writing to be bound by, all terms and conditions of this Agreement.

(d) This Section 5.3 shall terminate upon the completion of an IPO.

5.4 Significant Investor Preemptive Right. [Canceled.]

5.5 Limitations on Preemptive Right. [Canceled.]

5.6 Compliance with Securities Laws. In addition to the restrictions on Transfer of the Shares contained in this Agreement, no Transfer of any Shares shall be made by or on behalf of Shareholder unless the Shares are registered under the Securities Act, pursuant to an effective registration statement which contemplates the proposed Transfers and complies with the then-applicable regulations, rules and administrative procedures and practices of the SEC, and are registered or qualified in accordance with any applicable state securities laws, regulations, rules and administrative procedures and practices, or unless the Company has received the written opinion of or satisfactory to its legal counsel that the proposed transfer is exempt from registration under applicable securities laws.

ARTICLE 6
INFORMATION RIGHTS

6.1 General. Until the Company is required to file periodic reports with the SEC under the Exchange Act:

(a) The Company shall deliver to each Significant Investor: (i) within 60 days following the end of each of the first, second and third quarterly accounting periods in each fiscal year of the Company, an unaudited consolidated balance sheet as at the end of such quarterly period, an unaudited consolidated statement of income and an unaudited statement of cash flows of the Company for such period and for the current fiscal year then to date, all prepared in accordance with generally accepted accounting principles (except that no notes need be attached to such statements and year-end audit adjustments may not have been made); and (ii) within 120 days following the end of any fiscal year of the Company, an audited consolidated balance sheet of the Company as at the end of such fiscal year, an audited consolidated statement of income and an audited consolidated statement of cash flows of the Company for such fiscal year, all prepared in accordance with generally accepted accounting principles; provided, however, that the Company shall not be obligated under this Section 6.1(a) with respect to a competitor of the Company or with respect to information which the Board determines is confidential and should not, therefore, be disclosed; and

(b) Each Major Investor shall have the right to visit and inspect any of the properties of the Company, and to discuss the affairs, finances and accounts of the Company with its officers, and to review such information as is reasonably requested at all such reasonable times and as often as may be reasonably requested; provided, however, that the Company shall not be obligated under this Section 6.1(b) with respect to a competitor of the Company or with respect to information which the Board determines is confidential and should not, therefore, be disclosed; and

(c) The Company shall deliver to the Series D Lead VC: (i) a copy of each annual budget at least 30 days before the beginning of the year to which such budget relates; and (ii) within 30 days following the end of any month, a copy of the unaudited monthly financial report for such month as generated in the ordinary course of business by the Company for such month.

ARTICLE 7
INTENTIONALLY OMITTED

ARTICLE 8
INTENTIONALLY OMITTED

ARTICLE 9
LOCKUP

9.1 Lockup. Each Shareholder hereby agrees that during the 180-day period following the closing of an IPO, it shall not, to the extent requested by the Company and the managing underwriter, sell or otherwise transfer or dispose of (other than to donees who agree to be similarly bound) any Common Stock held by it at any time during such period except Common Stock included in such registration. To enforce the foregoing, the Company may impose stop-transfer instructions with respect to the Shares of each Shareholder (and the shares or securities of every other Person subject to the foregoing restriction) until the end of such 180-day period.

ARTICLE 10
COMMUNITY INTEREST IN SHARES

10.1 Community Interest. Any right or interest of a spouse of a Shareholder in Shares, whether such right or interest is created by law (including community property laws) or otherwise, shall for all purposes hereof be included in, deemed a part of and bound by the same terms hereof as the Shares to which such right or interest relates or appertains, and any action taken, offer made or option exercisable hereunder with reference to Shares owned by a Shareholder shall be applicable to any right or interest which the spouse of such Shareholder may have or be entitled to have therein. In the event of a termination of the marital relationship, the Shareholder shall have the right to buy the Spouse's Interest (herein defined) at a price equal to its Fair Market Value.

10.2 Joinder of Spouses. If any Shareholder marries, such Shareholder agrees to cause its spouse to execute the release and consent set forth at the signature page to this Agreement and to release and waive any community property or other interest such spouse may have in such Shareholder's Shares.

10.3 Transfers by Operation of Law.

(a) The Transfer by operation of law of any Shares (with or without consideration), or of any right or interest therein (other than a transfer governed by Section 10.4),

shall give the Company the option to purchase such Transferred Shares in the manner and on the terms and conditions provided herein. In the event of a Transfer of Shares by operation of law, the Shareholder Transferring such Shares shall promptly give written notice of such Transfer to the Company. The Company shall be entitled to exercise its option to purchase such Shares (the "***Offered Shares***") in the following manner: The Company shall have the exclusive and irrevocable right and option, exercisable at any time during a period of 30 days from the date of its receipt of such notice, to purchase the Offered Shares at a price determined in accordance with Section 10.5. If the Company elects to exercise the option, it shall give written notification thereof to the applicable Shareholder. If the Company does not provide the applicable Shareholder with affirmative written notice of its election to purchase the Offered Shares within the applicable 30-day period, the Company shall be deemed to have not elected to exercise its option to purchase the Offered Shares.

(b) If the Company elects to purchase all of the Offered Shares, the person(s) holding legal and beneficial title to such Shares shall sell all of such Shares, and shall execute and deliver the certificates evidencing such Shares to the Company, for the purchase price and on the terms and conditions set forth in Sections 10.5 and 10.6. If the Company does not elect to purchase all of such Shares within the time period set forth herein for the exercise of such option, the person(s) acquiring such Shares shall execute and become a party to this Agreement and shall hold such Shares subject to all of the terms and conditions provided herein, and no further Transfer of such Shares can be made except in accordance with the terms and conditions of this Agreement.

10.4 Death of Shareholder's Spouse; Termination of Marital Relationship; Partition of Community Property.

(a) If the spouse of a Shareholder predeceases the Shareholder and such Shareholder does not succeed by the spouse's last will and testament or by operation of law to the Spouse's Interest in the Shares, the Shareholder shall have the option for 90 days after the death of the spouse to buy, and upon the exercise of such option, the spouse's estate shall sell the Spouse's Interest at the price and on the terms set forth in Sections 10.5 and 10.6. If the option is not exercised by the Shareholder, such Shareholder shall notify the Company, and the Company shall be entitled to exercise their options to purchase the Spouse's Interest in the manner provided for the purchase of Offered Shares pursuant to Section 10.3(a); provided, that the purchase price and the manner of payment shall be determined in accordance with Sections 10.5 and 10.6.

(b) Upon the termination of the marital relationship of any Shareholder other than by death, or upon the partition of the community property that includes Shares between the Shareholder and such Shareholder's spouse for any reason, such Shareholder shall have the option for 30 days after such termination or partition to buy, and upon the exercise of such option, such Shareholder's spouse or former spouse shall sell its Spouse's Interest in the Shares of the Shareholder for a price

and on the terms set forth in Sections 10.5 and 10.6. If such option is not exercised by such Shareholder, such Shareholder shall notify the Company, and the Company shall be entitled to exercise its option to purchase such Spouse's Interest in the manner provided for the purchase of Offered Shares pursuant to Section 10.3(a), provided that the purchase price and the manner of payment shall be determined in accordance with Sections 10.5 and 10.6.

10.5 Determination of Purchase Price.

(a) Should an option described in Section 10.3 be exercised or otherwise become operative, the purchase price for such Shares, or portion thereof, or the Spouse's Interest therein, shall be determined as follows: (i) within 30 days of the determination of the occurrence of the events described in Section 10.3, the current fair market value of the Shares shall be determined and agreed upon in writing by the Company, the Shareholder whose Shares are subject to the option (or such Shareholder's personal representatives, or the executor or administrator of the estate of such deceased Shareholder), and the spouse of the Shareholder whose Shares are subject to the option as to the Spouse's Interest; and (ii) if the current fair market value of the Shares is not determined and agreed upon pursuant to clause (i) above, the purchase price shall be the Fair Market Value.

(b) Should an option referred to in Section 10.4 be exercised or otherwise become operative, the purchase price for the Spouse's Interest in such Shares therein shall be equal to the Fair Market Value of the Shares as of the last day of the month in which the event creating such option occurred.

10.6 Payment of Purchase Price.

(a) In the event of the exercise of any option contained in Sections 10.3 or 10.4, the Company may elect to pay the purchase price in cash or in installments. If the Company elects to pay in cash, the full amount of the purchase price must be paid in full at the closing of such transaction, at which time the Offering Shareholder or other person or persons holding beneficial and legal title to such Shares shall execute and deliver the certificates evidencing such Shares to the Company. If the Company elects to pay the purchase price in installments, 20% of the total purchase price shall be paid in cash at the closing, and the balance of the purchase price shall be paid in 60 equal monthly installments with interest on the unpaid principal balance at the lesser of (i) the maximum per annum rate of interest allowed by the laws of the State of Texas, or (ii) a variable interest rate equal to the prime interest rate quoted by Citibank, New York, New York, plus one-half percent per annum. The transferring Shareholder or other person(s) holding beneficial and legal title to such Offered Shares shall execute such documents as may be reasonably required by the Company to transfer title to such Offered Shares.

(b) The closing of a transfer of Shares pursuant to the exercise of an option arising under Section 10.3 or 10.4 shall be held within 60 days from the notification of an

election to exercise the option to purchase the Shares arising pursuant to this Agreement.

ARTICLE 11
MISCELLANEOUS

11.1 Entire Agreement. This Agreement, together with the Exhibits and the certificates, documents, instruments and writings that are delivered pursuant hereto, constitutes the entire agreement and understanding of the Parties in respect of its subject matters and supersedes all prior understandings, agreements, or representations by or among the Parties, written or oral, to the extent they relate in any way to the subject matter hereof or the transactions contemplated hereby. There are no third party beneficiaries having rights under or with respect to this Agreement.

11.2 Termination. This Agreement shall continue until, and shall terminate immediately upon: (i) execution of a written agreement of termination by the holders of 2/3 of the Common Stock (on an as-converted basis); (ii) the closing by the Company, or the registering Shareholders in the event of a secondary offering, of a firmly underwritten offering of shares of the Company's capital stock to the public; (iii) the adjudication of the Company as bankrupt or insolvent by a court of competent jurisdiction; (iv) a Change of Control of the Company (as defined in the Company's 1998 Incentive Share Plan); or (v) any time that only one Shareholder continues to own any Shares.

11.3 Confidentiality. Each Shareholder agrees to use, and to use its best efforts to insure that its authorized representatives use, the same degree of care as such Shareholder uses to protect its own confidential information to keep confidential any information furnished to it which the Company identifies as being confidential or proprietary (so long as such information is not in the public domain).

11.4 Successors. All of the terms, agreements, covenants, representations, warranties, and conditions of this Agreement are binding upon, and inure to the benefit of and are enforceable by, the Parties and their respective successors and assigns, including upon any Person acquiring shares of Common Stock from any Party regardless of the method of acquisition.

11.5 Legends on Certificates. The face of each certificate representing capital stock of the Company shall bear the following legend (which shall be made conspicuous by using capital letters, boldface or contrasting type, underlining or similar means):

SEE THE REVERSE FOR TRANSFER RESTRICTIONS.

The reverse side of each certificate representing capital stock of the Company shall bear a legend substantially as follows:

This Certificate and the shares represented hereby are issued and shall have the rights specified in and be held subject to all of the provisions of the Articles of Incorporation and the Bylaws of said Corporation and any amendments and restatements thereof, to all of which the holder of this Certificate, by acceptance hereof, assents and agrees to be bound.

A statement of the rights, preferences, privileges and restrictions granted to or imposed upon the respective classes or series of the Corporation's capital stock and upon the holders thereof as established by said Articles of Incorporation and Bylaws and a statement of the number of shares constituting each class or series of stock and the designation thereof, may be obtained by any shareholder, upon request and without charge, at the principal office of the Corporation.

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR UNDER ANY APPLICABLE STATE LAW. THEY MAY NOT BE OFFERED FOR SALE OR SOLD WITHOUT: (1) REGISTRATION UNDER THE SECURITIES ACT OF 1933, OR (2) AN OPINION OF COUNSEL (SATISFACTORY TO THE CORPORATION) THAT SUCH REGISTRATION IS NOT REQUIRED. THIS LEGEND OF THIS PARAGRAPH ONLY SHALL AUTOMATICALLY EXPIRE ON THE DATE WHICH IS TWO YEARS FROM THE DATE OF ISSUANCE SHOWN ON THE FACE OF THIS CERTIFICATE.

IN ADDITION, THE SECURITIES MAY NOT BE SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF EXCEPT IN ACCORDANCE WITH THE THIRD AMENDED AND RESTATED SHAREHOLDERS' AGREEMENT DATED DECEMBER 9, 2004, AS AMENDED OR MODIFIED FROM TIME TO TIME, A COPY OF WHICH THE SAID CORPORATION WILL FURNISH TO THE RECORD HOLDER OF THIS CERTIFICATE UPON WRITTEN REQUEST. THIS PROVISION SHALL NOT AUTOMATICALLY EXPIRE.

In addition to the foregoing legends, a copy of this Agreement shall be placed on file at the principal place of business (and at the registered office) of the Company. Each Shareholder agrees from time to time to submit to the Secretary of the Company all certificates representing Shares owned by such Shareholder of record for the purpose of having the foregoing legends stamped thereon.

11.6 Assignments. No Party may assign either this Agreement or any of its rights, interests, or obligations hereunder without the prior written approval of the other Parties. As a condition precedent to the assignment, transfer or other alienation of a Party's right, title or interest in any of such Party's Shares, the purchaser of such shares must become a party to, and agree in writing to be bound by all terms and conditions of, this Agreement.

11.7 Notices. All notices and other communications provided for herein shall be in writing and shall be deemed to have been duly given if delivered personally or sent by registered or certified mail, return receipt requested, postage prepaid, to the address set forth next to the applicable Party's name on such Party's signature page hereto. Written notice given in any other manner shall be effective when received.

11.8 Counterparts. This Agreement may be executed in two or more counterparts, each of which will be deemed an original but all of which together will constitute one and the same instrument.

11.9 Headings. The article and section headings contained in this Agreement are inserted for convenience only and will not affect in any way the meaning or interpretation of this Agreement.

11.10 Governing Law. This Agreement, the performance of the transactions contemplated hereby and obligations of the Parties hereunder will be governed by and construed in accordance with the Laws of the State of Texas, without giving effect to any choice of Law principles.

11.11 Amendments and Waivers. No amendment, modification, replacement, termination or cancellation of any provision of this Agreement will be valid, unless the same is in writing and signed by the Company and Shareholders holding Shares equal or greater than $^2/_3$ of the outstanding Common Stock (on an as-converted basis); *provided*, that the execution of this Agreement by an additional or transferee Shareholder shall not require the consent or approval or any Shareholder, and any such amendment of this Agreement may be accomplished at the Company's sole option. No waiver by any Party of any default, misrepresentation, or breach of warranty or covenant hereunder, whether intentional or not, may be deemed to extend to any prior or subsequent default, misrepresentation, or breach or violation of warranty or covenant hereunder or affect in any way any rights arising because of any prior or subsequent occurrence.

11.12 Specific Performance. Each Party acknowledges and agrees that the other Party would be damaged irreparably if any provision of this Agreement is not performed in accordance with its specific terms or is otherwise Breached. Accordingly, each Party agrees that the other Party will be entitled to an injunction or injunctions to prevent Breaches of the provisions of this Agreement and to enforce specifically this Agreement and its terms and provisions in any Action instituted in any court having jurisdiction over the Parties and the matter in addition to any other remedy to which they may be entitled, at Law or in equity.

11.13 Severability. The provisions of this Agreement will be deemed severable and the invalidity or unenforceability of any provision will not affect the validity or enforceability of the other provisions hereof; provided that if any provision of this Agreement, as applied to any Party or to any circumstance, is adjudged by a Governmental Authority, arbitrator, or mediator not to be enforceable in accordance with its terms, the Parties agree that the Governmental Authority, arbitrator, or mediator making such determination will have the power to modify the provision in a manner consistent with its objectives such that it is enforceable, and/or to delete specific words or phrases, and in its reduced form, such provision will then be enforceable and will be enforced.

11.14 Construction. The Parties have participated jointly in the negotiation and drafting of this Agreement. If an ambiguity or question of intent or interpretation arises, this Agreement will be construed as if drafted jointly by the Parties and no presumption or burden of proof will arise favoring or disfavoring any Party because of the authorship of any provision of this Agreement. Any reference to any federal, state, provincial, municipal, local, or foreign Law will be deemed also to refer to Law as amended and all rules and regulations promulgated thereunder, unless the context requires otherwise. The word "including" means "including without limitation." The Parties intend that each representation, warranty, and covenant contained herein will have independent significance. If any Party has Breached any representation, warranty, or covenant

contained herein in any respect, the fact that there exists another representation, warranty or covenant relating to the same subject matter (regardless of the relative levels of specificity) which the Party has not Breached will not detract from or mitigate the fact that the Party is in Breach of the first representation, warranty, or covenant.

11.15 Board Observer. The Parties agree that the Series D Lead VC will have the right to designate one person to attend, and act as an observer at, meetings of the Company's Board of Directors.

[The remainder of this page is intentionally left blank.]

IN WITNESS WHEREOF, this Agreement has been executed, effective as of the date first written above.

APPLIED OPTOELECTRONICS, INC.

Address:
13111 Jess Pirtle
Sugar Land, Texas 77478

By: _____
Name: Chih-Hsiang (Thompson) Lin
Title: President and Chief Executive Officer

SHAREHOLDERS' AGREEMENT — COMPANY SIGNATURE PAGE

IN WITNESS WHEREOF, this Agreement has been executed, effective as to the undersigned as of , 200 .

_____
PRINTED NAME OF SHAREHOLDER

Address:
[ ]
[ ]
[ ]

By: _____
SIGNATURE

Name: _____
PRINTED NAME OF PERSON SIGNING

Title: _____

SHAREHOLDERS' AGREEMENT —ENTITY SIGNER SIGNATURE PAGE

IN WITNESS WHEREOF, this Agreement has been executed, effective as to the undersigned as of , 200 .

SIGNED NAME OF SHAREHOLDER

PRINTED NAME OF SHAREHOLDER

SPOUSE OF

PRINTED NAME OF SHAREHOLDER

I, , the spouse of , do hereby acknowledge and represent that I hereby consent to all the terms and provisions of this Agreement and agree to be bound thereby.

By:

SIGNED NAME OF SPOUSE OF SHAREHOLDER

PRINTED NAME OF SPOUSE OF SHAREHOLDER

SHAREHOLDERS' AGREEMENT —INDIVIDUAL SIGNER SIGNATURE PAGE

Exhibit 10.1

INDEMNIFICATION AGREEMENT

This Agreement is made this day of , 2013, between Applied Optoelectronics, Inc., a Delaware corporation (the "Company"), and ("Agent").

RECITALS

1. The Agent is serving as a director, officer, employee or other agent of the Company or, at the request of the Company, another corporation or enterprise, and the Company desires the Agent to continue to serve in this capacity.

2. The Company and the Agent recognize that qualified persons are often reluctant to serve corporations as directors, officers, employees or agents of such corporations or, at the request of such corporations, other corporations or enterprises, unless they are provided with adequate protection through insurance or adequate indemnification against inordinate risks of claims and actions against them arising out of their service to, and activities on behalf of, the corporation.

3. The Company's board of directors has determined that the inability to attract and retain qualified persons would be detrimental to the best interests of the Company's shareholders and that the Company should act to assure these persons that there will be increased certainty of adequate protection in the future.

4. The Company has adopted bylaws (the "Bylaws") providing for indemnification of the directors, officers, employees and other agents of the Company, including persons serving at the request of the Company in these capacities with other corporations or enterprises, in accord with the Delaware General Corporation Law, and any successor statute or code (the "DGCL").

5. The bylaws, and the DGCL, by their non-exclusive nature, permit contracts between the Company and its directors, officers, employees and other agents with respect to indemnification.

6. To induce the Agent to continue to serve as a director, officer, employee or other agent of the Company or, at the request of the Company, other corporations or enterprises, the Company has determined it to be in its best interest to enter into this Agreement to indemnify the Agent to the fullest extent permitted by law.

NOW, THEREFORE, for and in consideration of the mutual covenants and conditions contained herein, the receipt and sufficiency of which are hereby acknowledged, the Company and the Agent agree as follows:

ARTICLE 1
AGREEMENT TO SERVE

Agent will serve at the will of the Company as a director, officer, employee or other agent of the Company or, at the request of the Company, other corporations or enterprises, faithfully and to the best of her or his ability so long as she or he is duly elected and qualified

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unless she or he is removed or terminated in accordance with applicable law or until such time as she or he tenders her or his resignation in writing.

ARTICLE 2
INDEMNIFICATION

2.1 Indemnity of Agent. In consideration of the Agent's service to the Company, the Company hereby agrees to hold harmless and indemnify Agent to the full extent authorized or permitted by the provisions of the Bylaws and the DGCL, as same may be amended from time to time (but only to the extent that such amendment permits the Company to provide broader indemnification rights than the Bylaws or the DGCL permitted before adoption of such amendment).

2.2 Additional Indemnity. Subject only to the exclusions set forth in Paragraph 2.3, the Company hereby further agrees to hold harmless and indemnify Agent against:

(a) any and all expenses (including attorneys' fees), fees, damages, judgments, fines and amounts paid in settlement actually and reasonably incurred by Agent in connection with any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (including an action by or on behalf of the Company) to which Agent is, was or at any time becomes a party, or is threatened to be made a party, by reason of the fact that Agent is, was or at any time becomes a director, officer, employee or agent of the Company, or is or was serving or at any time serves at the request of the Company as a director, officer, employee or agent of another company, partnership, joint venture, trust or other enterprise; and

(b) otherwise to the fullest extent as may be provided to Agent by the Company under the non-exclusivity provisions of the DGCL and the Bylaws.

2.3 Limitations on Additional Indemnity. No indemnity pursuant to Paragraph 2.2 may be paid by the Company:

(a) if indemnity is not lawful (and, in this respect, both the Company and Agent have been advised that the Securities and Exchange Commission believes that indemnification for liabilities arising under the federal securities laws is against public policy and is, therefore, unenforceable and that claims for indemnification should be submitted to appropriate courts for adjudication);

(b) if judgment is rendered against Agent for an accounting of profits made from the purchase or sale by Agent of securities of the Company pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any federal, state or local law;

(c) if Agent's conduct is finally adjudged to have been knowingly fraudulent or deliberately dishonest, or to constitute willful or intentional misconduct;

(d) if Agent's conduct is established by a final judgment as constituting a breach of Agent's duty of loyalty to the Company or resulting in any personal profit or advantage to which Agent was not legally entitled;

(e) for which payment is actually made to Agent under a valid and collectible insurance policy or under a valid and enforceable indemnity clause, bylaw or agreement, except in respect of any excess beyond payment under such insurance, clause, bylaw or agreement; or

(f) in connection with any proceeding (or part thereof) initiated by Agent, or any proceeding by Agent against the Company or its directors, officers, employees or other agents, unless (i) such indemnification is expressly required to be made by law, or (ii) the proceeding was authorized by the Board of Directors of the Company.

2.4 Contribution. If the indemnification provided in Paragraphs 2.1 and 2.2 is unavailable and may not be paid to Agent for any reason other than those set forth in Paragraph 2.3, then in respect to any threatened, pending or completed action, suit or proceeding in which the Company is jointly liable with Agent (or would be if joined in such action, suit or proceeding), the Company shall contribute to the amount of expenses (including attorneys' fees and expenses), judgments, fines and amounts paid in settlement actually and reasonably incurred and paid or payable by Agent in such proportion as is appropriate to reflect (i) the relative benefits received by the Company on the one hand and by Agent on the other hand from the transaction from which such action, suit or proceeding arose, and (ii) the relative fault of the Company on the one hand and of Agent on the other hand in connection with the events that resulted in such expenses, judgments, fines or settlement amounts, as well as any other relevant equitable considerations. The relative fault of the Company on the one hand and of Agent on the other hand shall be determined by reference to, among other things, the parties' relative intent, knowledge, access to information and opportunity to correct or prevent the circumstances resulting in such expenses, judgments, fines or settlement amounts. The Company agrees that it would not be just and equitable if contribution pursuant to this Paragraph 2.4 were determined by pro rata allocation or any other method of allocation that does not take account of the foregoing equitable considerations.

2.5 Continuation of Obligations.

(a) All agreements and obligations of the Company contained herein shall continue during the period Agent is a director, officer, employee or agent of the Company (or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise) and shall continue thereafter so long as Agent shall be subject to any possible claim or threatened, pending or completed action, suit or proceeding, whether civil, criminal or investigative, by reason of the fact that Agent was serving in any capacity referred to herein.

(b) If Agent is deceased and is entitled to indemnification under any provision of this Agreement, the Company shall indemnify Agent's estate and her or his spouse, heirs, administrators and executors against, and the Company shall, and does hereby agree to, assume any and all expenses (including attorneys' fees), penalties and fines

actually and reasonably incurred by or for Agent or her or his estate, in connection with the investigation, defense, settlement or appeal of any such action, suit or proceeding. Further, when requested in writing by the spouse of Agent, and/or the heirs, executors or administrators of Agent's estate, the Company shall provide appropriate evidence of the Company's agreement set out herein, to indemnify Agent against and to itself assume such costs, liabilities and expenses.

2.6 Notification and Defense of Claim. Not later than 30 days after receipt by Agent of notice of the commencement of any action, suit or proceeding, Agent must, if a claim in respect thereof is to be made against the Company under this Agreement, notify the Company of the commencement thereof. Agent's omission so to notify the Company will relieve the Company from any liability that it may have to her or him under this Agreement. However, such omission will not relieve the Company from any obligation it may have to Agent other than under this Agreement.

With respect to any such action, suit or proceeding as to which Agent notifies the Company of the commencement thereof:

(a) The Company may participate therein at its own expense;

(b) Except as otherwise provided below, to the extent that it may wish, the Company, jointly with any other indemnifying party similarly notified, may assume the defense thereof, with counsel reasonably satisfactory to Agent. After notice from the Company to Agent of the Company's election to assume the defense as provided above, the Company will not be liable to Agent under this Agreement for any legal or other expenses subsequently incurred by Agent in connection with the defense thereof, other than reasonable costs of investigation or as otherwise provided below. Agent may employ counsel in such action, suit or proceeding, but the fees and expenses of such counsel incurred after notice from the Company of its assumption of the defense thereof shall be at the expense of Agent unless (i) the employment of counsel by Agent has been authorized by the Company, (ii) Agent shall have reasonably concluded that there may be a conflict of interest between the Company and Agent in conducting the defense of such action or (iii) the Company shall not in fact have employed counsel to assume the defense of such action, in each of which cases the fees and expenses of counsel shall be at the expense of the Company. The Company may not assume the defense of any action, suit or proceeding brought by or on behalf of the Company or as to which Agent shall have made the conclusion provided for in (ii) above; and

(c) The Company shall not be required to indemnify Agent under this Agreement for any amounts paid in settlement of any action or claim effected without its written consent. The Company may not settle any action or claim in any manner that would impose any penalty or limitation on Agent without her or his written consent. Neither the Company nor Agent will unreasonably withhold its consent to any proposed settlement.

2.7 Advancement and Repayment of Expenses.

(a) If Agent employs her or his own counsel pursuant to Paragraph 2.6(b)(i) through (iii) above, the Company shall advance to Agent any and all reasonable expenses (including legal fees and expenses) incurred in investigating or defending any threatened or pending action, suit or proceeding, whether civil, criminal, administrative or investigative, within ten (10) days after receiving from Agent copies of invoices for such expenses and prior to any final disposition of any such action, suit or proceeding.

(b) Agent agrees that she or he will reimburse the Company for all reasonable expenses paid by the Company in defending any civil or criminal action, suit or proceeding against Agent if and only to the extent it shall be ultimately determined that Agent is not entitled, under the provisions of the DGCL, the Bylaws, this Agreement or otherwise, to be indemnified by the Company for such expenses.

2.8 Enforcement.

(a) Any right to indemnification or advances granted by this Agreement to Agent shall be enforceable by or on behalf of Agent in any court of competent jurisdiction if (i) the claim for indemnification or advances is denied, in whole or in part, or (ii) no disposition of such claim is made within ninety (90) days of request therefor. Agent, in such enforcement action, if successful in whole or in part, shall be entitled to be paid also the expense of prosecuting her or his claim. It shall be a defense to any action for which a claim for indemnification is made under this Agreement (other than an action brought to enforce a claim for expenses pursuant to Section 2.7, provided that the required undertaking has been tendered to the Company) that Agent is not entitled to indemnification because of the limitations set forth in Section 2.3. Neither the failure of the Company (including its Board of Directors or its shareholders) to have made a determination prior to the commencement of such enforcement action that indemnification of Agent is proper in the circumstances, nor an actual determination by the Company (including its Board of Directors or its shareholders) that such indemnification is improper shall be a defense to the action or create a presumption that Agent is not entitled to indemnification under this Agreement or otherwise.

(b) The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on the Company hereby to induce Agent to serve as a director, officer, employee or other agent of the Company or, at the request of the Company, other corporations or enterprises, and acknowledges that she or he is relying upon this Agreement in serving in such capacity.

(c) If Agent is required to bring any action to enforce rights or to collect moneys due under this Agreement and is successful in such action, the Company shall reimburse Agent for all of her or his reasonable fees and expenses in bringing and pursuing such action.

2.9 Subrogation. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Agent, who shall

execute all documents required and shall do all acts that may be necessary to secure such rights and to enable the Company effectively to bring suit to enforce such rights

2.10 Non-Exclusivity of Rights. The rights conferred on Agent by this Agreement shall not be exclusive of any other right which Agent may have or hereafter acquire under any statute, provision of the Company's Certificate of Incorporation (as amended) or Bylaws (as amended), agreement, vote of shareholders or directors, or otherwise, both as to action in her or his official capacity and as to action in another capacity while holding office.

ARTICLE 3
MISCELLANEOUS PROVISIONS

3.1 Separability. Each of the provisions of this Agreement is a separate and distinct agreement and independent of the others, so that if any provision of this Agreement is held to be invalid or unenforceable for any reason, such invalidity or unenforceability shall not affect the validity or enforceability of any other provisions.

3.2 Binding Effect. This Agreement shall be binding upon Agent and upon the Company, its successors and assigns, and shall inure to the benefit of Agent, her or his heirs, personal representatives and assigns and to the benefit of the Company, its successors and assigns. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

3.3 Amendment and Termination. No amendment, modification, termination or cancellation of this Agreement shall be effective unless in writing signed by both parties hereto.

3.4 Governing Law. This Agreement shall be interpreted and enforced in accordance with the laws of the State of Delaware.

3.5 Counterparts. This Agreement may be executed in one or more counterparts, each of which shall constitute an original and all of which shall together constitute a single instrument.

3.6 Headings. The headings of paragraphs in this Agreement are for convenience only and shall not be deemed to constitute part of this Agreement or affect the construction thereof.

3.7 Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given (i) upon delivery if delivered by hand to the party to whom such communication was directed or (ii) upon the third business day after the date on which such communication was mailed if mailed by certified or registered mail with postage prepaid:

(a) if to Agent, at the address indicated on the signature page hereof; and

(b) if to the Company, to:

Applied Optoelectronics, Inc.
13115 Jess Pirtle Blvd.
Sugar Land, Texas 77478
Attn: President
Facsimile: (281) 966-6988

or to such other address as may have been furnished to Agent by the Company as provided in this paragraph.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

APPLIED OPTOELECTRONICS, INC.

By: _____
Name:
Title:

APPLIED OPTOELECTRONICS, INC.

By: _____
Name:
Title:

AGENT:

By: _____
Name:
Title:

Address:

APPLIED OPTOELECTRONICS, INC.

1998 INCENTIVE SHARE PLAN

ARTICLE 1
PURPOSE AND EFFECTIVE DATE

1.1 *Purpose.* The purpose of the 1998 Incentive Share Plan (the "Plan") is to advance the interests of Applied Optoelectronics, Inc. (the "Company") and its shareholders by enabling the Company and each of its Subsidiaries (as hereinafter defined) to (A) provide share ownership opportunities to certain of their key employees to participate in the Company's growth and (B) enhance their ability to attract and retain individuals of superior managerial or technical ability and to motivate employees, consultants, independent contractors, agents, and other persons to exert their best efforts towards future progress and profitability of the Company.

1.2 *Effective Date.* The effective date of the Plan shall be the date that this Plan is approved by the shareholders of the Company.

ARTICLE 2
DEFINITIONS

As used in this Plan, the following terms shall have the meanings set forth below unless the context otherwise requires:

2.1 "*Award*" shall mean the grant of a Stock Option, a Stock Appreciation Right, Restricted Stock, a Performance Award, or any other grant of incentive compensation pursuant to this Plan.

2.2 "*Award Period*" shall have the meaning set forth in Subsection 16.2 of this Plan.

2.3 "*Board*" shall mean the Board of Directors of the Company, as the same may be constituted from time to time.

2.4 "*Change in Control*" has the meaning given such term in the applicable Award agreement or, if not defined therein, shall mean, after the effective date of this Plan stated in Subsection 1.2, (i) the occurrence of an event of a nature that would be required to be reported by the Company in response to Item 1 of a Current Report on Form 8-K (or any successor to such form), whether or not the Company is, in fact, required to report on such form, promulgated pursuant to the Exchange Act; provided that, without limitation, such a Change in Control shall be deemed to have occurred if (a) any Person or group (as defined in the Exchange Act), other than (A) the Company, (B) a wholly-owned Subsidiary, (C) any employee benefit plan (including, without limitation, an employee stock ownership plan) adopted by the Company or any wholly-owned Subsidiary or (D) any trustee or other fiduciary holding securities under any employee benefit plan adopted by the Company or any

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Subsidiary, becomes the "beneficial owner" (as defined in Rule 13d-3 (or any successor to such rule) promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities or (b) during any period of twenty-four (24) months, individuals who at the beginning of such period constitute the Board cease for any reason to constitute at least a majority thereof, unless the election by the Board or the nomination for election by the Company's shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of such twenty-four (24) month period or whose election or nomination for election was previously so approved; (ii) a Corporate Transaction is consummated, other than a Corporate Transaction that would result in substantially all of the holders of voting securities of the Company outstanding immediately prior thereto owning (directly or indirectly and in substantially the same proportions relative to each other) not less than fifty percent (50%) of the combined voting power of the voting securities of the issuing/surviving/resulting entity outstanding immediately after such Corporate Transaction; or (iii) an agreement for the sale or other disposition of all or substantially all of the Company's assets (evaluated on a consolidated basis, without regard to whether the sale or disposition is effected via a sale or disposition of assets of the Company, the sale or disposition of the securities of one or more Subsidiaries or the sale or disposition of the assets of one or more Subsidiaries) is consummated.

2.5 "*Code*" shall mean the Internal Revenue Code of 1986, as amended from time to time (or any successor to such legislation).

2.6 "*Committee*" shall mean the Compensation Committee of the Board, if such a committee shall have been appointed and consist of two (2) or more directors of the Company who are both "Non-Employee Directors" (as that term is defined in Rule 16b-3 (or any successor to such rule) promulgated under the Exchange Act) and "outside directors" within the meaning of Section 162(m) of the Code and such Treasury regulations as may be promulgated thereunder. If a separate Compensation Committee with such membership shall not have been appointed, "Committee" shall mean the Board.

2.7 "*Company*" shall mean Applied Optoelectronics, Inc., a Texas corporation.

2.8 "*Consultant*" shall mean any Person who or which is engaged by the Company or any Subsidiary to render services as a consultant or advisor.

2.9 "*Corporate Transaction*" shall mean any reorganization, merger, consolidation or conversion involving the Company or any exchange of securities involving Shares, other than a Recapitalization.

2.10 "*Designated Beneficiary*" shall mean the beneficiary designated by a Participant, in a manner authorized by the Committee, to exercise the rights of such Participant in the event of such Participant's death. In the absence of an effective designation by a Participant, the Designated Beneficiary shall be such Participant's estate.

2.11 "*Disability*" shall mean permanent and total inability to engage in any substantial gainful activity, even with reasonable accommodation, by reason of any medically determinable physical or mental impairment which has lasted or can reasonably be expected to last without material interruption for a period of not less than twelve (12) months, as determined in the sole discretion of the Committee.

2.12 "*Exchange Act*" shall mean the Securities Exchange Act of 1934, as amended from time to time (or any successor to such legislation).

2.13 "*Fair Market Value*" shall mean with respect to the Shares, as of any date, (i) if the Shares are listed or admitted to trade on a national securities exchange, the closing price of the Shares on the composite tape, as published in the *Wall Street Journal*, of the principal national securities exchange on which the Shares are so listed or admitted to trade, on such date or, if there is no trading in Shares on such date, then the closing price of the Shares as quoted on such composite tape on the next preceding date on which there was trading in such Shares; (ii) if the Shares are not listed or admitted to trade on a national securities exchange, then the closing price of the Shares as quoted on the National Market System of the NASD; (iii) if the Shares are not listed or admitted to trade on a national securities exchange or the National Market System of the NASD, the mean between the bid and asked price for the Shares on such date, as furnished by the NASD through NASDAQ or a similar organization if NASDAQ is no longer reporting such information; or (iv) if the Shares are not listed or admitted to trade on a national securities exchange or the National Market System of the NASD and if bid and asked prices for the Shares are not so furnished by the NASD or a similar organization, the value established by the Board, determined without regard to any restriction other than a restriction which, by its terms, will never lapse.

2.14 "*Incentive Stock Option*" shall mean any option to purchase Shares awarded pursuant to this Plan which qualifies as an "Incentive Stock Option" pursuant to Section 422 of the Code.

2.15 "*Named Executive Officer*" shall have the meaning set forth in Subsection 16.1 of this Plan.

2.16 "*NASD*" shall mean the National Association of Securities Dealers, Inc.

2.17 "*Non-Qualified Stock Option*" shall mean any option to purchase Shares awarded pursuant to this Plan that does not qualify as an Incentive Stock Option (including, without limitation, any option to purchase Shares originally designated as or intended to qualify as an Incentive Stock Option) but which does not (for whatever reason) qualify as an Incentive Stock Option.

2.18 "*Non-Tandem Stock Appreciation Right*" shall mean any Stock Appreciation Right granted alone and not in connection with an Award which is a Stock Option.

2.19 "*Optionee*" shall mean any Participant who has been granted and holds a Stock Option awarded pursuant to this Plan.

2.20 "*Participant*" shall mean any Person who has been granted and holds an Award granted pursuant to this Plan.

2.21 "*Performance Award*" shall mean any Award granted pursuant to this Plan of Shares, rights based upon, payable in or otherwise related to Shares (including Restricted Stock) or cash, as the Committee may determine, at the end of a specified performance period established by the Committee.

2.22 "*Permitted Modification*" shall be deemed to be any modification of an Award which is made in connection with a Corporate Transaction and which provides (i) in connection with a Stock Option, that subsequent to the consummation of the Corporate Transaction (A) the exercise price of such Stock Option will be proportionately adjusted to reflect the exchange ratio applicable to the particular Corporate Transaction and/or (B) the nature and amount of consideration to be received upon exercise of the Stock Option will be the same (on a per share basis) as was received by Persons who were holders of Shares immediately prior to the consummation of the Corporate Transaction, (ii) in connection with a Stock Appreciation Right, that subsequent to the consummation of the Corporate Transaction (A) the base price of such Stock Appreciation Right will be proportionately adjusted to reflect the exchange ratio applicable to the particular Corporate Transaction and/or (B) the benefits to be received by the holder of such Stock Appreciation Right will be measured based upon the nature and amount of consideration received (on a per share basis) by Persons who were holders of Shares immediately prior to the consummation of the Corporate Transaction, or (iii) for a modification expressly provided for in this Plan or in an Award agreement.

2.23 "*Person*" shall mean an individual, partnership, limited liability company, corporation, joint stock company, trust, estate, joint venture, association or unincorporated organization or any other form of business organization.

2.24 "*Plan*" shall mean this Applied Optoelectronics, Inc. 1998 Incentive Share Plan as set out in this document and as it may be amended from time to time.

2.25 "*Reload Option*" shall mean a Stock Option as defined in Subsection 6.6(b) of this Plan.

2.26 "*Recapitalization*" shall mean any stock split, stock dividend, reverse stock split, combination or subdivision of Shares or any other similar increase or decrease in the number of Shares issued and outstanding, without the Company receiving consideration therefor in money, services, or property (other than securities issued by the Company).

2.27 "*Restricted Stock*" shall mean any Shares granted pursuant to this Plan that are subject to restrictions or substantial risk of forfeiture.

2.28 "*Retirement*" shall mean the termination of employment of an employee of the Company or any Subsidiary pursuant to the terms of any retirement plan or policy maintained by the Company or any Subsidiary in which such employee participates.

2.29 "*Securities Act*" shall mean the Securities Act of 1933, as amended from time to time (or any successor to such legislation).

2.30 "*Shares*" shall mean shares of the common stock of the Company and any shares of capital stock or other securities hereafter issued or issuable upon, in respect of or in substitution or exchange for shares of common stock of the Company.

2.31 "*Stock Appreciation Right"* shall mean the right of the holder thereof to receive property or Shares with a Fair Market Value equal to or cash in an amount equal to the excess of the Fair Market Value of the aggregate number of Shares subject to such Stock Appreciation Right on the date of exercise over the Fair Market Value of the aggregate number of Shares subject to such Stock Appreciation Right on the date of the grant of such Stock Appreciation Right (or such other value as may be specified in the agreement granting such Stock Appreciation Right). A Stock Appreciation Right may be a Tandem Stock Appreciation Right or a Non-Tandem Stock Appreciation Right.

2.32 "*Stock Option*" shall mean any Incentive Stock Option or Non-Qualified Stock Option.

2.33 "*Subsidiary"* shall mean a subsidiary corporation of the Company, as defined in Section 424(f) of the Code.

2.34 "*Tandem Stock Appreciation Right"* shall mean a Stock Appreciation Right granted in connection with an Award which is a Stock Option.

2.35 "*Transactional Consideration*" shall have the meaning set forth in Subsection 12.2 of this Plan.

ARTICLE 3
ADMINISTRATION OF THIS PLAN

3.1 *Committee.* This Plan shall be administered and interpreted by the Committee.

3.2 *Administration.*

(a) Subject to the provisions of this Plan and directions from the Board, the Committee is authorized to:

(i) determine the Persons to whom Awards are to be granted;

(ii) determine the types and combinations of Awards to be granted; the number of Shares to be covered by an Award; the exercise price of an Award; the time or times when an Award shall be granted and may be exercised; the terms, performance criteria or other conditions, vesting periods or any restrictions for an Award; any restrictions on Shares acquired pursuant to the exercise of an Award; and any other terms and conditions of an Award;

(iii) conclusively interpret the provisions of this Plan;

(iv) prescribe, amend and rescind rules and regulations relating to this Plan;

(v) rely upon employees of the Company for such clerical and record keeping duties as may be necessary in connection with the administration of this Plan;

(vi) accelerate or defer (with the consent of the Participant) the vesting of any rights pursuant to an Award; and

(vii) make all other determinations and take all other actions necessary or advisable for the administration of this Plan.

The President of the Company shall also be authorized, subject to the provisions of this Plan and directions from the Board and the Committee, to determine the types and combinations of Awards to be granted; the number of Shares to be covered by an Award; the exercise price of an Award; the time or times when an Award shall be granted and may be exercised; the terms, performance criteria or other conditions, vesting periods or any restrictions for an Award; any restrictions on Shares acquired pursuant to the exercise of an Award; and any other terms and conditions of an Award; provided, however, that the President of the Company may not (1) grant any Award to himself or herself (2) grant Awards to any one person with respect to more than 100,000 Shares in the aggregate (which number shall be adjusted pro rata in the event of any adjustment to the limitation set forth in ARTICLE 4.1 hereof), or (3) modify any Award made by the Committee or Board.

(b) A majority of the Committee members shall constitute a quorum for action by the Committee. All determinations of the Committee in connection with the Plan shall be made by not less than a majority of its members. All questions of interpretation and application of this Plan or pertaining to any question of fact or Award granted hereunder will be decided by the Committee, whose decision will be final, conclusive and binding upon the Company and each other affected party.

ARTICLE 4
SHARES SUBJECT TO PLAN

4.1 *Limitations.* The maximum number of Shares that may be issued with respect to Awards granted pursuant to this Plan shall not exceed 2,000,000 unless increased or decreased by reason of changes in the capitalization of the Company as hereinafter provided or by amendment of this Plan. The Shares issued pursuant to this Plan may be authorized but unissued Shares, or may be issued Shares which have been reacquired by the Company.

4.2 *Changes.* To the extent that any Award granted pursuant to this Plan shall be forfeited, shall expire or shall be canceled, in whole or in part, then the number of Shares covered by the Award so forfeited, expired or canceled may again be awarded pursuant to the provisions of this Plan. In the event that Shares are delivered to the Company in full or partial payment of the exercise price for the exercise of a Stock Option, the number of Shares available for future Awards granted pursuant to this Plan shall be reduced only by the net number of Shares issued upon the exercise of the Stock Option. Awards that may be satisfied either by the issuance of Shares or by cash or other consideration shall, until the form of consideration to be paid is finally determined, be counted against the maximum number of Shares that may be issued pursuant to this Plan. If the Award is ultimately satisfied by the payment of consideration other than Shares, such Shares may again be made the subject of an Award granted pursuant to this Plan. Awards will not reduce the number of Shares that may be issued pursuant to this Plan if the settlement of the Award will not require the issuance of Shares, as, for example, a Stock Appreciation Right that can be satisfied only by the payment of cash.

ARTICLE 5
ELIGIBILITY

5.1 *Eligibility.* Eligibility for participation in this Plan shall be confined to those individuals who are employed by the Company or a Subsidiary and such Consultants and non-employee Directors as may be designated by the Committee. In making any determination as to Persons to whom Awards shall be granted, the type of Award and/or the number of Shares to be covered by the Award, the Committee shall consider the position and responsibilities of the Person, the importance of the Person to the Company, the duties of the Person, the past, present and potential contributions of the Person to the growth and success of the Company and such other factors as the Committee may deem relevant in connection with accomplishing the purposes of this Plan.

ARTICLE 6
STOCK OPTIONS

6.1 *Grants.* The Committee may grant Stock Options alone or in addition to other Awards granted pursuant to this Plan to any eligible Person. Each Person so selected shall be offered a Stock Option to purchase the number of Shares determined by the Committee. The Committee shall specify whether such Stock Option is an Incentive Stock Option or Non-Qualified Stock Option and any other terms or conditions relating to such Award; provided, however only employees of the Company or a Subsidiary may be granted Incentive Stock Options. To the extent that any Stock

Option designated as an Incentive Stock Option does not qualify as an Incentive Stock Option (whether because of its provisions, the failure of the shareholders of the Company to authorize the issuance of Incentive Stock Options, the time or manner of its exercise or otherwise), such Stock Option or the portion thereof which does not qualify shall be deemed to constitute a Non-Qualified Stock Option. Each Person to be granted a Stock Option shall enter into a written agreement with the Company, in such form as the Committee may prescribe, setting forth the terms and conditions (including, without limitation, the exercise price and vesting schedule) of the Stock Option. At any time and from time to time, the Optionee and the Committee may agree to modify an option agreement in such respects as they may deem appropriate, including, without limitation, the conversion of an Incentive Stock Option into a Non-Qualified Stock Option. The Committee may require that an Optionee meet certain conditions before the Stock Option or a portion thereof may vest or be exercised, as, for example, that the Optionee remain in the employ of the Company or a Subsidiary for a stated period or periods of time.

6.2 *Incentive Stock Options Limitations.*

(a) In no event shall any individual be granted Incentive Stock Options to the extent that the Shares covered by any Incentive Stock Options (and any incentive stock options granted pursuant to any other plans of the Company or its Subsidiaries) that may be exercised for the first time by such individual in any calendar year have an aggregate Fair Market Value in excess of $100,000. For this purpose, the Fair Market Value of the Shares shall be determined as of the date(s) on which the Incentive Stock Options are granted. It is intended that the limitation on Incentive Stock Options provided in this Subsection 6.2(a) be the maximum limitation on Stock Options which may be considered Incentive Stock Options pursuant to the Code.

(b) The option exercise price of an Incentive Stock Option shall not be less than one hundred percent (100%) of the Fair Market Value of the Shares subject to such Incentive Stock Option on the date of the grant of such Incentive Stock Option.

(c) Notwithstanding anything herein to the contrary, in no event shall any employee owning more than ten percent (10%) of the total combined voting power of the Company or any Subsidiary be granted an Incentive Stock Option unless the option exercise price of such Incentive Stock Option shall be at least one hundred ten percent (110%) of the Fair Market Value of the Shares subject to such Incentive Stock Option on the date of the grant of such Incentive Stock Option.

(d) In no event shall any individual be granted an Incentive Stock Option after the expiration of ten (10) years from the date this Plan is adopted or is approved by the shareholders of the Company (if shareholder approval is required by Section 422 of the Code), whichever is earlier.

(e) To the extent shareholder approval of this Plan is required by Section 422 of the Code, no individual shall be granted an Incentive Stock Option unless this Plan is approved by the shareholders of the Company within twelve (12) months before or after the date this Plan is initially adopted. In the event this Plan is amended to increase the number of Shares subject to issuance upon the exercise of Incentive Stock Options or to change the class of employees eligible to receive

Incentive Stock Options, no individual shall be granted an Incentive Stock Option unless such amendment is approved by the shareholders of the Company within twelve (12) months before or after such amendment.

(f) No Incentive Stock Option shall be granted to any employee owning more than ten percent (10%) of the total combined voting power of the Company or any Subsidiary unless the term of such Incentive Stock Option is equal to or less than five (5) years measured from the date on which such Incentive Stock Option is granted.

(g) No Incentive Stock Option granted pursuant to this Plan shall be transferable other than by will or the laws of decent and distribution and it shall be exercisable only by the Optionee during his or her lifetime.

6.3 *Option Term.* The term of a Stock Option shall be for such period of time from the date of its grant as may be determined by the Committee; provided, however, that no Incentive Stock Option shall be exercisable after the expiration of ten (10) years from the date of its grant.

6.4 *Time of Exercise.* No Stock Option may be exercised unless it is exercised prior to the expiration of its stated term and, in connection with options granted to employees of the Company or its Subsidiaries, at the time of such exercise, the Optionee is, and has been continuously since the date of grant of such Stock Option, employed by the Company or a Subsidiary, except that:

(a) A Stock Option may, to the extent vested as of the date the Optionee ceases to be an employee of the Company or a Subsidiary, be exercised during the three-month period immediately following the date the Optionee ceases (for any reason other than death, Disability or Retirement) to be an employee of the Company or a Subsidiary (or within such other period as may be specified in the applicable option agreement), provided that, if the Stock Option has been

designated as an Incentive Stock Option and the option agreement provides for a longer exercise period, the exercise of such Stock Option after such three-month period shall be treated as the exercise of a Non-Qualified Stock Option;

(b) If the Optionee dies while entitled to exercise a Stock Option, such Stock Option may, to the extent vested as of the date of the Optionee's death, be exercised by the Optionee's Designated Beneficiary during the three year period immediately following the date of the Optionee's death (or within such other period as may be specified in the applicable option agreement); provided that, if the Stock Option has been designated as an Incentive Stock Option and the option agreement provides for a longer exercise period, the exercise of such Stock Option after such one-year period shall be treated as the exercise of a Non-Qualified Stock Option;

(c) If the Optionee ceases to be an employee of the Company or a Subsidiary by reason of the Optionee's Disability or Retirement, a Stock Option, to the extent vested as of the date the Optionee ceases to be an employee of the Company or a Subsidiary, may be exercised during the three year period immediately following the date of such cessation of employment (or within such other period as may be specified in the applicable option agreement); provided that, if the Stock

Option has been designated as an Incentive Stock Option and the option agreement provides for a longer exercise period, the exercise of such Stock Option after such one-year period shall be treated as the exercise of a Non-Qualified Stock Option; and

Nothing contained in this Subsection 6.4 will be deemed to extend the term of a Stock Option or to revive any Stock Option which has previously lapsed or been canceled, terminated or surrendered. Stock Options granted under this Plan to Consultants or non-employee Directors will contain such terms and conditions with respect to the death or disability of a Consultant or non-employee Director or termination of a Consultant's or non-employee Director's relationship with the Company as the Committee deems necessary or appropriate. Such terms and conditions will be set forth in the option agreements evidencing the grant of such Stock Options.

6.5 *Vesting of Stock Options.*

(a) Each Stock Option granted pursuant to this Plan may only be exercised to the extent that the Optionee is vested in such Stock Option, except as specified below with respect to Early Exercise. Each Stock Option shall vest separately in accordance with the option vesting schedule determined by the Committee, which will be incorporated in the option agreement entered into between the Company and such Optionee. The option vesting schedule may be accelerated if, in the sole discretion of the Committee, the acceleration of the option vesting schedule would be in the best interests the Company.

"*Early Exercise"* means the exercise of a Stock Option prior to vesting in accordance with the applicable provisions of this Plan and the Award agreement evidencing the Stock Option. "*Repurchase Rights*" means the right the Company may have pursuant to this Plan or an Award agreement to repurchase unvested shares of Common Stock that the applicable Participant may have received through Early Exercise of a Stock Option or through an Award of Restricted Stock at the same price that such Participant paid (if any).

An Award agreement covering a Non-Qualified Stock Option may (in the Committee's sole discretion) permit the Early Exercise of all or a portion of such Stock Option prior to the vesting of such Stock Option, but only prior to an Initial Public Offering. Shares purchased through the Early Exercise of such Option will be restricted and will be subject to the same vesting schedule as set forth in the Stock Option, and will also be subject to any repurchase rights if provided in the Award agreement.

(b) In the event of the dissolution or liquidation of the Company, each Stock Option granted pursuant to this Plan shall terminate as of a date to be fixed by the Committee; provided, however, that not less than thirty (30) days' written notice of the date so fixed shall be given to each Optionee. During such period all Stock Options which have not previously been terminated, exercised or surrendered will (subject to the provisions of Subsections 6.3 and 6.4) fully vest and become exercisable, notwithstanding the vesting schedule set forth in the option agreement evidencing the grant of such Stock Option. Upon the date fixed by the Committee, any unexercised Stock Options shall terminate and be of no further effect.

(c) Upon a Change in Control, all Stock Options and any associated Stock Appreciation Rights Options will be treated in accordance with the applicable Award agreements. An Award agreement granting an Award pursuant to this Plan may be amended, with the written consent of the parties thereto, to modify the treatment of any Stock Options or Stock Appreciation Rights upon Change in Control as specified in the associated Award agreement. In particular, an Award agreement granting an Award pursuant to this Plan may be amended to eliminate any provision in the associated Award agreement providing for immediate exercisability of Stock Options or Stock Appreciation Rights upon Change in Control.

6.6 *Manner of Exercise of Stock Options.*

(a) Except as otherwise provided in this Plan, Stock Options may be exercised as to Shares only in amounts and at intervals of time specified in the written option agreement between the Company and the Optionee. Each exercise of a Stock Option, or any part thereof, shall be evidenced by a written notice delivered by the Optionee to the Company. The purchase price of the Shares as to which a Stock Option shall be exercised shall be paid in full at the time of exercise, and may be paid to the Company either:

(i) in cash (including check, bank draft or money order); or

(ii) by other consideration deemed acceptable by the Committee in its sole discretion.

(b) If, as permitted in the option agreement or by the Committee, an Optionee delivers Shares already owned by the Optionee in full or partial payment of the exercise price for any Stock Option or the Optionee elects to have the Company retain that number of Shares out of the Shares being acquired through the exercise of the Stock Option having a Fair Market Value equal to the exercise price of the Stock Option being exercised, the Committee may, in its sole discretion, authorize the grant of a new Stock Option (a "Reload Option") for that number of Shares equal to the number of already owned Shares surrendered or newly acquired Shares being retained by the Company in payment of the option exercise price of the underlying Stock Option being exercised. The grant of a Reload Option will become effective upon the exercise of the underlying Stock Option. The option exercise price of the Reload Option shall be the Fair Market Value of a Share on the effective date of the grant of the Reload Option. Each Reload Option shall be exercisable no later than the time when the underlying stock

option being exercised could be last exercised. The Committee may also specify additional terms, conditions and restrictions for the Reload Option and the Shares to be acquired upon the exercise thereof.

(c) The amount, as determined by the Committee, of any federal, state or local tax required to be withheld by the Company due to the exercise of a Stock Option shall, subject to the authorization of the Committee, be satisfied, at the election of the Optionee, either (i) by payment by the Optionee to the Company of the amount of such withholding obligation in cash or other consideration acceptable to the Committee in its sole discretion or (ii) through either the retention by

the Company of a number of Shares out of the Shares being acquired through the exercise of the Stock Option or the delivery of already owned Shares having a Fair Market Value equal to the amount of the withholding obligation. If an Optionee elects to use the method described in clause (ii) of the preceding sentence in full or partial satisfaction of any tax liability resulting from the exercise of a Stock Option, the Committee may authorize the grant of a Reload Option for that number of Shares as shall equal the number of Shares used to satisfy the tax liabilities of the Optionee arising out of the exercise of such Stock Option. Such Reload Option will be granted at the price and on the terms set forth in Subsection 6.6 (b). The cash payment or an amount equal to the Fair Market Value of the Shares so withheld, as the case may be, shall be remitted by the Company to the appropriate taxing authorities.

(d) An Optionee shall not have any of the rights of a shareholder of the Company with respect to the Shares subject to a Stock Option except to the extent that such Stock Option is exercised and one or more certificates representing such Shares shall have been delivered to the Optionee.

ARTICLE 7
STOCK APPRECIATION RIGHTS

7.1 *Grants.* The Committee may grant to any eligible Consultant, non-employee Director or employee of the Company or a Subsidiary either Non-Tandem Stock Appreciation Rights or Tandem Stock Appreciation Rights. Stock Appreciation Rights shall be subject to such terms and conditions as the Committee shall impose. The grant of the Stock Appreciation Right may provide that the holder will be paid for the value of the Stock Appreciation Right either in cash or in Shares, or a combination thereof, at the sole discretion of the Committee. In the event of the exercise of a Stock Appreciation Right payable in Shares, the holder of the Stock Appreciation Right shall receive that number of whole Shares having an aggregate Fair Market Value on the date of exercise equal to the value obtained by multiplying (i) either (a) in the case of a Tandem Stock Appreciation Right, the difference between the Fair Market Value of a Share on the date of exercise over the per share exercise price of the related Stock Option, or (b) in the case of a Non-Tandem Stock Appreciation Right, the difference between the Fair Market Value of a Share on the date of exercise over the Fair Market Value on the date of the grant by (ii) the number of Shares as to which the Stock Appreciation Right is exercised. However, notwithstanding the foregoing, the Committee, in its sole discretion, may place a ceiling on the amount payable upon exercise of a Stock Appreciation Right, but any such limitation shall be specified at the time that the Stock Appreciation Right is granted.

7.2 *Exercisability.* A Tandem Stock Appreciation Right granted in connection with an Incentive Stock Option (i) may be exercised at, and only at, the times and to the extent the related Incentive Stock Option is exercisable, (ii) will expire upon the termination of the related Incentive Stock Option, (iii) may not exceed 100% of the difference between the exercise price of the related

Incentive Stock Option and the Fair Market Value of the Shares subject to the related Incentive Stock Option at the time the Tandem Stock Appreciation Right is exercised and (iv) may be exercised at, and only at, such times as the Fair Market Value of the Shares subject to the related Incentive Stock Option exceeds the exercise price of the related Incentive Stock Option. A Tandem Stock Appreciation Right may be transferred at, and only at, the times and to the extent the related Stock Option is transferable. If a Tandem Stock Appreciation Right is granted, there shall be surrendered and canceled from the related Stock Option at the time of exercise of the Tandem Stock Appreciation Right, in lieu of exercise pursuant to the related Stock Option, that number of Shares of the Stock Option to which the exercised Tandem Stock Appreciation Right relates.

7.3 *Certain Limitations on Non-Tandem Stock Appreciation Rights.* A Non-Tandem Stock Appreciation Right will be exercisable as provided by the Committee and will have such other terms and conditions as the Committee may determine. A Non-Tandem Stock Appreciation Right is subject to acceleration of vesting or immediate termination in certain circumstances in the same manner as Stock Options pursuant to Subsections 6.4 and 6.5 of this Plan.

7.4 *Limited Stock Appreciation Rights.* The Committee may grant limited Stock Appreciation Rights, either as Tandem Stock Appreciation Rights or Non-Tandem Stock Appreciation Rights, which may become exercisable only upon the occurrence of a Change in Control or such other event as the Committee may designate at the time of grant or thereafter.

ARTICLE 8
RESTRICTED STOCK

8.1 *Grants.* The Committee may grant Awards of Restricted Stock to any eligible Consultant, non-employee Director or employee of the Company or a Subsidiary for such minimum consideration, if any, as may be required by applicable law or such greater consideration as may be determined by the Committee, in its sole discretion. The terms and conditions of the Restricted Stock shall be specified by the grant agreement. The Committee, in its sole discretion, may specify any particular rights which the Participant to whom a grant of Restricted Stock is made shall have in the Restricted Stock during the restriction period and the restrictions applicable to the particular Award, the vesting schedule (which may be based on service, performance or other factors) and rights to acceleration of vesting (including, without limitation, whether non-vested Shares are forfeited or vested upon termination of employment). Further, the Committee may grant performance-based Awards consisting of Restricted Stock by conditioning the grant, or vesting or such other factors, such as the release, expiration or lapse of restrictions upon any such Award (including the acceleration of any such conditions or terms) of such Restricted Stock upon the attainment of specified performance goals or such other factors as the Committee may determine. The Committee shall also determine when the restrictions shall lapse or expire and the conditions, if any, pursuant to which the Restricted Stock will be forfeited or sold back to the Company. Each Award of Restricted Stock may have different restrictions and conditions. Unless otherwise set forth in the grant agreement, Restricted Stock may not be sold, pledged, encumbered or otherwise disposed of by the recipient until the restrictions specified in the Award expire. Awards of Restricted Stock are subject to acceleration of vesting, termination of restrictions and termination in the same manner as Stock Options pursuant to Subsections 6.4 and 6.5 of this Plan.

8.2 *Awards and Certificates.* Any Restricted Stock issued hereunder may be evidenced in such manner as the Committee, in its sole discretion, shall deem appropriate including, without limitation, book-entry registration or issuance of a stock certificate or certificates. In the event any stock certificate is issued in respect of Shares of Restricted Stock, such certificate shall bear an appropriate legend with respect to the restrictions applicable to such Award. The Company may retain, at its option, the physical custody of any stock certificate representing any awards of Restricted Stock during the restriction period or require that the certificates evidencing Restricted Stock be placed in escrow or trust, along with a stock power endorsed in blank, until all restrictions are removed or expire.

ARTICLE 9
PERFORMANCE AWARDS

9.1 *Grants.* A Performance Award may consist of either or both, as the Committee may determine, of (i) the right to receive Shares or Restricted Stock, or any combination thereof as the Committee may determine or (ii) the right to receive a fixed dollar amount payable in Shares, Restricted Stock, cash or any combination thereof, as the Committee may determine. The Committee may grant Performance Awards to any eligible Consultant, non-employee Director or employee of the Company or a Subsidiary, for such minimum consideration, if any, as may be required by applicable law or such greater consideration as may be determined by the Committee, in its sole discretion. The terms and conditions of Performance Awards shall be specified at the time of the grant and may include provisions establishing the performance period, the performance criteria to be achieved during a performance period, the criteria used to determine vesting (including the acceleration thereof), whether Performance Awards are forfeited or vest upon termination of employment during a performance period and the maximum or minimum settlement values. Each Performance Award shall have its own terms and conditions, which shall be determined in the sole discretion of the Committee. If the Committee determines, in its sole discretion, that the established performance measures or objectives are no longer suitable because of a change in the Company's business, operations, corporate structure or for other reasons that the Committee deems satisfactory, the Committee may modify the performance measures or objectives and/or the performance period. Performance Awards are subject to acceleration of vesting, termination of restrictions and termination in the same manner as Stock Options pursuant to Subsections 6.4 and 6.5 of this Plan.

9.2 *Terms and Conditions.* Performance Awards may be valued by reference to the Fair Market Value of a Share or according to any other formula or method deemed appropriate by the Committee, in its sole discretion, including, but not limited to, achievement of specific financial, production, sales, cost or earnings performance objectives that the Committee believes to be relevant or the Company's performance or the performance of the Shares measured against the performance of the market, the Company's industry segment or its direct competitors. Performance Awards may also be conditioned upon the applicable Participant remaining in the employ of the Company or one of its Subsidiaries for a specified period. Performance Awards may be paid in cash, Shares (including Restricted Stock) or other consideration, or any combination thereof. Performance Awards may be payable in a single payment or in installments and may be payable at a specified date or dates or

upon attaining the performance objective or objectives, all at the sole discretion of the Committee. The extent to which any applicable performance objective has been achieved shall be conclusively determined by the Committee in its sole discretion.

ARTICLE 10
OTHER AWARDS

10.1 *Other Awards.* The Committee may grant to any eligible Consultant, non-employee Director or employee of the Company or a Subsidiary other forms of Awards based upon, payable in or otherwise related to, in whole or in part, Shares, if the Committee, in its sole discretion, determines that such other form of Award is consistent with the purposes of this Plan. The terms and conditions of such other form of Award shall be specified in a written agreement which sets forth the terms and conditions of such Award, including, but not limited to, the price, if any, and the vesting schedule, if any, of such Award. Such Awards may be granted for such minimum consideration, if any, as may be required by applicable law or for such other greater consideration as may be determined by the Committee, in its sole discretion.

ARTICLE 11
COMPLIANCE WITH SECURITIES AND OTHER LAWS

11.1 *Compliance.* As a condition to the issuance or transfer of any Award or any security issuable in connection with such Award, the Company may require an opinion of counsel, satisfactory to the Company, to the effect that (i) such issuance and/or transfer will not be in violation of the Securities Act or any other applicable securities laws and (ii) such issuance and/or transfer will not be in violation of the rules and regulations of any securities exchange or automated quotation system on which the Shares are listed or admitted to trading. Further, the Company may refrain from issuing, delivering or transferring any Award or any security issuable in connection with such Award until the Committee has determined that such issuance, delivery or transfer will not violate such securities laws or rules and regulations and that either the recipient has tendered to the Company, or the Company or a Subsidiary has withheld, any federal, state or local tax owed as a result of such issuance, delivery or transfer, when the Company has a legal liability to satisfy such tax. The Company shall not be liable for damages due to delay in the issuance, delivery or transfer of any Award or any security issuable in connection with such Award or any agreement, instrument or certificate evidencing such Award or security for any reason whatsoever, including, but not limited to, a delay caused by the listing requirements of any securities exchange or automated quotation system or any registration requirements under the Securities Act, the Exchange Act, or under any other state or federal law, rule or regulation. The Company is under no obligation to take any action or incur any expense to register or qualify the issuance, delivery or transfer of any Award or any security issuable in connection with such Award under applicable securities laws or to perfect any exemption from such registration or qualification or to list any security on any securities exchange or automated quotation system. Furthermore, the Company will have no liability to any person for refusing to issue, deliver or transfer any Award or any security issuable in connection with

such Award if such refusal is based upon the foregoing provisions of this ARTICLE 11. As a condition to any issuance, delivery or transfer of any Award or any security issuable in connection with such Award, the Company may place legends on any agreement, instrument or certificate evidencing such Award or security, issue stop transfer orders with respect thereto and require such agreements or undertakings as the Company may deem necessary or advisable to assure compliance with applicable laws or regulations, including, if the Company or its counsel deems it appropriate, representations from the recipient of such Award or security to the effect that such recipient is acquiring such Award or security solely for investment and not with a view to distribution and that no distribution of the Award or the security will be made unless registered pursuant to applicable federal and state securities laws, or in the opinion of counsel to the Company, such registration is unnecessary.

ARTICLE 12
ADJUSTMENTS UPON THE OCCURRENCE OF A RECAPITALIZATION OR CORPORATE TRANSACTION

12.1 In the event of a Recapitalization, the number and class of Shares subject to this Plan and to each outstanding Award, and the exercise price of each Award which is based upon Shares, shall (to the extent deemed appropriate by the Committee) be proportionately adjusted (as determined by the Committee in its sole discretion) to account for any increase or decrease in the number, or change in the class, of issued and outstanding Shares of the Company resulting from such Recapitalization.

12.2 If a Corporate Transaction is consummated and immediately following the consummation of such Corporate Transaction the Persons who were holders of Shares immediately prior to the consummation of such Corporate Transaction do not receive any securities or other property (hereinafter collectively referred to as "Transactional Consideration") as a result of such Corporate Transaction and substantially all of such Persons continue to hold the Shares held by them immediately prior to the consummation of such Corporate Transaction (in substantially the same proportions relative to each other), the Awards will remain outstanding and will (subject to, and except as provided in, the other provisions of this Plan and the Award agreement) continue in full force and effect in accordance with its terms (without any modification) following the consummation of the Corporate Transaction.

12.3 If a Corporate Transaction is consummated and immediately following the consummation of such Corporate Transaction the Persons who were holders of Shares immediately prior to the consummation of such Corporate Transaction do receive Transactional Consideration as a result of such Corporate Transaction or substantially all of such Persons do not continue to hold the Shares held by them immediately prior to the consummation of such Corporate Transaction (in substantially the same proportions relative to each other), the terms and conditions of the Awards will be modified as follows:

(i) If the documentation pursuant to which a Corporate Transaction will be consummated provides for the assumption (by the entity issuing Transactional Consideration to the Persons who

were the holders of Shares immediately prior to the consummation of such Corporate Transaction) of the Awards granted pursuant to this Plan without any modification or amendment (other than Permitted Modifications), such Awards will remain outstanding and will continue in full force and effect in accordance with its terms following the consummation of such Corporate Transaction (subject to such Permitted Modifications).

(ii) If the documentation pursuant to which a Corporate Transaction will be consummated does not provide for the assumption by the entity issuing Transactional Consideration to the Persons who were the holders of Shares immediately prior to the consummation of such Corporate Transaction of the Awards granted pursuant to this Plan without any modification or amendment (other than Permitted Modifications), all vesting restrictions (performance based or otherwise) applicable to Awards which will not be so assumed will accelerate and the holders of such Awards may (subject to the expiration of the term of such Awards) exercise/receive the benefits of such Awards without regard to such vesting restrictions during the ten (10) day period immediately preceding the consummation of such Corporate Transaction. For purposes of the immediately preceding sentence, all performance based goals will be deemed to have been satisfied in full. The Company will provide each Participant holding Awards which will not be so assumed with reasonable notice of the termination of such vesting restrictions and the impending termination of such Awards. Upon the consummation of such a Corporate Transaction, all unexercised Awards which are not to be so assumed will automatically terminate and cease to be outstanding.

Nothing contained in this ARTICLE 12 will be deemed to extend the term of an Award or to revive any Award which has previously lapsed or been canceled, terminated or surrendered.

ARTICLE 13
AMENDMENT OR TERMINATION OF THIS PLAN

13.1 *Amendment of This Plan.* Notwithstanding anything contained in this Plan to the contrary, all provisions of this Plan (including, without limitation, the maximum number of Shares that may be issued with respect to Awards to be granted pursuant to this Plan) may at any time or from time to time be modified or amended by the Board; provided, however, that no Award at any time outstanding pursuant to this Plan may be modified, impaired or canceled adversely to the holder of the Award without the consent of such holder.

13.2 *Termination of This Plan.* The Board may suspend or terminate this Plan at any time, and such suspension or termination may be retroactive or prospective. Termination of this Plan shall not impair or affect any Award previously granted hereunder and the rights of the holder of the Award shall remain in effect until the Award has been exercised in its entirety or has expired or otherwise has been terminated by the terms of such Award.

ARTICLE 14
AMENDMENTS AND ADJUSTMENTS TO AWARDS

14.1 *Amendments and Adjustments.* The Committee may amend, modify or terminate any outstanding Award with the Participant's consent at any time prior to payment or exercise in any manner not inconsistent with the terms of this Plan, including, without limitation, (i) to change the date or dates as of which and/or the terms and conditions pursuant to which (A) a Stock Option becomes exercisable or (B) a Performance Award is deemed earned, (ii) to amend the terms of any outstanding Award to provide an exercise price per share which is higher or lower than the then current exercise price per share of such outstanding Award or (iii) to cancel an Award and grant a new Award in substitution therefor under such different terms and conditions as the Committee determines in its sole discretion to be appropriate including, but not limited to, having an exercise price per share which may be higher or lower than the exercise price per share of the canceled Award. The Committee may also make adjustments in the terms and conditions of, and the criteria included in agreements evidencing Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in ARTICLE 12 hereof) affecting the Company, or the financial statements of the Company or any Affiliate, or of changes in applicable laws, regulations or accounting principles, whenever the Committee determines that such adjustments are appropriate to prevent reduction or enlargement of the benefits or potential benefits intended to be made available pursuant to this Plan.

ARTICLE 15
GENERAL PROVISIONS

15.1 *No Limit on Other Compensation Arrangements.* Nothing contained in this Plan shall prevent the Company from adopting or continuing in effect other compensation arrangements, and such arrangements may be either generally applicable or applicable only in specific cases. This Plan shall not affect any other stock option, incentive, or other compensation or benefit plan of the Company or any Subsidiary, except as may be expressly provided therein.

15.2 *Other Awards.* The grant of an Award shall not confer upon the recipient the right to receive any future or other Awards under this Plan or any other plans of the Company or any Subsidiary, whether or not any awards may be granted to similarly situated employees, or the right to receive future Awards upon the same terms or conditions as previously granted.

15.3 *No Right to Employment or Continuation of Relationship.* Nothing in this Plan or in any Award, nor the grant of any Award, shall confer upon or be construed as giving any Participant any right to remain in the employ of the Company or a Subsidiary or to continue as a Consultant or non-employee Director. Further, the Company or a Subsidiary may at any time dismiss a Participant from emp1oyment or terminate the relationship of any Consultant or non-employee Director with the Company or any Subsidiary, free from any liability or any claim pursuant to this Plan. No Consultant, non-employee Director or employee of the Company or any Subsidiary shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of any Consultant, non-employee Director or employee of the Company or any Subsidiary or of any Participants.

15.4 *Governing Law*. The validity, construction and effect of this Plan and any rules and regulations relating to this Plan shall be determined in accordance with the laws of the State of Texas, without giving effect to the conflict of laws principles thereof.

15.5 *Severability.* If any provision of this Plan or any Award is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or as to any individual or Award, or would disqualify this Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable law, or if it cannot be construed or deemed amended without, in the sole determination of the Committee, materially altering the intent of this Plan or the Award, such provision shall be stricken as to such jurisdiction, individual or Award and the remainder of this Plan and any such Award shall remain in full force and effect.

15.6 *No Fractional Shares.* No fractional Shares shall be issued or delivered pursuant to this Plan or any Award, and the Committee shall determine, in its sole discretion, whether cash, other securities or other property shall be paid or transferred in lieu of any fractional Shares or whether such fractional Shares or any rights thereto shall be canceled, terminated or otherwise eliminated.

15.7 *Headings.* Headings are given to the ARTICLEs and Subsections of this Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of this Plan or any provision thereof.

15.8 *Gender.* If the context requires, words of one gender when used in this Plan shall include the others and words used in the singular shall include the plural, and vice versa.

15.9 *Transferability of Awards.* Awards shall not be transferable otherwise than by will or the laws of descent and distribution without the written consent of the Committee (which may be granted or withheld at the sole discretion of the Committee). Awards may be exercised, during the lifetime of the holder, only by the holder. Any attempted assignment, transfer, pledge, hypothecation or other disposition of an Award contrary to the provisions hereof, or the levy of any execution, attachment or similar process upon an Award shall be null and void and without effect.

15.10 *Rights of Participants.* Except as hereinbefore expressly provided in this Plan, any Person to whom an Award is granted shall have no rights by reason of any subdivision or consolidation of stock of any class or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class or by reason of any dissolution, liquidation, reorganization, merger or consolidation or spinoff of assets or stock of another corporation, and any issue by the Company of shares of stock of any class or securities convertible into shares of stock of any class shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or exercise price of Shares subject to an Award.

15.11 *No Limitation Upon the Rights of the Company.* The grant of an Award pursuant to this Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, or changes of its capital or business structure; to merge, convert or consolidate; to dissolve or liquidate; or sell or transfer all or any part of its business or assets.

15.12 *Date of Grant of an Award.* Except as noted in this ARTICLE 15.12, the granting of an Award shall take place only upon the execution and delivery by the Company and the Participant of a written agreement and neither any other action taken by the Committee nor anything contained in this Plan or in any resolution adopted or to be adopted by the Committee, the Board or the shareholders of the Company shall constitute the granting of an Award pursuant to this Plan. Solely for purposes of determining the Fair Market Value of the Shares subject to an Award, such Award will be deemed to have been granted as of the date specified by the Committee notwithstanding any delay which may elapse in executing and delivering the applicable agreement.

15.13 *Tax Withholding.* The Company or any Subsidiary shall be entitled to deduct from other compensation payable to an employee any sums required by federal, state, or local tax law to be withheld with respect to the granting or exercise of a Stock Option or other Award under this Plan. In the alternative, the Company or any Subsidiary may require the recipient (or other person exercising the Award) to pay such sums directly to the employer, and neither the Company or any Subsidiary shall have any obligation to issue any Shares or make any payment until such payment has been received.

ARTICLE 16
NAMED EXECUTIVE OFFICERS

16.1 *Applicability of ARTICLE 16.* The provisions of this ARTICLE 16 shall apply only if the Company is a "publicly held corporation" as defined in Section 162(m)(2) of the Code, and then only to those executive officers (i) whose compensation is required to be reported in the Company's proxy statement pursuant to Item 402(a)(3)(i) and (ii) (or any successor thereto) of Regulation S-K (or any successor thereto) under the general rules and regulations under the Exchange Act and (ii) whose total compensation, including estimated Awards, is determined by the Committee to possibly be subject to the limitations on deductions imposed by Section 162(m) of the Code ("Named Executive Officers"). In the event of any inconsistencies between this ARTICLE 16 and the other Plan provisions as they pertain to Named Executive Officers, the provisions of this ARTICLE 16 shall control.

16.2 *Establishment of Performance Goals.* Awards for Named Executive Officers, other than Stock Options and Stock Appreciation Rights, shall be based on the attainment of certain performance goals. No later than the earlier of (i) ninety (90) days after the commencement of the applicable fiscal year of the Company or one of its Subsidiaries or such other award period as may be established by the Committee ("Award Period") and (ii) the completion of twenty-five percent (25%) of such Award Period, the Committee shall establish, in writing, the performance goals applicable to each such Award for Named Executive Officers. At the time the performance goals are established, their outcome must be substantially uncertain. In addition, the performance goal must state, in terms of an objective formula or standard, the method for computing the amount of compensation payable

to the Named Executive Officer if the goal is obtained. Such formula or standard shall be sufficiently objective so that a third party with knowledge of the relevant performance results could calculate the amount to be paid to the subject Named Executive Officer. The material terms of the performance goals for Named Executive Officers and the compensation payable thereunder shall be submitted to the shareholders of the Company for their review and approval if and to the extent required for such compensation to be deductible pursuant to Section 162(m) (or any successor thereto) of the Code, and the Treasury Regulations thereunder. Shareholder approval, if necessary, shall be obtained for such performance goals prior to any Award being paid to such Named Executive Officer. If shareholder approval is required and not received with respect to such performance goals, no amount shall be paid to such Named Executive Officer for such applicable Award Period pursuant to this Plan.

16.3 *Components of Awards.* Each Award granted to a Named Executive Officer, other than Stock Options and Stock Appreciation Rights, shall be based on performance goals which are sufficiently objective so that a third party having knowledge of the relevant facts could determine whether the goal was met. Except as provided in Subsection 16.8 herein, performance measures which may serve as determinants of Named Executive Officers' Awards shall be limited to the following measures: earnings per share; return on assets; return on equity; return on capital; net profit after taxes; net profit before taxes; operating profits; stock price; and sales or expenses. Within ninety (90) days following the end of each Award Period, the Committee shall certify in writing that the performance goals, and any other material terms were satisfied. Thereafter, Awards shall be made for each Named Executive Officer as determined by the Committee. The Awards may not vary from the pre-established amount based on the level of achievement.

16.4 *No Mid-Year Change in Awards.* Except as provided in Subsections 16.8 and 16.9 herein, each Named Executive Officer's Awards shall be based exclusively on the performance measures established by the Committee pursuant to Subsections 16.2 and 16.3.

16.5 *No Partial Award Period Participation.* A Named Executive Officer who becomes eligible to participate in this Plan after performance goals have been established in an Award Period pursuant to Subsections 16.2 and 16.3 may not participate in this Plan prior to the next succeeding Award Period, except with respect to Awards which are Stock Options or Stock Appreciation Rights.

16.6 *Performance Goals.* Except as provided in Subsection 16.8 herein, performance goals shall not be changed following their establishment, and Named Executive Officers shall not receive any payout, except with respect to Awards which are Stock Options or Stock Appreciation Rights, when the minimum performance goals are not met or exceeded.

16.7 *Individual Performance and Discretionary Adjustments.* Except as provided in Subsection 16.8 herein, subjective evaluations of individual performance of Named Executive Officers shall not be reflected in their Awards, other than Awards which are Stock Options or Stock Appreciation Rights. The payment of such Awards shall be entirely dependent upon the attainment of the preestablished performance goals.

16.8 *Amendments.* No amendment of this Plan with respect to any Named Executive Officer may be made which would (i) increase the maximum amount that can be paid to any one Participant pursuant to this Plan, (ii) change the specified performance goal for payment of Awards, or (iii) modify the requirements as to eligibility for participation in this Plan, unless the Company's shareholders have first approved such amendment in a manner which would permit the deduction under Section 162(m) (or any successor thereto) of the Code of such payment in the fiscal year it is paid. The Committee shall amend this ARTICLE 16 and such other provisions as it deems appropriate, to cause amounts payable to Named Executive Officers to satisfy the requirements of Section 162(m) (or any successor thereto) and the Treasury regulations promulgated thereunder.

16.9 *Stock Options and Stock Appreciation Rights - Grant Price.* Notwithstanding any provision of this Plan (including the provisions of this ARTICLE 16) to the contrary, the amount of compensation which a Named Executive Officer may receive with respect to Stock Options and Stock Appreciation Rights which are granted hereunder is based solely on an increase in the value of the applicable Shares after the date of grant of such Award. Thus, no Stock Option may be granted hereunder to a Named Executive Officer with an exercise price less than the Fair Market Value of Shares on the date of grant. Furthermore, the maximum number of Shares (or cash equivalent value) with respect to which Stock Options or Stock Appreciation Rights may be granted hereunder to any Named Executive Officer during any calendar year may not exceed 1,000,000 Shares, subject to adjustment as provided in ARTICLE 12 hereunder.

16.10 *Maximum Amount of Compensation.* The maximum amount of compensation payable as an Award (other than an Award which is a Stock Option or Stock Appreciation Right) to any Named Executive Officer during any calendar year may not exceed $1,000,000.

APPLIED OPTOELECTRONICS, INC.

2000 INCENTIVE SHARE PLAN

ARTICLE 1
PURPOSE AND EFFECTIVE DATE

1.1 *Purpose.* The purpose of the 2000 Incentive Share Plan (the "Plan") is to advance the interests of Applied Optoelectronics, Inc. (the "Company") and its shareholders by enabling the Company and each of its Subsidiaries (as hereinafter defined) to (A) provide share ownership opportunities to certain of their key employees to participate in the Company's growth and (B) enhance their ability to attract and retain individuals of superior managerial or technical ability and to motivate employees, consultants, independent contractors, agents, and other persons to exert their best efforts towards future progress and profitability of the Company.

1.2 *Effective Date.* The effective date of the Plan shall be the date that this Plan is approved by the shareholders of the Company.

ARTICLE 2
DEFINITIONS

As used in this Plan, the following terms shall have the meanings set forth below unless the context otherwise requires:

2.1 "*Award*" shall mean the grant of a Stock Option, a Stock Appreciation Right, Restricted Stock, a Performance Award, or any other grant of incentive compensation pursuant to this Plan.

2.2 "*Award Period*" shall have the meaning set forth in Subsection 16.2 of this Plan.

2.3 "*Board*" shall mean the Board of Directors of the Company, as the same may be constituted from time to time.

2.4 "*Change in Control*" has the meaning given such term in the applicable Award agreement or, if not defined therein, shall mean, after the effective date of this Plan stated in Subsection 1.2, (i) the occurrence of an event of a nature that would be required to be reported by the Company in response to Item 1 of a Current Report on Form 8-K (or any successor to such form), whether or not the Company is, in fact, required to report on such form, promulgated pursuant to the Exchange Act; provided that, without limitation, such a Change in Control shall be deemed to have occurred if (a) any Person or group (as defined in the Exchange Act), other than (A) the Company, (B) a wholly-owned Subsidiary, (C) any employee benefit plan (including, without limitation, an employee stock ownership plan) adopted by the Company or any wholly-owned Subsidiary or (D) any trustee or other fiduciary holding securities under any employee benefit plan adopted by the

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Company or any Subsidiary, becomes the "beneficial owner" (as defined in Rule 13d-3 (or any successor to such rule) promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities or (b) during any period of twenty-four (24) months, individuals who at the beginning of such period constitute the Board cease for any reason to constitute at least a majority thereof, unless the election by the Board or the nomination for election by the Company's shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of such twenty-four (24) month period or whose election or nomination for election was previously so approved; (ii) a Corporate Transaction is consummated, other than a Corporate Transaction that would result in substantially all of the holders of voting securities of the Company outstanding immediately prior thereto owning (directly or indirectly and in substantially the same proportions relative to each other) not less than fifty percent (50%) of the combined voting power of the voting securities of the issuing/surviving/resulting entity outstanding immediately after such Corporate Transaction; or (iii) an agreement for the sale or other disposition of all or substantially all of the Company's assets (evaluated on a consolidated basis, without regard to whether the sale or disposition is effected via a sale or disposition of assets of the Company, the sale or disposition of the securities of one or more Subsidiaries or the sale or disposition of the assets of one or more Subsidiaries) is consummated.

2.5 "*Code*" shall mean the Internal Revenue Code of 1986, as amended from time to time (or any successor to such legislation).

2.6 "*Committee*" shall mean the Compensation Committee of the Board, if such a committee shall have been appointed and consist of two (2) or more directors of the Company who are both "Non-Employee Directors" (as that term is defined in Rule 16b-3 (or any successor to such rule) promulgated under the Exchange Act) and "outside directors" within the meaning of Section 162(m) of the Code and such Treasury regulations as may be promulgated thereunder. If a separate Compensation Committee with such membership shall not have been appointed, "Committee" shall mean the Board.

2.7 "*Company*" shall mean Applied Optoelectronics, Inc., a Texas corporation.

2.8 "*Consultant*" shall mean any Person who or which is engaged by the Company or any Subsidiary to render services as a consultant or advisor.

2.9 "*Corporate Transaction*" shall mean any reorganization, merger, consolidation or conversion involving the Company or any exchange of securities involving Shares, other than a Recapitalization.

2.10 "*Designated Beneficiary*" shall mean the beneficiary designated by a Participant, in a manner authorized by the Committee, to exercise the rights of such Participant in the event of such Participant's death. In the absence of an effective designation by a Participant, the Designated Beneficiary shall be such Participant's estate.

2.11 "*Disability"* shall mean permanent and total inability to engage in any substantial gainful activity, even with reasonable accommodation, by reason of any medically determinable physical or mental impairment which has lasted or can reasonably be expected to last without material interruption for a period of not less than twelve (12) months, as determined in the sole discretion of the Committee.

2.12 "*Exchange Act"* shall mean the Securities Exchange Act of 1934, as amended from time to time (or any successor to such legislation).

2.13 "*Fair Market Value"* shall mean with respect to the Shares, as of any date, (i) if the Shares are listed or admitted to trade on a national securities exchange, the closing price of the Shares on the composite tape, as published in the *Wall Street Journal,* of the principal national securities exchange on which the Shares are so listed or admitted to trade, on such date or, if there is no trading in Shares on such date, then the closing price of the Shares as quoted on such composite tape on the next preceding date on which there was trading in such Shares; (ii) if the Shares are not listed or admitted to trade on a national securities exchange, then the closing price of the Shares as quoted on the National Market System of the NASD; (iii) if the Shares are not listed or admitted to trade on a national securities exchange or the National Market System of the NASD, the mean between the bid and asked price for the Shares on such date, as furnished by the NASD through NASDAQ or a similar organization if NASDAQ is no longer reporting such information; or (iv) if the Shares are not listed or admitted to trade on a national securities exchange or the National Market System of the NASD and if bid and asked prices for the Shares are not so furnished by the NASD or a similar organization, the value established by the Board, determined without regard to any restriction other than a restriction which, by its terms, will never lapse.

2.14 "*Incentive Stock Option"* shall mean any option to purchase Shares awarded pursuant to this Plan which qualifies as an "Incentive Stock Option" pursuant to Section 422 of the Code.

2.15 "*Named Executive Officer"* shall have the meaning set forth in Subsection 16.1 of this Plan.

2.16 "*NASD"* shall mean the National Association of Securities Dealers, Inc.

2.17 "*Non-Qualified Stock Option"* shall mean any option to purchase Shares awarded pursuant to this Plan that does not qualify as an Incentive Stock Option (including, without limitation, any option to purchase Shares originally designated as or intended to qualify as an Incentive Stock Option) but which does not (for whatever reason) qualify as an Incentive Stock Option.

2.18 "*Non-Tandem Stock Appreciation Right"* shall mean any Stock Appreciation Right granted alone and not in connection with an Award which is a Stock Option.

2.19 "*Optionee"* shall mean any Participant who has been granted and holds a Stock Option awarded pursuant to this Plan.

2.20 "*Participant"* shall mean any Person who has been granted and holds an Award granted pursuant to this Plan.

2.21 "*Performance Award"* shall mean any Award granted pursuant to this Plan of Shares, rights based upon, payable in or otherwise related to Shares (including Restricted Stock) or cash, as the Committee may determine, at the end of a specified performance period established by the Committee.

2.22 "*Permitted Modification*" shall be deemed to be any modification of an Award which is made in connection with a Corporate Transaction and which provides (i) in connection with a Stock Option, that subsequent to the consummation of the Corporate Transaction (A) the exercise price of such Stock Option will be proportionately adjusted to reflect the exchange ratio applicable to the particular Corporate Transaction and/or (B) the nature and amount of consideration to be received upon exercise of the Stock Option will be the same (on a per share basis) as was received by Persons who were holders of Shares immediately prior to the consummation of the Corporate Transaction, (ii) in connection with a Stock Appreciation Right, that subsequent to the consummation of the Corporate Transaction (A) the base price of such Stock Appreciation Right will be proportionately adjusted to reflect the exchange ratio applicable to the particular Corporate Transaction and/or (B) the benefits to be received by the holder of such Stock Appreciation Right will be measured based upon the nature and amount of consideration received (on a per share basis) by Persons who were holders of Shares immediately prior to the consummation of the Corporate Transaction, or (iii) for a modification expressly provided for in this Plan or in an Award agreement.

2.23 "*Person*" shall mean an individual, partnership, limited liability company, corporation, joint stock company, trust, estate, joint venture, association or unincorporated organization or any other form of business organization.

2.24 "*Plan"* shall mean this Applied Optoelectronics, Inc. 2000 Incentive Share Plan as set out in this document and as it may be amended from time to time.

2.25 "*Reload Option"* shall mean a Stock Option as defined in Subsection 6.6(b) of this Plan.

2.26 "*Recapitalization*" shall mean any stock split, stock dividend, reverse stock split, combination or subdivision of Shares or any other similar increase or decrease in the number of Shares issued and outstanding, without the Company receiving consideration therefor in money, services, or property (other than securities issued by the Company).

2.27 "*Restricted Stock"* shall mean any Shares granted pursuant to this Plan that are subject to restrictions or substantial risk of forfeiture.

2.28 "*Retirement"* shall mean the termination of employment of an employee of the Company or any Subsidiary pursuant to the terms of any retirement plan or policy maintained by the Company or any Subsidiary in which such employee participates.

2.29 "*Securities Act"* shall mean the Securities Act of 1933, as amended from time to time (or any successor to such legislation).

2.30 "*Shares"* shall mean shares of the common stock of the Company and any shares of capital stock or other securities hereafter issued or issuable upon, in respect of or in substitution or exchange for shares of common stock of the Company.

2.31 "*Stock Appreciation Right"* shall mean the right of the holder thereof to receive property or Shares with a Fair Market Value equal to or cash in an amount equal to the excess of the Fair Market Value of the aggregate number of Shares subject to such Stock Appreciation Right on the date of exercise over the Fair Market Value of the aggregate number of Shares subject to such Stock Appreciation Right on the date of the grant of such Stock Appreciation Right (or such other value as may be specified in the agreement granting such Stock Appreciation Right). A Stock Appreciation Right may be a Tandem Stock Appreciation Right or a Non-Tandem Stock Appreciation Right.

2.32 "*Stock Option*" shall mean any Incentive Stock Option or Non-Qualified Stock Option.

2.33 "*Subsidiary"* shall mean a subsidiary corporation of the Company, as defined in Section 424(f) of the Code.

2.34 "*Tandem Stock Appreciation Right"* shall mean a Stock Appreciation Right granted in connection with an Award which is a Stock Option.

2.35 "*Transactional Consideration*" shall have the meaning set forth in Subsection 12.2 of this Plan.

ARTICLE 3
ADMINISTRATION OF THIS PLAN

3.1 *Committee.* This Plan shall be administered and interpreted by the Committee.

3.2 *Administration.*

(a) Subject to the provisions of this Plan and directions from the Board, the Committee is authorized to:

(i) determine the Persons to whom Awards are to be granted;

(ii) determine the types and combinations of Awards to be granted; the number of Shares to be covered by an Award; the exercise price of an Award; the time or times when an Award shall be granted and may be exercised; the terms, performance criteria or other conditions, vesting periods or any restrictions for an Award; any restrictions on Shares acquired pursuant to the exercise of an Award; and any other terms and conditions of an Award;

(iii) conclusively interpret the provisions of this Plan;

(iv) prescribe, amend and rescind rules and regulations relating to this Plan;

(v) rely upon employees of the Company for such clerical and record keeping duties as may be necessary in connection with the administration of this Plan;

(vi) accelerate or defer (with the consent of the Participant) the vesting of any rights pursuant to an Award; and

(vii) make all other determinations and take all other actions necessary or advisable for the administration of this Plan.

The President of the Company shall also be authorized, subject to the provisions of this Plan and directions from the Board and the Committee, to determine the types and combinations of Awards to be granted; the number of Shares to be covered by an Award; the exercise price of an Award; the time or times when an Award shall be granted and may be exercised; the terms, performance criteria or other conditions, vesting periods or any restrictions for an Award; any restrictions on Shares acquired pursuant to the exercise of an Award; and any other terms and conditions of an Award; provided, however, that the President of the Company may not (1) grant any Award to himself or herself (2) grant Awards to any one person with respect to more than 100,000 Shares in the aggregate (which number shall be adjusted pro rata in the event of any adjustment to the limitation set forth in ARTICLE 4.1 hereof), or (3) modify any Award made by the Committee or Board.

(b) A majority of the Committee members shall constitute a quorum for action by the Committee. All determinations of the Committee in connection with the Plan shall be made by not less than a majority of its members. All questions of interpretation and application of this Plan or pertaining to any question of fact or Award granted hereunder will be decided by the Committee, whose decision will be final, conclusive and binding upon the Company and each other affected party.

ARTICLE 4
SHARES SUBJECT TO PLAN

4.1 *Limitations.* The maximum number of Shares that may be issued with respect to Awards granted pursuant to this Plan shall not exceed 3,604,100 unless increased or decreased by reason of changes in the capitalization of the Company as hereinafter provided or by amendment of this Plan. The Shares issued pursuant to this Plan may be authorized but unissued Shares, or may be issued Shares which have been reacquired by the Company.

4.2 *Changes.* To the extent that any Award granted pursuant to this Plan shall be forfeited, shall expire or shall be canceled, in whole or in part, then the number of Shares covered by the Award so forfeited, expired or canceled may again be awarded pursuant to the provisions of this Plan. In the event that Shares are delivered to the Company in full or partial payment of the exercise price for the exercise of a Stock Option, the number of Shares available for future Awards granted pursuant to this Plan shall be reduced only by the net number of Shares issued upon the exercise of the Stock Option. Awards that may be satisfied either by the issuance of Shares or by cash or other consideration shall, until the form of consideration to be paid is finally determined, be counted against the maximum number of Shares that may be issued pursuant to this Plan. If the Award is ultimately satisfied by the payment of consideration other than Shares, such Shares may again be made the subject of an Award granted pursuant to this Plan. Awards will not reduce the number of Shares that may be issued pursuant to this Plan if the settlement of the Award will not require the issuance of Shares, as, for example, a Stock Appreciation Right that can be satisfied only by the payment of cash.

ARTICLE 5
ELIGIBILITY

5.1 *Eligibility.* Eligibility for participation in this Plan shall be confined to those individuals who are employed by the Company or a Subsidiary and such Consultants and non-employee Directors as may be designated by the Committee. In making any determination as to Persons to whom Awards shall be granted, the type of Award and/or the number of Shares to be covered by the Award, the Committee shall consider the position and responsibilities of the Person, the importance of the Person to the Company, the duties of the Person, the past, present and potential contributions of the Person to the growth and success of the Company and such other factors as the Committee may deem relevant in connection with accomplishing the purposes of this Plan.

ARTICLE 6
STOCK OPTIONS

6.1 *Grants.* The Committee may grant Stock Options alone or in addition to other Awards granted pursuant to this Plan to any eligible Person. Each Person so selected shall be offered a Stock Option to purchase the number of Shares determined by the Committee. The Committee shall specify whether such Stock Option is an Incentive Stock Option or Non-Qualified Stock Option and any other terms or conditions relating to such Award; provided, however only employees of the Company or a Subsidiary may be granted Incentive Stock Options. To the extent that any Stock

Option designated as an Incentive Stock Option does not qualify as an Incentive Stock Option (whether because of its provisions, the failure of the shareholders of the Company to authorize the issuance of Incentive Stock Options, the time or manner of its exercise or otherwise), such Stock Option or the portion thereof which does not qualify shall be deemed to constitute a Non-Qualified Stock Option. Each Person to be granted a Stock Option shall enter into a written agreement with the Company, in such form as the Committee may prescribe, setting forth the terms and conditions (including, without limitation, the exercise price and vesting schedule) of the Stock Option. At any time and from time to time, the Optionee and the Committee may agree to modify an option agreement in such respects as they may deem appropriate, including, without limitation, the conversion of an Incentive Stock Option into a Non-Qualified Stock Option. The Committee may require that an Optionee meet certain conditions before the Stock Option or a portion thereof may vest or be exercised, as, for example, that the Optionee remain in the employ of the Company or a Subsidiary for a stated period or periods of time.

6.2 *Incentive Stock Options Limitations.*

(a) In no event shall any individual be granted Incentive Stock Options to the extent that the Shares covered by any Incentive Stock Options (and any incentive stock options granted pursuant to any other plans of the Company or its Subsidiaries) that may be exercised for the first time by such individual in any calendar year have an aggregate Fair Market Value in excess of $100,000. For this purpose, the Fair Market Value of the Shares shall be determined as of the date(s) on which the Incentive Stock Options are granted. It is intended that the limitation on Incentive Stock Options provided in this Subsection 6.2(a) be the maximum limitation on Stock Options which may be considered Incentive Stock Options pursuant to the Code.

(b) The option exercise price of an Incentive Stock Option shall not be less than one hundred percent (100%) of the Fair Market Value of the Shares subject to such Incentive Stock Option on the date of the grant of such Incentive Stock Option.

(c) Notwithstanding anything herein to the contrary, in no event shall any employee owning more than ten percent (10%) of the total combined voting power of the Company or any Subsidiary be granted an Incentive Stock Option unless the option exercise price of such Incentive Stock Option shall be at least one hundred ten percent (110%) of the Fair Market Value of the Shares subject to such Incentive Stock Option on the date of the grant of such Incentive Stock Option.

(d) In no event shall any individual be granted an Incentive Stock Option after the expiration of ten (10) years from the date this Plan is adopted or is approved by the shareholders of the Company (if shareholder approval is required by Section 422 of the Code), whichever is earlier.

(e) To the extent shareholder approval of this Plan is required by Section 422 of the Code, no individual shall be granted an Incentive Stock Option unless this Plan is approved by the shareholders of the Company within twelve (12) months before or after the date this Plan is initially adopted. In the event this Plan is amended to increase the number of Shares subject to issuance upon the exercise of Incentive Stock Options or to change the class of employees eligible to receive

Incentive Stock Options, no individual shall be granted an Incentive Stock Option unless such amendment is approved by the shareholders of the Company within twelve (12) months before or after such amendment.

(f) No Incentive Stock Option shall be granted to any employee owning more than ten percent (10%) of the total combined voting power of the Company or any Subsidiary unless the term of such Incentive Stock Option is equal to or less than five (5) years measured from the date on which such Incentive Stock Option is granted.

(g) No Incentive Stock Option granted pursuant to this Plan shall be transferable other than by will or the laws of decent and distribution and it shall be exercisable only by the Optionee during his or her lifetime.

6.3 *Option Term.* The term of a Stock Option shall be for such period of time from the date of its grant as may be determined by the Committee; provided, however, that no Incentive Stock Option shall be exercisable after the expiration of ten (10) years from the date of its grant.

6.4 *Time of Exercise.* No Stock Option may be exercised unless it is exercised prior to the expiration of its stated term and, in connection with options granted to employees of the Company or its Subsidiaries, at the time of such exercise, the Optionee is, and has been continuously since the date of grant of such Stock Option, employed by the Company or a Subsidiary, except that:

(a) A Stock Option may, to the extent vested as of the date the Optionee ceases to be an employee of the Company or a Subsidiary, be exercised during the three-month period immediately following the date the Optionee ceases (for any reason other than death, Disability or Retirement) to be an employee of the Company or a Subsidiary (or within such other period as may be specified in the applicable option agreement), provided that, if the Stock Option has been

designated as an Incentive Stock Option and the option agreement provides for a longer exercise period, the exercise of such Stock Option after such three-month period shall be treated as the exercise of a Non-Qualified Stock Option;

(b) If the Optionee dies while entitled to exercise a Stock Option, such Stock Option may, to the extent vested as of the date of the Optionee's death, be exercised by the Optionee's Designated Beneficiary during the three year period immediately following the date of the Optionee's death (or within such other period as may be specified in the applicable option agreement); provided that, if the Stock Option has been designated as an Incentive Stock Option and the option agreement provides for a longer exercise period, the exercise of such Stock Option after such one-year period shall be treated as the exercise of a Non-Qualified Stock Option;

(c) If the Optionee ceases to be an employee of the Company or a Subsidiary by reason of the Optionee's Disability or Retirement, a Stock Option, to the extent vested as of the date the Optionee ceases to be an employee of the Company or a Subsidiary, may be exercised during the three year period immediately following the date of such cessation of employment (or within such other period as may be specified in the applicable option agreement); provided that, if the Stock

Option has been designated as an Incentive Stock Option and the option agreement provides for a longer exercise period, the exercise of such Stock Option after such one-year period shall be treated as the exercise of a Non-Qualified Stock Option; and

Nothing contained in this Subsection 6.4 will be deemed to extend the term of a Stock Option or to revive any Stock Option which has previously lapsed or been canceled, terminated or surrendered. Stock Options granted under this Plan to Consultants or non-employee Directors will contain such terms and conditions with respect to the death or disability of a Consultant or non-employee Director or termination of a Consultant's or non-employee Director's relationship with the Company as the Committee deems necessary or appropriate. Such terms and conditions will be set forth in the option agreements evidencing the grant of such Stock Options.

6.5 *Vesting of Stock Options.*

(a) Each Stock Option granted pursuant to this Plan may only be exercised to the extent that the Optionee is vested in such Stock Option, except as specified below with respect to Early Exercise. Each Stock Option shall vest separately in accordance with the option vesting schedule determined by the Committee, which will be incorporated in the option agreement entered into between the Company and such Optionee. The option vesting schedule may be accelerated if, in the sole discretion of the Committee, the acceleration of the option vesting schedule would be in the best interests the Company.

"*Early Exercise"* means the exercise of a Stock Option prior to vesting in accordance with the applicable provisions of this Plan and the Award agreement evidencing the Stock Option. "*Repurchase Rights*" means the right the Company may have pursuant to this Plan or an Award agreement to repurchase unvested shares of Common Stock that the applicable Participant may have received through Early Exercise of a Stock Option or through an Award of Restricted Stock at the same price that such Participant paid (if any).

An Award agreement covering a Non-Qualified Stock Option may (in the Committee's sole discretion) permit the Early Exercise of all or a portion of such Stock Option prior to the vesting of such Stock Option, but only prior to an Initial Public Offering. Shares purchased through the Early Exercise of such Option will be restricted and will be subject to the same vesting schedule as set forth in the Stock Option, and will also be subject to any repurchase rights if provided in the Award agreement

(b) In the event of the dissolution or liquidation of the Company, each Stock Option granted pursuant to this Plan shall terminate as of a date to be fixed by the Committee; provided, however, that not less than thirty (30) days' written notice of the date so fixed shall be given to each Optionee. During such period all Stock Options which have not previously been terminated, exercised or surrendered will (subject to the provisions of Subsections 6.3 and 6.4) fully vest and become exercisable, notwithstanding the vesting schedule set forth in the option agreement evidencing the grant of such Stock Option. Upon the date fixed by the Committee, any unexercised Stock Options shall terminate and be of no further effect.

(c) Upon a Change in Control, all Stock Options and any associated Stock Appreciation Rights Options will be treated in accordance with the applicable Award agreements. An Award agreement granting an Award pursuant to this Plan may be amended, with the written consent of the parties thereto, to modify the treatment of any Stock Options or Stock Appreciation Rights upon Change in Control as specified in the associated Award agreement. In particular, an Award agreement granting an Award pursuant to this Plan may be amended to eliminate any provision in the associated Award agreement providing for immediate exercisability of Stock Options or Stock Appreciation Rights upon Change in Control.

6.6 *Manner of Exercise of Stock Options.*

(a) Except as otherwise provided in this Plan, Stock Options may be exercised as to Shares only in amounts and at intervals of time specified in the written option agreement between the Company and the Optionee. Each exercise of a Stock Option, or any part thereof, shall be evidenced by a written notice delivered by the Optionee to the Company. The purchase price of the Shares as to which a Stock Option shall be exercised shall be paid in full at the time of exercise, and may be paid to the Company either:

(i) in cash (including check, bank draft or money order); or

(ii) by other consideration deemed acceptable by the Committee in its sole discretion.

(b) If, as permitted in the option agreement or by the Committee, an Optionee delivers Shares already owned by the Optionee in full or partial payment of the exercise price for any Stock Option or the Optionee elects to have the Company retain that number of Shares out of the Shares being acquired through the exercise of the Stock Option having a Fair Market Value equal to the exercise price of the Stock Option being exercised, the Committee may, in its sole discretion, authorize the grant of a new Stock Option (a "Reload Option") for that number of Shares equal to the number of already owned Shares surrendered or newly acquired Shares being retained by the Company in payment of the option exercise price of the underlying Stock Option being exercised. The grant of a Reload Option will become effective upon the exercise of the underlying Stock Option. The option exercise price of the Reload Option shall be the Fair Market Value of a Share on the effective date of the grant of the Reload Option. Each Reload Option shall be exercisable no later than the time when the underlying stock

option being exercised could be last exercised. The Committee may also specify additional terms, conditions and restrictions for the Reload Option and the Shares to be acquired upon the exercise thereof.

(c) The amount, as determined by the Committee, of any federal, state or local tax required to be withheld by the Company due to the exercise of a Stock Option shall, subject to the authorization of the Committee, be satisfied, at the election of the Optionee, either (i) by payment by the Optionee to the Company of the amount of such withholding obligation in cash or other consideration acceptable to the Committee in its sole discretion or (ii) through either the retention by

the Company of a number of Shares out of the Shares being acquired through the exercise of the Stock Option or the delivery of already owned Shares having a Fair Market Value equal to the amount of the withholding obligation. If an Optionee elects to use the method described in clause (ii) of the preceding sentence in full or partial satisfaction of any tax liability resulting from the exercise of a Stock Option, the Committee may authorize the grant of a Reload Option for that number of Shares as shall equal the number of Shares used to satisfy the tax liabilities of the Optionee arising out of the exercise of such Stock Option. Such Reload Option will be granted at the price and on the terms set forth in Subsection 6.6 (b). The cash payment or an amount equal to the Fair Market Value of the Shares so withheld, as the case may be, shall be remitted by the Company to the appropriate taxing authorities.

(d) An Optionee shall not have any of the rights of a shareholder of the Company with respect to the Shares subject to a Stock Option except to the extent that such Stock Option is exercised and one or more certificates representing such Shares shall have been delivered to the Optionee.

6.7 *First Refusal Rights*. Until such time as the Common Stock is first registered under Section 12 of the Exchange Act, the Company shall have the right of first refusal with respect to any proposed disposition by the Optionee (or any successor in interest) of any Shares issued under the Plan. Such right of first refusal shall be exercisable in accordance with the terms established by the Committee.

ARTICLE 7
STOCK APPRECIATION RIGHTS

7.1 *Grants.* The Committee may grant to any eligible Consultant, non-employee Director or employee of the Company or a Subsidiary either Non-Tandem Stock Appreciation Rights or Tandem Stock Appreciation Rights. Stock Appreciation Rights shall be subject to such terms and conditions as the Committee shall impose. The grant of the Stock Appreciation Right may provide that the holder will be paid for the value of the Stock Appreciation Right either in cash or in Shares, or a combination thereof, at the sole discretion of the Committee. In the event of the exercise of a Stock Appreciation Right payable in Shares, the holder of the Stock Appreciation Right shall receive that number of whole Shares having an aggregate Fair Market Value on the date of exercise equal to the value obtained by multiplying (i) either (a) in the case of a Tandem Stock Appreciation Right, the difference between the Fair Market Value of a Share on the date of exercise over the per share exercise price of the related Stock Option, or (b) in the case of a Non-Tandem Stock Appreciation Right, the difference between the Fair Market Value of a Share on the date of exercise over the Fair Market Value on the date of the grant by (ii) the number of Shares as to which the Stock Appreciation Right is exercised. However, notwithstanding the foregoing, the Committee, in its sole discretion, may place a ceiling on the amount payable upon exercise of a Stock Appreciation Right, but any such limitation shall be specified at the time that the Stock Appreciation Right is granted.

7.2 *Exercisability.* A Tandem Stock Appreciation Right granted in connection with an Incentive Stock Option (i) may be exercised at, and only at, the times and to the extent the related Incentive Stock Option is exercisable, (ii) will expire upon the termination of the related Incentive Stock Option, (iii) may not exceed 100% of the difference between the exercise price of the related Incentive Stock Option and the Fair Market Value of the Shares subject to the related Incentive Stock Option at the time the Tandem Stock Appreciation Right is exercised and (iv) may be exercised at, and only at, such times as the Fair Market Value of the Shares subject to the related Incentive Stock Option exceeds the exercise price of the related Incentive Stock Option. A Tandem Stock Appreciation Right may be transferred at, and only at, the times and to the extent the related Stock Option is transferable. If a Tandem Stock Appreciation Right is granted, there shall be surrendered and canceled from the related Stock Option at the time of exercise of the Tandem Stock Appreciation Right, in lieu of exercise pursuant to the related Stock Option, that number of Shares of the Stock Option to which the exercised Tandem Stock Appreciation Right relates.

7.3 *Certain Limitations on Non-Tandem Stock Appreciation Rights*. A Non-Tandem Stock Appreciation Right will be exercisable as provided by the Committee and will have such other terms and conditions as the Committee may determine. A Non-Tandem Stock Appreciation Right is subject to acceleration of vesting or immediate termination in certain circumstances in the same manner as Stock Options pursuant to Subsections 6.4 and 6.5 of this Plan.

7.4 *Limited Stock Appreciation Rights.* The Committee may grant limited Stock Appreciation Rights, either as Tandem Stock Appreciation Rights or Non-Tandem Stock Appreciation Rights, which may become exercisable only upon the occurrence of a Change in Control or such other event as the Committee may designate at the time of grant or thereafter.

ARTICLE 8
RESTRICTED STOCK

8.1 *Grants.* The Committee may grant Awards of Restricted Stock to any eligible Consultant, non-employee Director or employee of the Company or a Subsidiary for such minimum consideration, if any, as may be required by applicable law or such greater consideration as may be determined by the Committee, in its sole discretion. The terms and conditions of the Restricted Stock shall be specified by the grant agreement. The Committee, in its sole discretion, may specify any particular rights which the Participant to whom a grant of Restricted Stock is made shall have in the Restricted Stock during the restriction period and the restrictions applicable to the particular Award, the vesting schedule (which may be based on service, performance or other factors) and rights to acceleration of vesting (including, without limitation, whether non-vested Shares are forfeited or vested upon termination of employment). Further, the Committee may grant performance-based Awards consisting of Restricted Stock by conditioning the grant, or vesting or such other factors, such as the release, expiration or lapse of restrictions upon any such Award (including the acceleration of any such conditions or terms) of such Restricted Stock upon the attainment of specified performance goals or such other factors as the Committee may determine. The Committee shall also determine when the restrictions shall lapse or expire and the conditions, if any, pursuant to which the Restricted Stock will be forfeited or sold back to the Company. Each Award of Restricted Stock may have different restrictions and conditions. Unless otherwise set forth

in the grant agreement, Restricted Stock may not be sold, pledged, encumbered or otherwise disposed of by the recipient until the restrictions specified in the Award expire. Awards of Restricted Stock are subject to acceleration of vesting, termination of restrictions and termination in the same manner as Stock Options pursuant to Subsections 6.4 and 6.5 of this Plan.

8.2 *Awards and Certificates.* Any Restricted Stock issued hereunder may be evidenced in such manner as the Committee, in its sole discretion, shall deem appropriate including, without limitation, book-entry registration or issuance of a stock certificate or certificates. In the event any stock certificate is issued in respect of Shares of Restricted Stock, such certificate shall bear an appropriate legend with respect to the restrictions applicable to such Award. The Company may retain, at its option, the physical custody of any stock certificate representing any awards of Restricted Stock during the restriction period or require that the certificates evidencing Restricted Stock be placed in escrow or trust, along with a stock power endorsed in blank, until all restrictions are removed or expire.

ARTICLE 9
PERFORMANCE AWARDS

9.1 *Grants.* A Performance Award may consist of either or both, as the Committee may determine, of (i) the right to receive Shares or Restricted Stock, or any combination thereof as the Committee may determine or (ii) the right to receive a fixed dollar amount payable in Shares, Restricted Stock, cash or any combination thereof, as the Committee may determine. The Committee may grant Performance Awards to any eligible Consultant, non-employee Director or employee of the Company or a Subsidiary, for such minimum consideration, if any, as may be required by applicable law or such greater consideration as may be determined by the Committee, in its sole discretion. The terms and conditions of Performance Awards shall be specified at the time of the grant and may include provisions establishing the performance period, the performance criteria to be achieved during a performance period, the criteria used to determine vesting (including the acceleration thereof), whether Performance Awards are forfeited or vest upon termination of employment during a performance period and the maximum or minimum settlement values. Each Performance Award shall have its own terms and conditions, which shall be determined in the sole discretion of the Committee. If the Committee determines, in its sole discretion, that the established performance measures or objectives are no longer suitable because of a change in the Company's business, operations, corporate structure or for other reasons that the Committee deems satisfactory, the Committee may modify the performance measures or objectives and/or the performance period. Performance Awards are subject to acceleration of vesting, termination of restrictions and termination in the same manner as Stock Options pursuant to Subsections 6.4 and 6.5 of this Plan.

9.2 *Terms and Conditions.* Performance Awards may be valued by reference to the Fair Market Value of a Share or according to any other formula or method deemed appropriate by the Committee, in its sole discretion, including, but not limited to, achievement of specific financial, production, sales, cost or earnings performance objectives that the Committee believes to be relevant or the Company's performance or the performance of the Shares measured against the performance of the market, the Company's industry segment or its direct competitors. Performance Awards may also

be conditioned upon the applicable Participant remaining in the employ of the Company or one of its Subsidiaries for a specified period. Performance Awards may be paid in cash, Shares (including Restricted Stock) or other consideration, or any combination thereof. Performance Awards may be payable in a single payment or in installments and may be payable at a specified date or dates or upon attaining the performance objective or objectives, all at the sole discretion of the Committee. The extent to which any applicable performance objective has been achieved shall be conclusively determined by the Committee in its sole discretion.

ARTICLE 10
OTHER AWARDS

10.1 *Other Awards.* The Committee may grant to any eligible Consultant, non-employee Director or employee of the Company or a Subsidiary other forms of Awards based upon, payable in or otherwise related to, in whole or in part, Shares, if the Committee, in its sole discretion, determines that such other form of Award is consistent with the purposes of this Plan. The terms and conditions of such other form of Award shall be specified in a written agreement which sets forth the terms and conditions of such Award, including, but not limited to, the price, if any, and the vesting schedule, if any, of such Award. Such Awards may be granted for such minimum consideration, if any, as may be required by applicable law or for such other greater consideration as may be determined by the Committee, in its sole discretion.

ARTICLE 11
COMPLIANCE WITH SECURITIES AND OTHER LAWS

11.1 *Compliance.* As a condition to the issuance or transfer of any Award or any security issuable in connection with such Award, the Company may require an opinion of counsel, satisfactory to the Company, to the effect that (i) such issuance and/or transfer will not be in violation of the Securities Act or any other applicable securities laws and (ii) such issuance and/or transfer will not be in violation of the rules and regulations of any securities exchange or automated quotation system on which the Shares are listed or admitted to trading. Further, the Company may refrain from issuing, delivering or transferring any Award or any security issuable in connection with such Award until the Committee has determined that such issuance, delivery or transfer will not violate such securities laws or rules and regulations and that either the recipient has tendered to the Company, or the Company or a Subsidiary has withheld, any federal, state or local tax owed as a result of such issuance, delivery or transfer, when the Company has a legal liability to satisfy such tax. The Company shall not be liable for damages due to delay in the issuance, delivery or transfer of any Award or any security issuable in connection with such Award or any agreement, instrument or certificate evidencing such Award or security for any reason whatsoever, including, but not limited to, a delay caused by the listing requirements of any securities exchange or automated quotation system or any registration requirements under the Securities Act, the Exchange Act, or under any other state or federal law, rule or regulation. The Company is under no obligation to take any action or incur any expense to register or qualify the issuance, delivery or transfer of any Award

or any security issuable in connection with such Award under applicable securities laws or to perfect any exemption from such registration or qualification or to list any security on any securities exchange or automated quotation system. Furthermore, the Company will have no liability to any person for refusing to issue, deliver or transfer any Award or any security issuable in connection with such Award if such refusal is based upon the foregoing provisions of this ARTICLE 11. As a condition to any issuance, delivery or transfer of any Award or any security issuable in connection with such Award, the Company may place legends on any agreement, instrument or certificate evidencing such Award or security, issue stop transfer orders with respect thereto and require such agreements or undertakings as the Company may deem necessary or advisable to assure compliance with applicable laws or regulations, including, if the Company or its counsel deems it appropriate, representations from the recipient of such Award or security to the effect that such recipient is acquiring such Award or security solely for investment

and not with a view to distribution and that no distribution of the Award or the security will be made unless registered pursuant to applicable federal and state securities laws, or in the opinion of counsel to the Company, such registration is unnecessary.

ARTICLE 12
ADJUSTMENTS UPON THE OCCURRENCE OF A RECAPITALIZATION OR CORPORATE TRANSACTION

12.1 In the event of a Recapitalization, the number and class of Shares subject to this Plan and to each outstanding Award, and the exercise price of each Award which is based upon Shares, shall (to the extent deemed appropriate by the Committee) be proportionately adjusted (as determined by the Committee in its sole discretion) to account for any increase or decrease in the number, or change in the class, of issued and outstanding Shares of the Company resulting from such Recapitalization.

12.2 If a Corporate Transaction is consummated and immediately following the consummation of such Corporate Transaction the Persons who were holders of Shares immediately prior to the consummation of such Corporate Transaction do not receive any securities or other property (hereinafter collectively referred to as "Transactional Consideration") as a result of such Corporate Transaction and substantially all of such Persons continue to hold the Shares held by them immediately prior to the consummation of such Corporate Transaction (in substantially the same proportions relative to each other), the Awards will remain outstanding and will (subject to, and except as provided in, the other provisions of this Plan and the Award agreement) continue in full force and effect in accordance with its terms (without any modification) following the consummation of the Corporate Transaction.

12.3 If a Corporate Transaction is consummated and immediately following the consummation of such Corporate Transaction the Persons who were holders of Shares immediately prior to the consummation of such Corporate Transaction do receive Transactional Consideration as a result of such Corporate Transaction or substantially all of such Persons do not continue to hold the Shares held by them immediately prior to the consummation of such Corporate Transaction (in

substantially the same proportions relative to each other), the terms and conditions of the Awards will be modified as follows:

(i) If the documentation pursuant to which a Corporate Transaction will be consummated provides for the assumption (by the entity issuing Transactional Consideration to the Persons who were the holders of Shares immediately prior to the consummation of such Corporate Transaction) of the Awards granted pursuant to this Plan without any modification or amendment (other than Permitted Modifications), such Awards will remain outstanding and will continue in full force and effect in accordance with its terms following the consummation of such Corporate Transaction (subject to such Permitted Modifications).

(ii) If the documentation pursuant to which a Corporate Transaction will be consummated does not provide for the assumption by the entity issuing Transactional Consideration to the Persons who were the holders of Shares immediately prior to the consummation of such Corporate Transaction of the Awards granted pursuant to this Plan without any modification or amendment (other than Permitted Modifications), all vesting restrictions (performance based or otherwise) applicable to Awards which will not be so assumed will accelerate and the holders of such Awards may (subject to the expiration of the term of such Awards) exercise/receive the benefits of such Awards without regard to such vesting restrictions during the ten (10) day period immediately preceding the consummation of such Corporate Transaction. For purposes of the immediately preceding sentence, all performance based goals will be deemed to have been satisfied in full. The Company will provide each Participant holding Awards which will not be so assumed with reasonable notice of the termination of such vesting restrictions and the impending termination of such Awards. Upon the consummation of such a Corporate Transaction, all unexercised Awards which are not to be so assumed will automatically terminate and cease to be outstanding.

Nothing contained in this ARTICLE 12 will be deemed to extend the term of an Award or to revive any Award which has previously lapsed or been canceled, terminated or surrendered.

ARTICLE 13
AMENDMENT OR TERMINATION OF THIS PLAN

13.1 *Amendment of This Plan.* Notwithstanding anything contained in this Plan to the contrary, all provisions of this Plan (including, without limitation, the maximum number of Shares that may be issued with respect to Awards to be granted pursuant to this Plan) may at any time or from time to time be modified or amended by the Board; provided, however, that no Award at any time outstanding pursuant to this Plan may be modified, impaired or canceled adversely to the holder of the Award without the consent of such holder.

13.2 *Termination of This Plan.* The Board may suspend or terminate this Plan at any time, and such suspension or termination may be retroactive or prospective. Termination of this Plan shall not impair or affect any Award previously granted hereunder and the rights of the holder of the Award shall remain in effect until the Award has been exercised in its entirety or has expired or otherwise has been terminated by the terms of such Award.

ARTICLE 14
AMENDMENTS AND ADJUSTMENTS TO AWARDS

14.1 *Amendments and Adjustments.* The Committee may amend, modify or terminate any outstanding Award with the Participant's consent at any time prior to payment or exercise in any manner not inconsistent with the terms of this Plan, including, without limitation, (i) to change the date or dates as of which and/or the terms and conditions pursuant to which (A) a Stock Option becomes exercisable or (B) a Performance Award is deemed earned, (ii) to amend the terms of any outstanding Award to provide an exercise price per share which is higher or lower than the then current exercise price per share of such outstanding Award or (iii) to cancel an Award and grant a new Award in substitution therefor under such different terms and conditions as the Committee determines in its sole discretion to be appropriate including, but not limited to, having an exercise price per share which may be higher or lower than the exercise price per share of the canceled Award. The Committee may also make adjustments in the terms and conditions of, and the criteria included in agreements evidencing Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in ARTICLE 12 hereof) affecting the Company, or the financial statements of the Company or any Affiliate, or of changes in applicable laws, regulations or accounting principles, whenever the Committee determines that such adjustments are appropriate to prevent reduction or enlargement of the benefits or potential benefits intended to be made available pursuant to this Plan.

ARTICLE 15

GENERAL PROVISIONS

15.1 *No Limit on Other Compensation Arrangements.* Nothing contained in this Plan shall prevent the Company from adopting or continuing in effect other compensation arrangements, and such arrangements may be either generally applicable or applicable only in specific cases. This Plan shall not affect any other stock option, incentive, or other compensation or benefit plan of the Company or any Subsidiary, except as may be expressly provided therein.

15.2 *Other Awards.* The grant of an Award shall not confer upon the recipient the right to receive any future or other Awards under this Plan or any other plans of the Company or any Subsidiary, whether or not any awards may be granted to similarly situated employees, or the right to receive future Awards upon the same terms or conditions as previously granted.

15.3 *No Right to Employment or Continuation of Relationship.* Nothing in this Plan or in any Award, nor the grant of any Award, shall confer upon or be construed as giving any Participant any right to remain in the employ of the Company or a Subsidiary or to continue as a Consultant or non-employee Director. Further, the Company or a Subsidiary may at any time dismiss a Participant from emp1oyment or terminate the relationship of any Consultant or non-employee Director with the Company or any Subsidiary, free from any liability or any claim pursuant to this Plan. No

Consultant, non-employee Director or employee of the Company or any Subsidiary shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of any Consultant, non-employee Director or employee of the Company or any Subsidiary or of any Participants.

15.4 *Governing Law*. The validity, construction and effect of this Plan and any rules and regulations relating to this Plan shall be determined in accordance with the laws of the State of Texas, without giving effect to the conflict of laws principles thereof.

15.5 *Severability.* If any provision of this Plan or any Award is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or as to any individual or Award, or would disqualify this Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable law, or if it cannot be construed or deemed amended without, in the sole determination of the Committee, materially altering the intent of this Plan or the Award, such provision shall be stricken as to such jurisdiction, individual or Award and the remainder of this Plan and any such Award shall remain in full force and effect.

15.6 *No Fractional Shares.* No fractional Shares shall be issued or delivered pursuant to this Plan or any Award, and the Committee shall determine, in its sole discretion, whether cash, other securities or other property shall be paid or transferred in lieu of any fractional Shares or whether such fractional Shares or any rights thereto shall be canceled, terminated or otherwise eliminated.

15.7 *Headings.* Headings are given to the ARTICLEs and Subsections of this Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of this Plan or any provision thereof.

15.8 *Gender.* If the context requires, words of one gender when used in this Plan shall include the others and words used in the singular shall include the plural, and vice versa.

15.9 *Transferability of Awards.* Awards shall not be transferable otherwise than by will or the laws of descent and distribution without the written consent of the Committee (which may be granted or withheld at the sole discretion of the Committee). Awards may be exercised, during the lifetime of the holder, only by the holder. Any attempted assignment, transfer, pledge, hypothecation or other disposition of an Award contrary to the provisions hereof, or the levy of any execution, attachment or similar process upon an Award shall be null and void and without effect.

15.10 *Rights of Participants.* Except as hereinbefore expressly provided in this Plan, any Person to whom an Award is granted shall have no rights by reason of any subdivision or consolidation of stock of any class or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class or by reason of any dissolution, liquidation, reorganization, merger or consolidation or spinoff of assets or stock of another corporation, and any issue by the Company of shares of stock of any class or securities convertible into shares of stock of any class shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or exercise price of Shares subject to an Award.

15.11 *No Limitation Upon the Rights of the Company.* The grant of an Award pursuant to this Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, or changes of its capital or business structure; to merge, convert or consolidate; to dissolve or liquidate; or sell or transfer all or any part of its business or assets.

15.12 *Date of Grant of an Award.* Except as noted in this ARTICLE 15.12, the granting of an Award shall take place only upon the execution and delivery by the Company and the Participant of a written agreement and neither any other action taken by the Committee nor anything contained in this Plan or in any resolution adopted or to be adopted by the Committee, the Board or the shareholders of the Company shall constitute the granting of an Award pursuant to this Plan. Solely for purposes of determining the Fair Market Value of the Shares subject to an Award, such Award will be deemed to have been granted as of the date specified by the Committee notwithstanding any delay which may elapse in executing and delivering the applicable agreement.

15.13 *Tax Withholding.* The Company or any Subsidiary shall be entitled to deduct from other compensation payable to an employee any sums required by federal, state, or local tax law to be withheld with respect to the granting or exercise of a Stock Option or other Award under this Plan. In the alternative, the Company or any Subsidiary may require the recipient (or other person exercising the Award) to pay such sums directly to the employer, and neither the Company or any Subsidiary shall have any obligation to issue any Shares or make any payment until such payment has been received.

15.14 *Other Laws.* The Company shall not be obligated to issue any Shares pursuant to any Award granted under the Plan at any time when the offering of the Shares covered by such Award is not either (I) registered under the Securities Act of 1933 and such other state and federal laws, rules or regulations as the Company or the Committee deems applicable or (ii) exempt from the registration requirements of such laws, rules or regulations available for the issuance and sale of such shares.

ARTICLE 16
NAMED EXECUTIVE OFFICERS

16.1 *Applicability of ARTICLE 16.* The provisions of this ARTICLE 16 shall apply only if the Company is a "publicly held corporation" as defined in Section 162(m)(2) of the Code, and then only to those executive officers (i) whose compensation is required to be reported in the Company's proxy statement pursuant to Item 402(a)(3)(i) and (ii) (or any successor thereto) of Regulation S-K (or any successor thereto) under the general rules and regulations under the Exchange Act and (ii) whose total compensation, including estimated Awards, is determined by the Committee to possibly be subject to the limitations on deductions imposed by Section 162(m) of the Code ("Named Executive Officers"). In the event of any inconsistencies between this ARTICLE 16 and the other Plan provisions as they pertain to Named Executive Officers, the provisions of this ARTICLE 16 shall control.

16.2 *Establishment of Performance Goals.* Awards for Named Executive Officers, other than Stock Options and Stock Appreciation Rights, shall be based on the attainment of certain performance goals. No later than the earlier of (i) ninety (90) days after the commencement of the applicable fiscal year of the Company or one of its Subsidiaries or such other award period as may be established by the Committee ("Award Period") and (ii) the completion of twenty-five percent (25%) of such Award Period, the Committee shall establish, in writing, the performance goals applicable to each such Award for Named Executive Officers. At the time the performance goals are established, their outcome must be substantially uncertain. In addition, the performance goal must state, in terms of an objective formula or standard, the method for computing the amount of compensation payable to the Named Executive Officer if the goal is obtained. Such formula or standard shall be sufficiently objective so that a third party with knowledge of the relevant performance results could calculate the amount to be paid to the subject Named Executive Officer. The material terms of the performance goals for Named Executive Officers and the compensation payable thereunder shall be submitted to the shareholders of the Company for their review and approval if and to the extent required for such compensation to be deductible pursuant to Section 162(m) (or any successor thereto) of the Code, and the Treasury Regulations thereunder. Shareholder approval, if necessary, shall be obtained for such performance goals prior to any Award being paid to such Named Executive Officer. If shareholder approval is required and not received with respect to such performance goals, no amount shall be paid to such Named Executive Officer for such applicable Award Period pursuant to this Plan.

16.3 *Components of Awards.* Each Award granted to a Named Executive Officer, other than Stock Options and Stock Appreciation Rights, shall be based on performance goals which are sufficiently objective so that a third party having knowledge of the relevant facts could determine whether the goal was met. Except as provided in Subsection 16.8 herein, performance measures which may serve as determinants of Named Executive Officers' Awards shall be limited to the following measures: earnings per share; return on assets; return on equity; return on capital; net profit after taxes; net profit before taxes; operating profits; stock price; and sales or expenses. Within ninety (90) days following the end of each Award Period, the Committee shall certify in writing that the performance goals, and any other material terms were satisfied. Thereafter, Awards shall be made for each Named Executive Officer as determined by the Committee. The Awards may not vary from the pre-established amount based on the level of achievement.

16.4 *No Mid-Year Change in Awards.* Except as provided in Subsections 16.8 and 16.9 herein, each Named Executive Officer's Awards shall be based exclusively on the performance measures established by the Committee pursuant to Subsections 16.2 and 16.3.

16.5 *No Partial Award Period Participation.* A Named Executive Officer who becomes eligible to participate in this Plan after performance goals have been established in an Award Period pursuant to Subsections 16.2 and 16.3 may not participate in this Plan prior to the next succeeding Award Period, except with respect to Awards which are Stock Options or Stock Appreciation Rights.

16.6 *Performance Goals.* Except as provided in Subsection 16.8 herein, performance goals shall not be changed following their establishment, and Named Executive Officers shall not

receive any payout, except with respect to Awards which are Stock Options or Stock Appreciation Rights, when the minimum performance goals are not met or exceeded.

16.7 *Individual Performance and Discretionary Adjustments.* Except as provided in Subsection 16.8 herein, subjective evaluations of individual performance of Named Executive Officers shall not be reflected in their Awards, other than Awards which are Stock Options or Stock Appreciation Rights. The payment of such Awards shall be entirely dependent upon the attainment of the preestablished performance goals.

16.8 *Amendments.* No amendment of this Plan with respect to any Named Executive Officer may be made which would (i) increase the maximum amount that can be paid to any one Participant pursuant to this Plan, (ii) change the specified performance goal for payment of Awards, or (iii) modify the requirements as to eligibility for participation in this Plan, unless the Company's shareholders have first approved such amendment in a manner which would permit the deduction under Section 162(m) (or any successor thereto) of the Code of such payment in the fiscal year it is paid. The Committee shall amend this ARTICLE 16 and such other provisions as it deems appropriate, to cause amounts payable to Named Executive Officers to satisfy the requirements of Section 162(m) (or any successor thereto) and the Treasury regulations promulgated thereunder.

16.9 *Stock Options and Stock Appreciation Rights - Grant Price.* Notwithstanding any provision of this Plan (including the provisions of this ARTICLE 16) to the contrary, the amount of compensation which a Named Executive Officer may receive with respect to Stock Options and Stock Appreciation Rights which are granted hereunder is based solely on an increase in the value of the applicable Shares after the date of grant of such Award. Thus, no Stock Option may be granted hereunder to a Named Executive Officer with an exercise price less than the Fair Market Value of Shares on the date of grant. Furthermore, the maximum number of Shares (or cash equivalent value) with respect to which Stock Options or Stock Appreciation Rights may be granted hereunder to any Named Executive Officer during any calendar year may not exceed 1,000,000 Shares, subject to adjustment as provided in ARTICLE 12 hereunder.

16.10 *Maximum Amount of Compensation.* The maximum amount of compensation payable as an Award (other than an Award which is a Stock Option or Stock Appreciation Right) to any Named Executive Officer during any calendar year may not exceed $1,000,000.

APPLIED OPTOELECTRONICS, INC.

2004 INCENTIVE SHARE PLAN

ARTICLE 1
PURPOSE AND EFFECTIVE DATE

1.1 *Purpose.* The purpose of the 2004 Incentive Share Plan (the "*Plan*") is to advance the interests of Applied Optoelectronics, Inc. (the "*Company*") and its shareholders by enabling the Company and each of its Subsidiaries (as hereinafter defined) to (A) provide share ownership opportunities to certain of their key employees to participate in the Company's growth and (B) enhance their ability to attract and retain individuals of superior managerial or technical ability and to motivate employees, consultants, independent contractors, agents, and other persons to exert their best efforts towards future progress and profitability of the Company.

1.2 *Effective Date.* The effective date of the Plan shall be the date that this Plan is approved by the shareholders of the Company.

ARTICLE 2
DEFINITIONS

As used in this Plan, the following terms shall have the meanings set forth below unless the context otherwise requires:

2.1 "*Award*" shall mean the grant of a Stock Option, a Stock Appreciation Right, Restricted Stock, a Performance Award, or any other grant of incentive compensation pursuant to this Plan.

2.2 "*Award Period*" shall have the meaning set forth in Subsection 16.2 of this Plan.

2.3 "*Board*" shall mean the Board of Directors of the Company, as the same may be constituted from time to time.

2.4 "*Change in Control*" has the meaning given such term in the applicable Award agreement or, if not defined therein, shall mean, after the effective date of this Plan stated in Subsection 1.2, (i) the occurrence of an event of a nature that would be required to be reported by the Company in response to Item 1 of a Current Report on Form 8-K (or any successor to such form), whether or not the Company is, in fact, required to report on such form, promulgated pursuant to the Exchange Act; provided that, without limitation, such a Change in Control shall be deemed to have occurred if (a) any Person or group (as defined in the Exchange Act), other than (A) the Company, (B) a wholly-owned Subsidiary, (C) any employee benefit plan (including, without limitation, an employee stock ownership plan) adopted by the Company or any wholly-owned Subsidiary or (D) any trustee or other fiduciary holding securities under any employee benefit plan adopted by the

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Company or any Subsidiary, becomes the "beneficial owner" (as defined in Rule 13d-3 (or any successor to such rule) promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities or (b) during any period of twenty-four (24) months, individuals who at the beginning of such period constitute the Board cease for any reason to constitute at least a majority thereof, unless the election by the Board or the nomination for election by the Company's shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of such twenty-four (24) month period or whose election or nomination for election was previously so approved; (ii) a Corporate Transaction is consummated, other than a Corporate Transaction that would result in substantially all of the holders of voting securities of the Company outstanding immediately prior thereto owning (directly or indirectly and in substantially the same proportions relative to each other) not less than fifty percent (50%) of the combined voting power of the voting securities of the issuing/surviving/resulting entity outstanding immediately after such Corporate Transaction; or (iii) an agreement for the sale or other disposition of all or substantially all of the Company's assets (evaluated on a consolidated basis, without regard to whether the sale or disposition is effected via a sale or disposition of assets of the Company, the sale or disposition of the securities of one or more Subsidiaries or the sale or disposition of the assets of one or more Subsidiaries) is consummated.

2.5 "*Code*" shall mean the Internal Revenue Code of 1986, as amended from time to time (or any successor to such legislation).

2.6 "*Committee*" shall mean the Compensation Committee of the Board, if such a committee shall have been appointed and consist of two (2) or more directors of the Company who are both "Non-Employee Directors" (as that term is defined in Rule 16b-3 (or any successor to such rule) promulgated under the Exchange Act) and "outside directors" within the meaning of Section 162(m) of the Code and such Treasury regulations as may be promulgated thereunder. If a separate Compensation Committee with such membership shall not have been appointed, "Committee" shall mean the Board.

2.7 "*Company*" shall mean Applied Optoelectronics, Inc., a Texas corporation.

2.8 "*Consultant*" shall mean any Person who or which is engaged by the Company or any Subsidiary to render services as a consultant or advisor.

2.9 "*Corporate Transaction*" shall mean any reorganization, merger, consolidation or conversion involving the Company or any exchange of securities involving Shares, other than a Recapitalization.

2.10 "*Designated Beneficiary*" shall mean the beneficiary designated by a Participant, in a manner authorized by the Committee, to exercise the rights of such Participant in the event of such Participant's death. In the absence of an effective designation by a Participant, the Designated Beneficiary shall be such Participant's estate.

2.11 "*Disability"* shall mean permanent and total inability to engage in any substantial gainful activity, even with reasonable accommodation, by reason of any medically determinable physical or mental impairment which has lasted or can reasonably be expected to last without material interruption for a period of not less than twelve (12) months, as determined in the sole discretion of the Committee.

2.12 "*Exchange Act"* shall mean the Securities Exchange Act of 1934, as amended from time to time (or any successor to such legislation).

2.13 "*Fair Market Value"* shall mean with respect to the Shares, as of any date, (i) if the Shares are listed or admitted to trade on a national securities exchange, the closing price of the Shares on the composite tape, as published in the *Wall Street Journal,* of the principal national securities exchange on which the Shares are so listed or admitted to trade, on such date or, if there is no trading in Shares on such date, then the closing price of the Shares as quoted on such composite tape on the next preceding date on which there was trading in such Shares; (ii) if the Shares are not listed or admitted to trade on a national securities exchange, then the closing price of the Shares as quoted on the National Market System of the NASD; (iii) if the Shares are not listed or admitted to trade on a national securities exchange or the National Market System of the NASD, the mean between the bid and asked price for the Shares on such date, as furnished by the NASD through NASDAQ or a similar organization if NASDAQ is no longer reporting such information; or (iv) if the Shares are not listed or admitted to trade on a national securities exchange or the National Market System of the NASD and if bid and asked prices for the Shares are not so furnished by the NASD or a similar organization, the value established by the Board, determined without regard to any restriction other than a restriction which, by its terms, will never lapse.

2.14 "*Incentive Stock Option"* shall mean any option to purchase Shares awarded pursuant to this Plan which qualifies as an "Incentive Stock Option" pursuant to Section 422 of the Code.

2.15 "*Named Executive Officer"* shall have the meaning set forth in Subsection 16.1 of this Plan.

2.16 "*NASD"* shall mean the National Association of Securities Dealers, Inc.

2.17 "*Non-Qualified Stock Option"* shall mean any option to purchase Shares awarded pursuant to this Plan that does not qualify as an Incentive Stock Option (including, without limitation, any option to purchase Shares originally designated as or intended to qualify as an Incentive Stock Option) but which does not (for whatever reason) qualify as an Incentive Stock Option.

2.18 "*Non-Tandem Stock Appreciation Right"* shall mean any Stock Appreciation Right granted alone and not in connection with an Award which is a Stock Option.

2.19 "*Optionee"* shall mean any Participant who has been granted and holds a Stock Option awarded pursuant to this Plan.

2.20 "*Participant"* shall mean any Person who has been granted and holds an Award granted pursuant to this Plan.

2.21 "*Performance Award"* shall mean any Award granted pursuant to this Plan of Shares, rights based upon, payable in or otherwise related to Shares (including Restricted Stock) or cash, as the Committee may determine, at the end of a specified performance period established by the Committee.

2.22 "*Permitted Modification*" shall be deemed to be any modification of an Award which is made in connection with a Corporate Transaction and which provides (i) in connection with a Stock Option, that subsequent to the consummation of the Corporate Transaction (A) the exercise price of such Stock Option will be proportionately adjusted to reflect the exchange ratio applicable to the particular Corporate Transaction and/or (B) the nature and amount of consideration to be received upon exercise of the Stock Option will be the same (on a per share basis) as was received by Persons who were holders of Shares immediately prior to the consummation of the Corporate Transaction, (ii) in connection with a Stock Appreciation Right, that subsequent to the consummation of the Corporate Transaction (A) the base price of such Stock Appreciation Right will be proportionately adjusted to reflect the exchange ratio applicable to the particular Corporate Transaction and/or (B) the benefits to be received by the holder of such Stock Appreciation Right will be measured based upon the nature and amount of consideration received (on a per share basis) by Persons who were holders of Shares immediately prior to the consummation of the Corporate Transaction, or (iii) for a modification expressly provided for in this Plan or in an Award agreement.

2.23 "*Person*" shall mean an individual, partnership, limited liability company, corporation, joint stock company, trust, estate, joint venture, association or unincorporated organization or any other form of business organization.

2.24 "*Plan"* shall mean this Applied Optoelectronics, Inc. 2004 Incentive Share Plan as set out in this document and as it may be amended from time to time.

2.25 "*Reload Option"* shall mean a Stock Option as defined in Subsection 6.6(b) of this Plan.

2.26 "*Recapitalization*" shall mean any stock split, stock dividend, reverse stock split, combination or subdivision of Shares or any other similar increase or decrease in the number of Shares issued and outstanding, without the Company receiving consideration therefor in money, services, or property (other than securities issued by the Company).

2.27 "*Restricted Stock"* shall mean any Shares granted pursuant to this Plan that are subject to restrictions or substantial risk of forfeiture.

2.28 "*Retirement"* shall mean the termination of employment of an employee of the Company or any Subsidiary pursuant to the terms of any retirement plan or policy maintained by the Company or any Subsidiary in which such employee participates.

2.29 "*Securities Act"* shall mean the Securities Act of 1933, as amended from time to time (or any successor to such legislation).

2.30 "*Shares"* shall mean shares of the common stock of the Company and any shares of capital stock or other securities hereafter issued or issuable upon, in respect of or in substitution or exchange for shares of common stock of the Company.

2.31 "*Stock Appreciation Right"* shall mean the right of the holder thereof to receive property or Shares with a Fair Market Value equal to or cash in an amount equal to the excess of the Fair Market Value of the aggregate number of Shares subject to such Stock Appreciation Right on the date of exercise over the Fair Market Value of the aggregate number of Shares subject to such Stock Appreciation Right on the date of the grant of such Stock Appreciation Right (or such other value as may be specified in the agreement granting such Stock Appreciation Right). A Stock Appreciation Right may be a Tandem Stock Appreciation Right or a Non-Tandem Stock Appreciation Right.

2.32 "*Stock Option*" shall mean any Incentive Stock Option or Non-Qualified Stock Option.

2.33 "*Subsidiary"* shall mean a subsidiary corporation of the Company, as defined in Section 424(f) of the Code.

2.34 "*Tandem Stock Appreciation Right"* shall mean a Stock Appreciation Right granted in connection with an Award which is a Stock Option.

2.35 "*Transactional Consideration*" shall have the meaning set forth in Subsection 12.2 of this Plan.

ARTICLE 3
ADMINISTRATION OF THIS PLAN

3.1 *Committee.* This Plan shall be administered and interpreted by the Committee.

3.2 *Administration.*

(a) Subject to the provisions of this Plan and directions from the Board, the Committee is authorized to:

(i) determine the Persons to whom Awards are to be granted;

(ii) determine the types and combinations of Awards to be granted; the number of Shares to be covered by an Award; the exercise price of an Award; the time or times when an Award shall be granted and may be exercised; the terms, performance criteria or other conditions, vesting periods or any restrictions for an Award; any restrictions on Shares acquired pursuant to the exercise of an Award; and any other terms and conditions of an Award;

(iii) conclusively interpret the provisions of this Plan;

(iv) prescribe, amend and rescind rules and regulations relating to this Plan;

(v) rely upon employees of the Company for such clerical and record keeping duties as may be necessary in connection with the administration of this Plan;

(vi) accelerate or defer (with the consent of the Participant) the vesting of any rights pursuant to an Award; and

(vii) make all other determinations and take all other actions necessary or advisable for the administration of this Plan.

The President of the Company shall also be authorized, subject to the provisions of this Plan and directions from the Board and the Committee, to determine the types and combinations of Awards to be granted; the number of Shares to be covered by an Award; the exercise price of an Award; the time or times when an Award shall be granted and may be exercised; the terms, performance criteria or other conditions, vesting periods or any restrictions for an Award; any restrictions on Shares acquired pursuant to the exercise of an Award; and any other terms and conditions of an Award; provided, however, that the President of the Company may not (1) grant any Award to himself or herself (2) grant Awards to any one person with respect to more than 100,000 Shares in the aggregate (which number shall be adjusted pro rata in the event of any adjustment to the limitation set forth in ARTICLE 4.1 hereof), or (3) modify any Award made by the Committee or Board.

(b) A majority of the Committee members shall constitute a quorum for action by the Committee. All determinations of the Committee in connection with the Plan shall be made by not less than a majority of its members. All questions of interpretation and application of this Plan or pertaining to any question of fact or Award granted hereunder will be decided by the Committee, whose decision will be final, conclusive and binding upon the Company and each other affected party.

ARTICLE 4
SHARES SUBJECT TO PLAN

4.1 *Limitations.* The maximum number of Shares that may be issued with respect to Awards granted pursuant to this Plan shall not exceed 1,500,000 unless increased or decreased by reason of changes in the capitalization of the Company as hereinafter provided or by amendment of this Plan. The Shares issued pursuant to this Plan may be authorized but unissued Shares, or may be issued Shares which have been reacquired by the Company.

4.2 *Changes.* To the extent that any Award granted pursuant to this Plan shall be forfeited, shall expire or shall be canceled, in whole or in part, then the number of Shares covered by the Award so forfeited, expired or canceled may again be awarded pursuant to the provisions of this Plan. In the event that Shares are delivered to the Company in full or partial payment of the exercise price for the exercise of a Stock Option, the number of Shares available for future Awards granted pursuant to this Plan shall be reduced only by the net number of Shares issued upon the exercise of the Stock Option. Awards that may be satisfied either by the issuance of Shares or by cash or other consideration shall, until the form of consideration to be paid is finally determined, be counted against the maximum number of Shares that may be issued pursuant to this Plan. If the Award is ultimately satisfied by the payment of consideration other than Shares, such Shares may again be made the subject of an Award granted pursuant to this Plan. Awards will not reduce the number of Shares that may be issued pursuant to this Plan if the settlement of the Award will not require the issuance of Shares, as, for example, a Stock Appreciation Right that can be satisfied only by the payment of cash.

ARTICLE 5
ELIGIBILITY

5.1 *Eligibility.* Eligibility for participation in this Plan shall be confined to those individuals who are employed by the Company or a Subsidiary and such Consultants and non-employee Directors as may be designated by the Committee. In making any determination as to Persons to whom Awards shall be granted, the type of Award and/or the number of Shares to be covered by the Award, the Committee shall consider the position and responsibilities of the Person, the importance of the Person to the Company, the duties of the Person, the past, present and potential contributions of the Person to the growth and success of the Company and such other factors as the Committee may deem relevant in connection with accomplishing the purposes of this Plan.

ARTICLE 6
STOCK OPTIONS

6.1 *Grants.* The Committee may grant Stock Options alone or in addition to other Awards granted pursuant to this Plan to any eligible Person. Each Person so selected shall be offered a Stock Option to purchase the number of Shares determined by the Committee. The Committee shall specify whether such Stock Option is an Incentive Stock Option or Non-Qualified Stock Option and any other terms or conditions relating to such Award; provided, however only employees of the Company or a Subsidiary may be granted Incentive Stock Options. To the extent that any Stock

Option designated as an Incentive Stock Option does not qualify as an Incentive Stock Option (whether because of its provisions, the failure of the shareholders of the Company to authorize the issuance of Incentive Stock Options, the time or manner of its exercise or otherwise), such Stock Option or the portion thereof which does not qualify shall be deemed to constitute a Non-Qualified Stock Option. Each Person to be granted a Stock Option shall enter into a written agreement with the Company, in such form as the Committee may prescribe, setting forth the terms and conditions (including, without limitation, the exercise price and vesting schedule) of the Stock Option. At any time and from time to time, the Optionee and the Committee may agree to modify an option agreement in such respects as they may deem appropriate, including, without limitation, the conversion of an Incentive Stock Option into a Non-Qualified Stock Option. The Committee may require that an Optionee meet certain conditions before the Stock Option or a portion thereof may vest or be exercised, as, for example, that the Optionee remain in the employ of the Company or a Subsidiary for a stated period or periods of time.

6.2 *Incentive Stock Options Limitations.*

(a) In no event shall any individual be granted Incentive Stock Options to the extent that the Shares covered by any Incentive Stock Options (and any incentive stock options granted pursuant to any other plans of the Company or its Subsidiaries) that may be exercised for the first time by such individual in any calendar year have an aggregate Fair Market Value in excess of $100,000. For this purpose, the Fair Market Value of the Shares shall be determined as of the date(s) on which the Incentive Stock Options are granted. It is intended that the limitation on Incentive Stock Options provided in this Subsection 6.2(a) be the maximum limitation on Stock Options which may be considered Incentive Stock Options pursuant to the Code.

(b) The option exercise price of an Incentive Stock Option shall not be less than one hundred percent (100%) of the Fair Market Value of the Shares subject to such Incentive Stock Option on the date of the grant of such Incentive Stock Option.

(c) Notwithstanding anything herein to the contrary, in no event shall any employee owning more than ten percent (10%) of the total combined voting power of the Company or any Subsidiary be granted an Incentive Stock Option unless the option exercise price of such Incentive Stock Option shall be at least one hundred ten percent (110%) of the Fair Market Value of the Shares subject to such Incentive Stock Option on the date of the grant of such Incentive Stock Option.

(d) In no event shall any individual be granted an Incentive Stock Option after the expiration of ten (10) years from the date this Plan is adopted or is approved by the shareholders of the Company (if shareholder approval is required by Section 422 of the Code), whichever is earlier.

(e) To the extent shareholder approval of this Plan is required by Section 422 of the Code, no individual shall be granted an Incentive Stock Option unless this Plan is approved by the shareholders of the Company within twelve (12) months before or after the date this Plan is initially adopted. In the event this Plan is amended to increase the number of Shares subject to issuance upon the exercise of Incentive Stock Options or to change the class of employees eligible to receive

Incentive Stock Options, no individual shall be granted an Incentive Stock Option unless such amendment is approved by the shareholders of the Company within twelve (12) months before or after such amendment.

(f) No Incentive Stock Option shall be granted to any employee owning more than ten percent (10%) of the total combined voting power of the Company or any Subsidiary unless the term of such Incentive Stock Option is equal to or less than five (5) years measured from the date on which such Incentive Stock Option is granted.

(g) No Incentive Stock Option granted pursuant to this Plan shall be transferable other than by will or the laws of decent and distribution and it shall be exercisable only by the Optionee during his or her lifetime.

6.3 *Option Term.* The term of a Stock Option shall be for such period of time from the date of its grant as may be determined by the Committee; provided, however, that no Incentive Stock Option shall be exercisable after the expiration of ten (10) years from the date of its grant.

6.4 *Time of Exercise.* No Stock Option may be exercised unless it is exercised prior to the expiration of its stated term and, in connection with options granted to employees of the Company or its Subsidiaries, at the time of such exercise, the Optionee is, and has been continuously since the date of grant of such Stock Option, employed by the Company or a Subsidiary, except that:

(a) A Stock Option may, to the extent vested as of the date the Optionee ceases to be an employee of the Company or a Subsidiary, be exercised during the three-month period immediately following the date the Optionee ceases (for any reason other than death, Disability or Retirement) to be an employee of

the Company or a Subsidiary (or within such other period as may be specified in the applicable option agreement), provided that, if the Stock Option has been designated as an Incentive Stock Option and the option agreement provides for a longer exercise period, the exercise of such Stock Option after such three-month period shall be treated as the exercise of a Non-Qualified Stock Option;

(b) If the Optionee dies while entitled to exercise a Stock Option, such Stock Option may, to the extent vested as of the date of the Optionee's death, be exercised by the Optionee's Designated Beneficiary during the three year period immediately following the date of the Optionee's death (or within such other period as may be specified in the applicable option agreement); provided that, if the Stock Option has been designated as an Incentive Stock Option and the option agreement provides for a longer exercise period, the exercise of such Stock Option after such one-year period shall be treated as the exercise of a Non-Qualified Stock Option;

(c) If the Optionee ceases to be an employee of the Company or a Subsidiary by reason of the Optionee's Disability or Retirement, a Stock Option, to the extent vested as of the date the Optionee ceases to be an employee of the Company or a Subsidiary, may be exercised during the three year period immediately following the date of such cessation of employment (or within such other period as may be specified in the applicable option agreement); provided that, if the Stock

Option has been designated as an Incentive Stock Option and the option agreement provides for a longer exercise period, the exercise of such Stock Option after such one-year period shall be treated as the exercise of a Non-Qualified Stock Option; and

Nothing contained in this Subsection 6.4 will be deemed to extend the term of a Stock Option or to revive any Stock Option which has previously lapsed or been canceled, terminated or surrendered. Stock Options granted under this Plan to Consultants or non-employee Directors will contain such terms and conditions with respect to the death or disability of a Consultant or non-employee Director or termination of a Consultant's or non-employee Director's relationship with the Company as the Committee deems necessary or appropriate. Such terms and conditions will be set forth in the option agreements evidencing the grant of such Stock Options.

6.5 *Vesting of Stock Options.*

(a) Each Stock Option granted pursuant to this Plan may only be exercised to the extent that the Optionee is vested in such Stock Option, except as specified below with respect to Early Exercise. Each Stock Option shall vest separately in accordance with the option vesting schedule determined by the Committee, which will be incorporated in the option agreement entered into between the Company and such Optionee. The option vesting schedule may be accelerated if, in the sole discretion of the Committee, the acceleration of the option vesting schedule would be in the best interests the Company.

"*Early Exercise"* means the exercise of a Stock Option prior to vesting in accordance with the applicable provisions of this Plan and the Award agreement evidencing the Stock Option. "*Repurchase Rights*" means the right the Company may have pursuant to this Plan or an Award agreement to repurchase unvested shares of Common Stock that the applicable Participant may have received through Early Exercise of a Stock Option or through an Award of Restricted Stock at the same price that such Participant paid (if any).

An Award agreement covering a Non-Qualified Stock Option may (in the Committee's sole discretion) permit the Early Exercise of all or a portion of such Stock Option prior to the vesting of such Stock Option, but only prior to an Initial Public Offering. Shares purchased through the Early Exercise of such Option will be restricted and will be subject to the same vesting schedule as set forth in the Stock Option, and will also be subject to any repurchase rights if provided in the Award agreement

(b) In the event of the dissolution or liquidation of the Company, each Stock Option granted pursuant to this Plan shall terminate as of a date to be fixed by the Committee; provided, however, that not less than thirty (30) days' written notice of the date so fixed shall be given to each Optionee. During such period all Stock Options which have not previously been terminated, exercised or surrendered will (subject to the provisions of Subsections 6.3 and 6.4) fully vest and become exercisable, notwithstanding the vesting schedule set forth in the option agreement evidencing the grant of such Stock Option. Upon the date fixed by the Committee, any unexercised Stock Options shall terminate and be of no further effect.

(c) Upon a Change in Control, all Stock Options and any associated Stock Appreciation Rights Options will be treated in accordance with the applicable Award agreements. An Award agreement granting an Award pursuant to this Plan may be amended, with the written consent of the parties thereto, to modify the treatment of any Stock Options or Stock Appreciation Rights upon Change in Control as specified in the associated Award agreement. In particular, an Award agreement granting an Award pursuant to this Plan may be amended to eliminate any provision in the associated Award agreement providing for immediate exercisability of Stock Options or Stock Appreciation Rights upon Change in Control.

6.6 *Manner of Exercise of Stock Options.*

(a) Except as otherwise provided in this Plan, Stock Options may be exercised as to Shares only in amounts and at intervals of time specified in the written option agreement between the Company and the Optionee. Each exercise of a Stock Option, or any part thereof, shall be evidenced by a written notice delivered by the Optionee to the Company. The purchase price of the Shares as to which a Stock Option shall be exercised shall be paid in full at the time of exercise, and may be paid to the Company either:

(i) in cash (including check, bank draft or money order); or

(ii) by other consideration deemed acceptable by the Committee in its sole discretion.

(b) If, as permitted in the option agreement or by the Committee, an Optionee delivers Shares already owned by the Optionee in full or partial payment of the exercise price for any Stock Option or the Optionee elects to have the Company retain that number of Shares out of the Shares being acquired through the exercise of the Stock Option having a Fair Market Value equal to the exercise price of the Stock Option being exercised, the Committee may, in its sole discretion, authorize the grant of a new Stock Option (a "Reload Option") for that number of Shares equal to the number of already owned Shares surrendered or newly acquired Shares being retained by the Company in payment of the option exercise price of the underlying Stock Option being exercised. The grant of a Reload Option will become effective upon the exercise of the underlying Stock Option. The option exercise price of the Reload Option shall be the Fair Market Value of a Share on the effective date of the grant of the Reload Option. Each Reload Option shall be exercisable no later than the time when the underlying stock

option being exercised could be last exercised. The Committee may also specify additional terms, conditions and restrictions for the Reload Option and the Shares to be acquired upon the exercise thereof.

(c) The amount, as determined by the Committee, of any federal, state or local tax required to be withheld by the Company due to the exercise of a Stock Option shall, subject to the authorization of the Committee, be satisfied, at the election of the Optionee, either (i) by payment by the Optionee to the Company of the amount of such withholding obligation in cash or other consideration acceptable to the Committee in its sole discretion or (ii) through either the retention by

the Company of a number of Shares out of the Shares being acquired through the exercise of the Stock Option or the delivery of already owned Shares having a Fair Market Value equal to the amount of the withholding obligation. If an Optionee elects to use the method described in clause (ii) of the preceding sentence in full or partial satisfaction of any tax liability resulting from the exercise of a Stock Option, the Committee may authorize the grant of a Reload Option for that number of Shares as shall equal the number of Shares used to satisfy the tax liabilities of the Optionee arising out of the exercise of such Stock Option. Such Reload Option will be granted at the price and on the terms set forth in Subsection 6.6 (b). The cash payment or an amount equal to the Fair Market Value of the Shares so withheld, as the case may be, shall be remitted by the Company to the appropriate taxing authorities.

(d) An Optionee shall not have any of the rights of a shareholder of the Company with respect to the Shares subject to a Stock Option except to the extent that such Stock Option is exercised and one or more certificates representing such Shares shall have been delivered to the Optionee.

6.7 *First Refusal Rights*. Until such time as the Common Stock is first registered under Section 12 of the Exchange Act, the Company shall have the right of first refusal with respect to any proposed disposition by the Optionee (or any successor in interest) of any Shares issued under the Plan. Such right of first refusal shall be exercisable in accordance with the terms established by the Committee.

ARTICLE 7
STOCK APPRECIATION RIGHTS

7.1 *Grants.* The Committee may grant to any eligible Consultant, non-employee Director or employee of the Company or a Subsidiary either Non-Tandem Stock Appreciation Rights or Tandem Stock Appreciation Rights. Stock Appreciation Rights shall be subject to such terms and conditions as the Committee shall impose. The grant of the Stock Appreciation Right may provide that the holder will be paid for the value of the Stock Appreciation Right either in cash or in Shares, or a combination thereof, at the sole discretion of the Committee. In the event of the exercise of a Stock Appreciation Right payable in Shares, the holder of the Stock Appreciation Right shall receive that number of whole Shares having an aggregate Fair Market Value on the date of exercise equal to the value obtained by multiplying (i) either (a) in the case of a Tandem Stock Appreciation Right, the difference between the Fair Market Value of a Share on the date of exercise over the per share exercise price of the related Stock Option, or (b) in the case of a Non-Tandem Stock Appreciation Right, the difference between the Fair Market Value of a Share on the date of exercise over the Fair Market Value on the date of the grant by (ii) the number of Shares as to which the Stock Appreciation Right is exercised. However, notwithstanding the foregoing, the Committee, in its sole discretion, may place a ceiling on the amount payable upon exercise of a Stock Appreciation Right, but any such limitation shall be specified at the time that the Stock Appreciation Right is granted.

7.2 *Exercisability.* A Tandem Stock Appreciation Right granted in connection with an Incentive Stock Option (i) may be exercised at, and only at, the times and to the extent the related Incentive Stock Option is exercisable, (ii) will expire upon the termination of the related Incentive Stock Option, (iii) may not exceed 100% of the difference between the exercise price of the related Incentive Stock Option and the Fair Market Value of the Shares subject to the related Incentive Stock Option at the time the Tandem Stock Appreciation Right is exercised and (iv) may be exercised at, and only at, such times as the Fair Market Value of the Shares subject to the related Incentive Stock Option exceeds the exercise price of the related Incentive Stock Option. A Tandem Stock Appreciation Right may be transferred at, and only at, the times and to the extent the related Stock Option is transferable. If a Tandem Stock Appreciation Right is granted, there shall be surrendered and canceled from the related Stock Option at the time of exercise of the Tandem Stock Appreciation Right, in lieu of exercise pursuant to the related Stock Option, that number of Shares of the Stock Option to which the exercised Tandem Stock Appreciation Right relates.

7.3 *Certain Limitations on Non-Tandem Stock Appreciation Rights.* A Non-Tandem Stock Appreciation Right will be exercisable as provided by the Committee and will have such other terms and conditions as the Committee may determine. A Non-Tandem Stock Appreciation Right is subject to acceleration of vesting or immediate termination in certain circumstances in the same manner as Stock Options pursuant to Subsections 6.4 and 6.5 of this Plan.

7.4 *Limited Stock Appreciation Rights.* The Committee may grant limited Stock Appreciation Rights, either as Tandem Stock Appreciation Rights or Non-Tandem Stock Appreciation Rights, which may become exercisable only upon the occurrence of a Change in Control or such other event as the Committee may designate at the time of grant or thereafter.

ARTICLE 8
RESTRICTED STOCK

8.1 *Grants.* The Committee may grant Awards of Restricted Stock to any eligible Consultant, non-employee Director or employee of the Company or a Subsidiary for such minimum consideration, if any, as may be required by applicable law or such greater consideration as may be determined by the Committee, in its sole discretion. The terms and conditions of the Restricted Stock shall be specified by the grant agreement. The Committee, in its sole discretion, may specify any particular rights which the Participant to whom a grant of Restricted Stock is made shall have in the Restricted Stock during the restriction period and the restrictions applicable to the particular Award, the vesting schedule (which may be based on service, performance or other factors) and rights to acceleration of vesting (including, without limitation, whether non-vested Shares are forfeited or vested upon termination of employment). Further, the Committee may grant performance-based Awards consisting of Restricted Stock by conditioning the grant, or vesting or such other factors, such as the release, expiration or lapse of restrictions upon any such Award (including the acceleration of any such conditions or terms) of such Restricted Stock upon the attainment of specified performance goals or such other factors as the Committee may determine. The Committee shall also determine when the restrictions shall lapse or expire and the conditions, if any, pursuant to which the Restricted Stock will be forfeited or sold back to the Company. Each Award of Restricted Stock may have different restrictions and conditions. Unless otherwise set forth

in the grant agreement, Restricted Stock may not be sold, pledged, encumbered or otherwise disposed of by the recipient until the restrictions specified in the Award expire. Awards of Restricted Stock are subject to acceleration of vesting, termination of restrictions and termination in the same manner as Stock Options pursuant to Subsections 6.4 and 6.5 of this Plan.

8.2 *Awards and Certificates.* Any Restricted Stock issued hereunder may be evidenced in such manner as the Committee, in its sole discretion, shall deem appropriate including, without limitation, book-entry registration or issuance of a stock certificate or certificates. In the event any stock certificate is issued in respect of Shares of Restricted Stock, such certificate shall bear an appropriate legend with respect to the restrictions applicable to such Award. The Company may retain, at its option, the physical custody of any stock certificate representing any awards of Restricted Stock during the restriction period or require that the certificates evidencing Restricted Stock be placed in escrow or trust, along with a stock power endorsed in blank, until all restrictions are removed or expire.

ARTICLE 9
PERFORMANCE AWARDS

9.1 *Grants.* A Performance Award may consist of either or both, as the Committee may determine, of (i) the right to receive Shares or Restricted Stock, or any combination thereof as the Committee may determine or (ii) the right to receive a fixed dollar amount payable in Shares, Restricted Stock, cash or any combination thereof, as the Committee may determine. The Committee may grant Performance Awards to any eligible Consultant, non-employee Director or employee of the Company or a Subsidiary, for such minimum consideration, if any, as may be required by applicable law or such greater consideration as may be determined by the Committee, in its sole discretion. The terms and conditions of Performance Awards shall be specified at the time of the grant and may include provisions establishing the performance period, the performance criteria to be achieved during a performance period, the criteria used to determine vesting (including the acceleration thereof), whether Performance Awards are forfeited or vest upon termination of employment during a performance period and the maximum or minimum settlement values. Each Performance Award shall have its own terms and conditions, which shall be determined in the sole discretion of the Committee. If the Committee determines, in its sole discretion, that the established performance measures or objectives are no longer suitable because of a change in the Company's business, operations, corporate structure or for other reasons that the Committee deems satisfactory, the Committee may modify the performance measures or objectives and/or the performance period. Performance Awards are subject to acceleration of vesting, termination of restrictions and termination in the same manner as Stock Options pursuant to Subsections 6.4 and 6.5 of this Plan.

9.2 *Terms and Conditions.* Performance Awards may be valued by reference to the Fair Market Value of a Share or according to any other formula or method deemed appropriate by the Committee, in its sole discretion, including, but not limited to, achievement of specific financial, production, sales, cost or earnings performance objectives that the Committee believes to be relevant or the Company's performance or the performance of the Shares measured against the performance of the market, the Company's industry segment or its direct competitors. Performance Awards may

also be conditioned upon the applicable Participant remaining in the employ of the Company or one of its Subsidiaries for a specified period. Performance Awards may be paid in cash, Shares (including Restricted Stock) or other consideration, or any combination thereof. Performance Awards may be payable in a single payment or in installments and may be payable at a specified date or dates or upon attaining the performance objective or objectives, all at the sole discretion of the Committee. The extent to which any applicable performance objective has been achieved shall be conclusively determined by the Committee in its sole discretion.

ARTICLE 10
OTHER AWARDS

10.1 *Other Awards.* The Committee may grant to any eligible Consultant, non-employee Director or employee of the Company or a Subsidiary other forms of Awards based upon, payable in or otherwise related to, in whole or in part, Shares, if the Committee, in its sole discretion, determines that such other form of Award is consistent with the purposes of this Plan. The terms and conditions of such other form of Award shall be specified in a written agreement which sets forth the terms and conditions of such Award, including, but not limited to, the price, if any, and the vesting schedule, if any, of such Award. Such Awards may be granted for such minimum consideration, if any, as may be required by applicable law or for such other greater consideration as may be determined by the Committee, in its sole discretion.

ARTICLE 11
COMPLIANCE WITH SECURITIES AND OTHER LAWS

11.1 *Compliance.* As a condition to the issuance or transfer of any Award or any security issuable in connection with such Award, the Company may require an opinion of counsel, satisfactory to the Company, to the effect that (i) such issuance and/or transfer will not be in violation of the Securities Act or any other applicable securities laws and (ii) such issuance and/or transfer will not be in violation of the rules and regulations of any securities exchange or automated quotation system on which the Shares are listed or admitted to trading. Further, the Company may refrain from issuing, delivering or transferring any Award or any security issuable in connection with such Award until the Committee has determined that such issuance, delivery or transfer will not violate such securities laws or rules and regulations and that either the recipient has tendered to the Company, or the Company or a Subsidiary has withheld, any federal, state or local tax owed as a result of such issuance, delivery or transfer, when the Company has a legal liability to satisfy such tax. The Company shall not be liable for damages due to delay in the issuance, delivery or transfer of any Award or any security issuable in connection with such Award or any agreement, instrument or certificate evidencing such Award or security for any reason whatsoever, including, but not limited to, a delay caused by the listing requirements of any securities exchange or automated quotation system or any registration requirements under the Securities Act, the Exchange Act, or under any other state or federal law, rule or regulation. The Company is under no obligation to take any action or incur any expense to register or qualify the issuance, delivery or transfer of any Award

or any security issuable in connection with such Award under applicable securities laws or to perfect any exemption from such registration or qualification or to list any security on any securities exchange or automated quotation system. Furthermore, the Company will have no liability to any person for refusing to issue, deliver or transfer any Award or any security issuable in connection with such Award if such refusal is based upon the foregoing provisions of this ARTICLE 11. As a condition to any issuance, delivery or transfer of any Award or any security issuable in connection with such Award, the Company may place legends on any agreement, instrument or certificate evidencing such Award or security, issue stop transfer orders with respect thereto and require such agreements or undertakings as the Company may deem necessary or advisable to assure compliance with applicable laws or regulations, including, if the Company or its counsel deems it

appropriate, representations from the recipient of such Award or security to the effect that such recipient is acquiring such Award or security solely for investment and not with a view to distribution and that no distribution of the Award or the security will be made unless registered pursuant to applicable federal and state securities laws, or in the opinion of counsel to the Company, such registration is unnecessary.

ARTICLE 12
ADJUSTMENTS UPON THE OCCURRENCE OF A RECAPITALIZATION OR CORPORATE TRANSACTION

12.1 In the event of a Recapitalization, the number and class of Shares subject to this Plan and to each outstanding Award, and the exercise price of each Award which is based upon Shares, shall (to the extent deemed appropriate by the Committee) be proportionately adjusted (as determined by the Committee in its sole discretion) to account for any increase or decrease in the number, or change in the class, of issued and outstanding Shares of the Company resulting from such Recapitalization.

12.2 If a Corporate Transaction is consummated and immediately following the consummation of such Corporate Transaction the Persons who were holders of Shares immediately prior to the consummation of such Corporate Transaction do not receive any securities or other property (hereinafter collectively referred to as "Transactional Consideration") as a result of such Corporate Transaction and substantially all of such Persons continue to hold the Shares held by them immediately prior to the consummation of such Corporate Transaction (in substantially the same proportions relative to each other), the Awards will remain outstanding and will (subject to, and except as provided in, the other provisions of this Plan and the Award agreement) continue in full force and effect in accordance with its terms (without any modification) following the consummation of the Corporate Transaction.

12.3 If a Corporate Transaction is consummated and immediately following the consummation of such Corporate Transaction the Persons who were holders of Shares immediately prior to the consummation of such Corporate Transaction do receive Transactional Consideration as a result of such Corporate Transaction or substantially all of such Persons do not continue to hold the Shares held by them immediately prior to the consummation of such Corporate Transaction (in

substantially the same proportions relative to each other), the terms and conditions of the Awards will be modified as follows:

(i) If the documentation pursuant to which a Corporate Transaction will be consummated provides for the assumption (by the entity issuing Transactional Consideration to the Persons who were the holders of Shares immediately prior to the consummation of such Corporate Transaction) of the Awards granted pursuant to this Plan without any modification or amendment (other than Permitted Modifications), such Awards will remain outstanding and will continue in full force and effect in accordance with its terms following the consummation of such Corporate Transaction (subject to such Permitted Modifications).

(ii) If the documentation pursuant to which a Corporate Transaction will be consummated does not provide for the assumption by the entity issuing Transactional Consideration to the Persons who were the holders of Shares immediately prior to the consummation of such Corporate Transaction of the Awards granted pursuant to this Plan without any modification or amendment (other than Permitted Modifications), all vesting restrictions (performance based or otherwise) applicable to Awards which will not be so assumed will accelerate and the holders of such Awards may (subject to the expiration of the term of such Awards) exercise/receive the benefits of such Awards without regard to such vesting restrictions during the ten (10) day period immediately preceding the consummation of such Corporate Transaction. For purposes of the immediately preceding sentence, all performance based goals will be deemed to have been satisfied in full. The Company will provide each Participant holding Awards which will not be so assumed with reasonable notice of the termination of such vesting restrictions and the impending termination of such Awards. Upon the consummation of such a Corporate Transaction, all unexercised Awards which are not to be so assumed will automatically terminate and cease to be outstanding.

Nothing contained in this ARTICLE 12 will be deemed to extend the term of an Award or to revive any Award which has previously lapsed or been canceled, terminated or surrendered.

ARTICLE 13
AMENDMENT OR TERMINATION OF THIS PLAN

13.1 *Amendment of This Plan.* Notwithstanding anything contained in this Plan to the contrary, all provisions of this Plan (including, without limitation, the maximum number of Shares that may be issued with respect to Awards to be granted pursuant to this Plan) may at any time or from time to time be modified or amended by the Board; provided, however, that no Award at any time outstanding pursuant to this Plan may be modified, impaired or canceled adversely to the holder of the Award without the consent of such holder.

13.2 *Termination of This Plan.* The Board may suspend or terminate this Plan at any time, and such suspension or termination may be retroactive or prospective. Termination of this Plan shall not impair or affect any Award previously granted hereunder and the rights of the holder of the Award shall remain in effect until the Award has been exercised in its entirety or has expired or otherwise has been terminated by the terms of such Award.

ARTICLE 14
AMENDMENTS AND ADJUSTMENTS TO AWARDS

14.1 *Amendments and Adjustments.* The Committee may amend, modify or terminate any outstanding Award with the Participant's consent at any time prior to payment or exercise in any manner not inconsistent with the terms of this Plan, including, without limitation, (i) to change the date or dates as of which and/or the terms and conditions pursuant to which (A) a Stock Option becomes exercisable or (B) a Performance Award is deemed earned, (ii) to amend the terms of any outstanding Award to provide an exercise price per share which is higher or lower than the then current exercise price per share of such outstanding Award or (iii) to cancel an Award and grant a new Award in substitution therefor under such different terms and conditions as the Committee determines in its sole discretion to be appropriate including, but not limited to, having an exercise price per share which may be higher or lower than the exercise price per share of the canceled Award. The Committee may also make adjustments in the terms and conditions of, and the criteria included in agreements evidencing Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in ARTICLE 12 hereof) affecting the Company, or the financial statements of the Company or any Affiliate, or of changes in applicable laws, regulations or accounting principles, whenever the Committee determines that such adjustments are appropriate to prevent reduction or enlargement of the benefits or potential benefits intended to be made available pursuant to this Plan.

ARTICLE 15

GENERAL PROVISIONS

15.1 *No Limit on Other Compensation Arrangements.* Nothing contained in this Plan shall prevent the Company from adopting or continuing in effect other compensation arrangements, and such arrangements may be either generally applicable or applicable only in specific cases. This Plan shall not affect any other stock option, incentive, or other compensation or benefit plan of the Company or any Subsidiary, except as may be expressly provided therein.

15.2 *Other Awards.* The grant of an Award shall not confer upon the recipient the right to receive any future or other Awards under this Plan or any other plans of the Company or any Subsidiary, whether or not any awards may be granted to similarly situated employees, or the right to receive future Awards upon the same terms or conditions as previously granted.

15.3 *No Right to Employment or Continuation of Relationship.* Nothing in this Plan or in any Award, nor the grant of any Award, shall confer upon or be construed as giving any Participant any right to remain in the employ of the Company or a Subsidiary or to continue as a Consultant or non-employee Director. Further, the Company or a Subsidiary may at any time dismiss a Participant from emp1oyment or terminate the relationship of any Consultant or non-employee Director with the Company or any Subsidiary, free from any liability or any claim pursuant to this Plan. No

Consultant, non-employee Director or employee of the Company or any Subsidiary shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of any Consultant, non-employee Director or employee of the Company or any Subsidiary or of any Participants.

15.4 *Governing Law*. The validity, construction and effect of this Plan and any rules and regulations relating to this Plan shall be determined in accordance with the laws of the State of Texas, without giving effect to the conflict of laws principles thereof.

15.5 *Severability.* If any provision of this Plan or any Award is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or as to any individual or Award, or would disqualify this Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable law, or if it cannot be construed or deemed amended without, in the sole determination of the Committee, materially altering the intent of this Plan or the Award, such provision shall be stricken as to such jurisdiction, individual or Award and the remainder of this Plan and any such Award shall remain in full force and effect.

15.6 *No Fractional Shares.* No fractional Shares shall be issued or delivered pursuant to this Plan or any Award, and the Committee shall determine, in its sole discretion, whether cash, other securities or other property shall be paid or transferred in lieu of any fractional Shares or whether such fractional Shares or any rights thereto shall be canceled, terminated or otherwise eliminated.

15.7 *Headings.* Headings are given to the ARTICLEs and Subsections of this Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of this Plan or any provision thereof.

15.8 *Gender.* If the context requires, words of one gender when used in this Plan shall include the others and words used in the singular shall include the plural, and vice versa.

15.9 *Transferability of Awards.* Awards shall not be transferable otherwise than by will or the laws of descent and distribution without the written consent of the Committee (which may be granted or withheld at the sole discretion of the Committee). Awards may be exercised, during the lifetime of the holder, only by the holder. Any attempted assignment, transfer, pledge, hypothecation or other disposition of an Award contrary to the provisions hereof, or the levy of any execution, attachment or similar process upon an Award shall be null and void and without effect.

15.10 *Rights of Participants.* Except as hereinbefore expressly provided in this Plan, any Person to whom an Award is granted shall have no rights by reason of any subdivision or consolidation of stock of any class or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class or by reason of any dissolution, liquidation, reorganization, merger or consolidation or spinoff of assets or stock of another corporation, and any issue by the Company of shares of stock of any class or securities convertible into shares of stock of any class shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or exercise price of Shares subject to an Award.

15.11 *No Limitation Upon the Rights of the Company.* The grant of an Award pursuant to this Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, or changes of its capital or business structure; to merge, convert or consolidate; to dissolve or liquidate; or sell or transfer all or any part of its business or assets.

15.12 *Date of Grant of an Award.* Except as noted in this ARTICLE 15.12, the granting of an Award shall take place only upon the execution and delivery by the Company and the Participant of a written agreement and neither any other action taken by the Committee nor anything contained in this Plan or in any resolution adopted or to be adopted by the Committee, the Board or the shareholders of the Company shall constitute the granting of an Award pursuant to this Plan. Solely for purposes of determining the Fair Market Value of the Shares subject to an Award, such Award will be deemed to have been granted as of the date specified by the Committee notwithstanding any delay which may elapse in executing and delivering the applicable agreement.

15.13 *Tax Withholding.* The Company or any Subsidiary shall be entitled to deduct from other compensation payable to an employee any sums required by federal, state, or local tax law to be withheld with respect to the granting or exercise of a Stock Option or other Award under this Plan. In the alternative, the Company or any Subsidiary may require the recipient (or other person exercising the Award) to pay such sums directly to the employer, and neither the Company or any Subsidiary shall have any obligation to issue any Shares or make any payment until such payment has been received.

15.14 *Other Laws.* The Company shall not be obligated to issue any Shares pursuant to any Award granted under the Plan at any time when the offering of the Shares covered by such Award is not either (I) registered under the Securities Act of 1933 and such other state and federal laws, rules or regulations as the Company or the Committee deems applicable or (ii) exempt from the registration requirements of such laws, rules or regulations available for the issuance and sale of such shares.

ARTICLE 16
NAMED EXECUTIVE OFFICERS

16.1 *Applicability of ARTICLE 16.* The provisions of this ARTICLE 16 shall apply only if the Company is a "publicly held corporation" as defined in Section 162(m)(2) of the Code, and then only to those executive officers (i) whose compensation is required to be reported in the Company's proxy statement pursuant to Item 402(a)(3)(i) and (ii) (or any successor thereto) of Regulation S-K (or any successor thereto) under the general rules and regulations under the Exchange Act and (ii) whose total compensation, including estimated Awards, is determined by the Committee to possibly be subject to the limitations on deductions imposed by Section 162(m) of the Code ("Named Executive Officers"). In the event of any inconsistencies between this ARTICLE 16 and the other Plan provisions as they pertain to Named Executive Officers, the provisions of this ARTICLE 16 shall control.

16.2 *Establishment of Performance Goals.* Awards for Named Executive Officers, other than Stock Options and Stock Appreciation Rights, shall be based on the attainment of certain performance goals. No later than the earlier of (i) ninety (90) days after the commencement of the applicable fiscal year of the Company or one of its Subsidiaries or such other award period as may be established by the Committee ("Award Period") and (ii) the completion of twenty-five percent (25%) of such Award Period, the Committee shall establish, in writing, the performance goals applicable to each such Award for Named Executive Officers. At the time the performance goals are established, their outcome must be substantially uncertain. In addition, the performance goal must state, in terms of an objective formula or standard, the method for computing the amount of compensation payable to the Named Executive Officer if the goal is obtained. Such formula or standard shall be sufficiently objective so that a third party with knowledge of the relevant performance results could calculate the amount to be paid to the subject Named Executive Officer. The material terms of the performance goals for Named Executive Officers and the compensation payable thereunder shall be submitted to the shareholders of the Company for their review and approval if and to the extent required for such compensation to be deductible pursuant to Section 162(m) (or any successor thereto) of the Code, and the Treasury Regulations thereunder. Shareholder approval, if necessary, shall be obtained for such performance goals prior to any Award being paid to such Named Executive Officer. If shareholder approval is required and not received with respect to such performance goals, no amount shall be paid to such Named Executive Officer for such applicable Award Period pursuant to this Plan.

16.3 *Components of Awards.* Each Award granted to a Named Executive Officer, other than Stock Options and Stock Appreciation Rights, shall be based on performance goals which are sufficiently objective so that a third party having knowledge of the relevant facts could determine whether the goal was met. Except as provided in Subsection 16.8 herein, performance measures which may serve as determinants of Named Executive Officers' Awards shall be limited to the following measures: earnings per share; return on assets; return on equity; return on capital; net profit after taxes; net profit before taxes; operating profits; stock price; and sales or expenses. Within ninety (90) days following the end of each Award Period, the Committee shall certify in writing that the performance goals, and any other material terms were satisfied. Thereafter, Awards shall be made for each Named Executive Officer as determined by the Committee. The Awards may not vary from the pre-established amount based on the level of achievement.

16.4 *No Mid-Year Change in Awards.* Except as provided in Subsections 16.8 and 16.9 herein, each Named Executive Officer's Awards shall be based exclusively on the performance measures established by the Committee pursuant to Subsections 16.2 and 16.3.

16.5 *No Partial Award Period Participation.* A Named Executive Officer who becomes eligible to participate in this Plan after performance goals have been established in an Award Period pursuant to Subsections 16.2 and 16.3 may not participate in this Plan prior to the next succeeding Award Period, except with respect to Awards which are Stock Options or Stock Appreciation Rights.

16.6 *Performance Goals.* Except as provided in Subsection 16.8 herein, performance goals shall not be changed following their establishment, and Named Executive Officers shall not

receive any payout, except with respect to Awards which are Stock Options or Stock Appreciation Rights, when the minimum performance goals are not met or exceeded.

16.7 *Individual Performance and Discretionary Adjustments.* Except as provided in Subsection 16.8 herein, subjective evaluations of individual performance of Named Executive Officers shall not be reflected in their Awards, other than Awards which are Stock Options or Stock Appreciation Rights. The payment of such Awards shall be entirely dependent upon the attainment of the preestablished performance goals.

16.8 *Amendments.* No amendment of this Plan with respect to any Named Executive Officer may be made which would (i) increase the maximum amount that can be paid to any one Participant pursuant to this Plan, (ii) change the specified performance goal for payment of Awards, or (iii) modify the requirements as to eligibility for participation in this Plan, unless the Company's shareholders have first approved such amendment in a manner which would permit the deduction under Section 162(m) (or any successor thereto) of the Code of such payment in the fiscal year it is paid. The Committee shall amend this ARTICLE 16 and such other provisions as it deems appropriate, to cause amounts payable to Named Executive Officers to satisfy the requirements of Section 162(m) (or any successor thereto) and the Treasury regulations promulgated thereunder.

16.9 *Stock Options and Stock Appreciation Rights - Grant Price.* Notwithstanding any provision of this Plan (including the provisions of this ARTICLE 16) to the contrary, the amount of compensation which a Named Executive Officer may receive with respect to Stock Options and Stock Appreciation Rights which are granted hereunder is based solely on an increase in the value of the applicable Shares after the date of grant of such Award. Thus, no Stock Option may be granted hereunder to a Named Executive Officer with an exercise price less than the Fair Market Value of Shares on the date of grant. Furthermore, the maximum number of Shares (or cash equivalent value) with respect to which Stock Options or Stock Appreciation Rights may be granted hereunder to any Named Executive Officer during any calendar year may not exceed 1,000,000 Shares, subject to adjustment as provided in ARTICLE 12 hereunder.

16.10 *Maximum Amount of Compensation.* The maximum amount of compensation payable as an Award (other than an Award which is a Stock Option or Stock Appreciation Right) to any Named Executive Officer during any calendar year may not exceed $1,000,000.

APPLIED OPTOELECTRONICS, INC.

2006 INCENTIVE SHARE PLAN

ARTICLE 1
PURPOSE

The purpose of the Applied Optoelectronics, Inc. 2006 Incentive Share Plan (the "*Plan*") is to advance the interests of Applied Optoelectronics, Inc. (the "*Company*") and its shareholders by enabling the Company and each of its Subsidiaries (as hereinafter defined) to (A) provide share ownership opportunities to certain of their key employees to participate in the Company's growth and (B) enhance their ability to attract and retain individuals of superior managerial or technical ability and to motivate employees, consultants, independent contractors, agents, and other persons to exert their best efforts towards future progress and profitability of the Company.

ARTICLE 2
DEFINITIONS

As used in this Plan, the following terms shall have the meanings set forth below unless the context otherwise requires:

2.1 "*Award*" shall mean the grant of a Stock Option, a Stock Appreciation Right, Restricted Stock, a Performance Award, or any other grant of incentive compensation pursuant to this Plan.

2.2 "*Board*" shall mean the Board of Directors of the Company, as the same may be constituted from time to time.

2.3 "*Cause*" shall mean (i) "Cause" as that term may be defined in any written employment agreement between a participant and the company or a subsidiary which may at any time be in effect, (ii) in the absence of such a definition in a then-effective written employment agreement (in the determination of the Board), "Cause" as that term may be defined in any Award agreement under this Plan, or (iii) in the absence of such a definition in a then-effective written employment agreement (in the determination of the Board) or in an award agreement under the plan, termination of a Participant's employment with the Company or a Subsidiary upon the occurrence of one or more of the following events:

The Participant's failure to substantially perform such Participant's duties with the Company or any Subsidiary as determined by the Board or the Company;

The Participant's willful failure or refusal to perform specific directives of the Board or the Company, which directives are consistent with the scope and nature of the Participant's duties and responsibilities;

The Participant's conviction of a felony; or

A breach of the Participant's fiduciary duty to the Company or any Subsidiary or willful violation in the course of performing the Participant's duties for the Company or any Subsidiary of any policy, rule, or directive of the Company or any Subsidiary, or of any law, rule or regulation (other than traffic violations or other minor offenses). No act or failure to act on the Participant's part shall be considered willful unless done or omitted to be done in bad faith and without reasonable belief that the action or omission was in the best interest of the Company.

2.4 "*Change in Control*" has the meaning given such term in the applicable Award agreement or, if not defined therein, shall as of the Effective Date mean, after the effective date of this Plan stated in Subsection 1.2, (i) the occurrence of an event of a nature that would be required to be reported by the Company in response to Item 1 of a Current Report on Form 8-K (or any successor to such form), whether or not the Company is, in fact, required to report on such form, promulgated pursuant to the Exchange Act; provided that, without limitation, such a Change in Control shall be deemed to have occurred if (a) any Person or group (as defined in the Exchange Act), other than (A) the Company, (B) a wholly-owned Subsidiary, (C) any employee benefit plan (including, without limitation, an employee stock ownership plan) adopted by the Company or any wholly-owned Subsidiary or (D) any trustee or other fiduciary holding securities under any employee benefit plan adopted by the Company or any Subsidiary, becomes the "beneficial owner" (as defined in Rule 13d-3 (or any successor to such rule) promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities or (b) during any period of twenty-four (24) months, individuals who at the beginning of such period constitute the Board cease for any reason to constitute at least a majority thereof, unless the election by the Board or the nomination for election by the Company's shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of such twenty-four (24) month period or whose election or nomination for election was previously so approved; (ii) a Corporate Transaction is consummated, other than a Corporate Transaction that would result in substantially all of the holders of voting securities of the Company outstanding immediately prior thereto owning (directly or indirectly and in substantially the same proportions relative to each other) not less than fifty percent (50%) of the combined voting power of the voting securities of the issuing/surviving/resulting entity outstanding immediately after such Corporate Transaction; or (iii) an agreement for the sale or other disposition of all or substantially all of the Company's assets (evaluated on a consolidated basis, without regard to whether the sale or disposition is effected via a sale or disposition of assets of the Company, the sale or disposition of the securities of one or more Subsidiaries or the sale or disposition of the assets of one or more Subsidiaries) is consummated.

2.5 "*Code*" shall mean the Internal Revenue Code of 1986, as amended from time to time

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(or any successor to such legislation).

2.6 "*Committee*" shall mean the Compensation Committee of the Board as such Compensation Committee may be constituted from time to time pursuant to the terms of the Compensation Committee Charter of the Board which may at any time be in effect, of if no such charter is in effect, pursuant to such policies and procedures as the Board may from time to time establish. While the common stock of the Company is publicly traded, membership on the Committee shall be limited to Directors who (i) meet the independence requirements of the exchange upon which such Shares are traded and any other regulatory requirements, (ii) qualify as "Non-Employee Directors" (as that term is defined in Rule 16b-3 (or any successor to such rule) promulgated under the Exchange Act), and (iii) satisfy the requirements of an "outside director," for purposes of Section 162(m) of the Code and such Treasury regulations as may be promulgated thereunder. Once appointed by the Board, members of the Committee, shall, except for any period of suspension, hold office until their successors are duly elected and qualified or until their earlier resignation, removal or death. Membership in the Committee shall be subject to the rotation policy set forth in the Company's corporate governance guidelines. All members of the Committee will serve at the pleasure of the Board. Notwithstanding the foregoing, if the composition of the Committee does not comply with the foregoing provisions of this Subsection, the entire Board shall constitute the Committee until such time as a proper Committee is appointed in accordance with the foregoing provisions of this Subsection.

2.7 "*Company*" shall mean Applied Optoelectronics, Inc., a Texas corporation.

2.8 "*Consultant*" shall mean any Person who or which is engaged by the Company or any Subsidiary to render services as a consultant or advisor.

2.9 "*Corporate Transaction*" shall mean any reorganization, merger, consolidation or conversion involving the Company or any exchange of securities involving Shares, other than a Recapitalization.

2.10 "*Designated Beneficiary*" shall mean the beneficiary designated by a Participant, in a manner authorized by the Committee or the Board, to exercise the rights of such Participant in the event of such Participant's death. In the absence of an effective designation by a Participant, the Designated Beneficiary shall be such Participant's estate.

2.11 "*Disability*" shall mean the "disability" of a person as defined in a then effective long-term disability plan maintained by the Company that covers such person, or if such a plan does not exist at any relevant time, "Disability" means the permanent and total disability of a person within the meaning of Section 22(e)(3) of the Code. For purposes of determining the time during which an Incentive Stock Option may be exercised under the terms of an Award Agreement, "Disability" means the permanent and total disability of a person within the meaning of Section 22(e)(3) of the Code. Section 22(e)(3) of the Code provides that an individual is totally and permanently disabled if he is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months.

2.12 "*Effective Date*" shall mean September 15, 2006**.**

2.13 "*Employee*" shall mean any person, including an officer of the Company or a Subsidiary, within the meaning of Section 16 of the Exchange Act (whether or not the Company is subject to the Exchange Act), or Director, who is employed, within the meaning of Section 3401 of the Code, by the Company or a Subsidiary. The provision of compensation by the Company or a Subsidiary to a Director solely with respect to such individual rendering services in the capacity of a Director, however, shall not be sufficient to constitute "employment" by the Company or that Subsidiary.

2.14 "*Exchange Act*" shall mean the Securities Exchange Act of 1934, as amended from time to time (or any successor to such legislation).

2.15 "*Fair Market Value*" shall mean with respect to the Shares, as of any date, (i) if the Shares are listed or admitted to trade on a national securities exchange, the closing price of the Shares on the composite tape, as published in the *Wall Street Journal* or such other source as the Committee or the Board deems reliable, of the principal national securities exchange on which the Shares are so listed or admitted to trade, on such date or, if there is no trading in Shares on such date, then the closing price of the Shares as quoted on such composite tape on the next preceding date on which there was trading in such Shares; (ii) if the Shares are not listed or admitted to trade on a national securities exchange, then the closing price of the Shares as quoted on the National Market System of the NASD; (iii) if the Shares are not listed or admitted to trade on a national securities exchange or the National Market System of the NASD, the mean between the bid and asked price for the Shares on such date, as furnished by the NASD through NASDAQ or a similar organization if NASDAQ is no longer reporting such information; or (iv) if the Shares are not listed or admitted to trade on a national securities exchange or the National Market System of the NASD and if bid and asked prices for the Shares are not so furnished by the NASD or a similar organization, the value established by the Board, determined without regard to any restriction other than a restriction which, by its terms, will never lapse.

2.16 "*Incentive Stock Option*" shall mean any option to purchase Shares awarded pursuant to this Plan which qualifies as an "Incentive Stock Option" pursuant to Section 422 of the Code.

2.17 "*NASD*" shall mean the National Association of Securities Dealers, Inc.

2.18 "*Non-Qualified Stock Option*" shall mean any option to purchase Shares awarded pursuant to this Plan that does not qualify as an Incentive Stock Option (including, without limitation, any option to purchase Shares originally designated as or intended to qualify as an Incentive Stock Option but which does not (for whatever reason) qualify as an Incentive Stock Option).

2.19 "*Optionee*" shall mean any Participant who has been granted and holds a Stock Option awarded pursuant to this Plan.

2.20 "*Participant*" shall mean any Person who has been granted and holds an Award granted pursuant to this Plan.

2.21 "*Performance Award*" shall mean any Award granted pursuant to this Plan of Shares, rights based upon, payable in or otherwise related to Shares (including Restricted Stock) or cash, as the Committee may determine, at the end of a specified Performance Period established by the Committee or the Board and may include without limitation performance shares, performance units or cash awards.

2.22 "*Performance Goals*" shall mean with respect to a Performance Measure selected by the Committee, the specific target that must be met before a Performance Award subject to section 162(m) of the Code will be payable to the recipient of the Award.

2.23 "*Performance Measures"* shall mean each of the business criteria the Company may use in establishing a Performance Goal. For purposes of the Plan, Performance Measures are limited to earnings per share; return on assets; return on equity; return on capital; net profit after taxes; net profit before taxes; operating profits; stock price; sales or expenses; or other business criteria established by the Board.

2.24 "*Performance Period"* shall mean the period established by the Committee at the time any Award is granted or at any time thereafter over which a Performance Goal specified by the Committee with respect to such Award will be measured.

2.25 "*Permitted Modification*" shall be deemed to be any modification of an Award which is made in connection with a Corporate Transaction and which provides (i) in connection with a Stock Option, that subsequent to the consummation of the Corporate Transaction (A) the exercise price of such Stock Option will be proportionately adjusted to reflect the exchange ratio applicable to the particular Corporate Transaction and/or (B) the nature and amount of consideration to be received upon exercise of the Stock Option will be the same (on a per share basis) as was received by Persons who were holders of Shares immediately prior to the consummation of the Corporate Transaction, (ii) in connection with a Stock Appreciation Right, that subsequent to the consummation of the Corporate Transaction (A) the base price of such Stock Appreciation Right will be proportionately adjusted to reflect the exchange ratio applicable to the particular Corporate Transaction and/or (B) the benefits to be received by the holder of such Stock Appreciation Right will be measured based upon the nature and amount of consideration received (on a per share basis) by Persons who were holders of Shares immediately prior to the consummation of the Corporate Transaction, or (iii) for a modification expressly provided for in this Plan or in an Award agreement.

2.26 "*Person*" shall mean an individual, partnership, limited liability company, corporation, joint stock company, trust, estate, joint venture, association or unincorporated organization or any other form of business organization.

2.27 "*Plan"* shall mean this Applied Optoelectronics, Inc. 2006 Incentive Share Plan as set out in this document and as it may be amended from time to time.

2.28 "*Reload Option"* shall mean a Stock Option as defined in Subsection 6.6(b) of this Plan.

2.29 "*Recapitalization*" shall mean any stock split, stock dividend, reverse stock split, combination or subdivision of Shares or any other similar increase or decrease in the number of Shares issued and outstanding, without the Company receiving consideration therefor in money, services, or property (other than securities issued by the Company).

2.30 "*Restricted Stock"* shall mean any Shares granted pursuant to this Plan that are subject to restrictions or substantial risk of forfeiture.

2.31 "*Retirement"* shall mean the termination of employment of an Employee of the Company or any Subsidiary pursuant to the terms of any retirement plan or policy maintained by the Company or any Subsidiary in which such Employee participates.

2.32 "*Securities Act"* shall mean the Securities Act of 1933, as amended from time to time (or any successor to such legislation).

2.33 "*Shares"* shall mean shares of the common stock of the Company and any shares of capital stock or other securities hereafter issued or issuable upon, in respect of or in substitution or exchange for shares of common stock of the Company.

2.34 "*Stock Appreciation Right"* shall mean the right of the holder thereof to receive property or Shares with a Fair Market Value equal to or cash in an amount equal to the excess of the Fair Market Value of the aggregate number of Shares subject to such Stock Appreciation Right on the date of exercise over the Fair Market Value of the aggregate number of Shares subject to such Stock Appreciation Right on the date of the grant of such Stock Appreciation Right (or such other value as may be specified in the agreement granting such Stock Appreciation Right).

2.35 "*Stock Option*" shall mean any Incentive Stock Option or Non-Qualified Stock Option.

2.36 "*Subsidiary"* shall mean a subsidiary corporation of the Company, as defined in Section 424(f) of the Code.

2.37 "*Transactional Consideration*" shall have the meaning set forth in Subsection 12.2 of this Plan.

ARTICLE 3
ADMINISTRATION OF THIS PLAN

3.1 *Committee.* This Plan shall be administered and interpreted by the Committee.

3.2 Administration.

(a) Subject to the provisions of this Plan and directions from the Board, the Committee is authorized to:

(i) determine the Persons to whom Awards are to be granted;

(ii) determine the types and combinations of Awards to be granted; the number of Shares to be covered by an Award; the exercise price of an Award; the time or times when an Award shall be granted and may be exercised; the terms, performance criteria or other conditions, vesting periods or any restrictions for an Award; any restrictions on Shares acquired pursuant to the exercise of an Award; and any other terms and conditions of an Award;

(iii) conclusively interpret the provisions of this Plan and any Award agreement, such interpretation to be final and binding on the Company and each other affected Person or party;

(iv) prescribe, amend and rescind rules and regulations relating to this Plan;

(v) rely upon Employees of the Company or outside service providers for such clerical and record keeping duties as may be necessary in connection with the administration of this Plan;

(vi) accelerate or defer (with the consent of the Participant) the vesting of any rights pursuant to an Award; and

(vii) make all other determinations and take all other actions necessary or advisable for the administration of this Plan; and

(viii) Loans for exercise.

The President of the Company shall also be authorized, subject to the provisions of this Plan and directions from the Board and the Committee, to determine the types and combinations of Awards to be granted; the number of Shares to be covered by an Award; the exercise price of an Award; the time or times when an Award shall be granted and may be exercised; the terms, performance criteria or other conditions, vesting periods or any restrictions for an Award; any restrictions on Shares acquired pursuant to the exercise of an Award; and any other terms and conditions of an Award; provided, however, that the President of the Company may not (1) grant any Award to any executive officer or himself or herself (2) grant Awards to any one person with respect to more than 100,000 Shares in the aggregate (which number shall be adjusted pro rata in the event of any adjustment to the limitation set forth in ARTICLE 4.1 hereof), or (3) modify any Award made by the Committee or Board.

(b) Without limiting the Board's right to amend this Plan pursuant to Section 13, the Board may take all actions authorized by Subsection 3.2(a) of this Plan, including, without limitation, granting such Awards pursuant to this Plan as the Board, to the extent such Award by the Board would not implicate any applicable securities laws, the rules of any exchange upon which the Company's securities are traded, or any other applicable law, may deem necessary or appropriate.

(c) A majority of the Committee members shall constitute a quorum for action by the Committee. All determinations of the Committee in connection with the Plan shall be made by not less than a majority of its members. All questions of interpretation and application of this Plan or pertaining to any question of fact or Award granted hereunder will be decided by the Committee, whose decision will be final, conclusive and binding upon the Company and each other affected party.

ARTICLE 4
SHARES SUBJECT TO PLAN

4.1 *Limitations*. the maximum number of shares of Common Stock that may be delivered pursuant to Awards granted under the Plan is 30,000,000 shares. Awards will not reduce the number of Shares that may be issued pursuant to this Plan if the settlement of the Award will not require the issuance of Shares, as, for example, a Stock Appreciation Right that can be satisfied only by the payment of cash. The following shares of Common Stock related to Awards will be available for issuance again under the Plan:

(a) Common Stock related to Awards settled in cash;

(b) Common Stock related to Awards that expire, are forfeited or cancelled or terminate for any other reason without the issuance of the Common Stock;

(c) Common Stock equal in number to the shares of Common Stock surrendered in payment of the exercise price of an Option; and

(d) Common Stock tendered or withheld in order to satisfy withholding tax obligations.

Shares to be issued may be made available from authorized but unissued Common Stock, Common Stock held by the Company in its treasury, or Common Stock purchased by the Company on the open market or otherwise. During the term of this Plan, the Company will at all times reserve and keep available the number of shares of Common Stock that shall be sufficient to satisfy the requirements of this Plan.

4.2 *Maximum Individual Grants*. No Participant may receive during any fiscal year of the Company Awards covering an aggregate of more than 411,000 shares of Common Stock.

ARTICLE 5
ELIGIBILITY

5.1 *Eligibility*. Any Employee, non-employee Director whose judgment, initiative, and efforts contributed or may be expected to contribute to the successful performance of the Company, or a Consultant is eligible to participate in the Plan; provided that only Employees shall be eligible to receive Incentive Stock Options. The Committee, upon its own action, may grant, but shall not be required to grant, an Award to any Employee, non-employee Director or Consultant.

A Participant may be granted more than one Award and Awards may be granted by the Committee at any time and from time to time to new Participants, or to then Participants, or to a greater or lesser number of Participants, and may include or exclude previous Participants, as the Committee shall determine. The grant of an Award to a Participant shall not be deemed either to entitle the Participant to, or to disqualify the Participant from, receipt of any other Award under the Plan. Except as required by this Plan, Awards granted at different times need not contain similar provisions. The Committee's determinations under the Plan (including without limitation determinations of which Employees, non-employee Directors, or Consultants, if any, are to receive Awards, the form, amount and timing of such Awards, the terms and provisions of such Awards and the agreements evidencing same) need not be uniform and may be made by it selectively among Employees, non-employee Directors and Consultants who receive, or are eligible to receive, Awards under the Plan.

5.2 *Grant of Awards*. The grant of an Award shall be authorized by the Committee or the Board and shall be evidenced by an Award agreement setting forth the type of Award or Awards being granted, the total number of Shares subject to the Award(s), the Stock Option price (if applicable), the restriction

period (if applicable), the term of the Award, the date of the grant of the Award, and such other terms, provisions, limitations, and, if applicable, Performance Goals, as are approved by the Committee, but not inconsistent with the Plan. The Company shall execute an Award agreement with a Participant after the Committee approves the issuance of an Award.

If the Committee establishes a purchase price, if any, for an Award of Restricted Stock, the Participant must accept such Award within a period of 30 days (or such shorter period as the Committee may specify) after the date of the grant of the Award by executing the applicable Award agreement and paying such purchase price.

ARTICLE 6
STOCK OPTIONS

6.1 *Grants.* The Committee may grant Stock Options alone or in addition to other Awards granted pursuant to this Plan to any eligible Person. Each Person so selected shall be offered a Stock Option to purchase the number of Shares determined by the Committee. The Committee shall specify whether such Stock Option is an Incentive Stock Option or Non-Qualified Stock Option and any other terms or conditions relating to such Award; provided, however only Employees of the Company or a Subsidiary may be granted Incentive Stock Options. To the extent that any Stock Option designated as an Incentive Stock Option does not qualify as an Incentive Stock Option (whether because of its provisions, the failure of the shareholders of the Company to authorize the

issuance of Incentive Stock Options, the time or manner of its exercise or otherwise), such Stock Option or the portion thereof which does not qualify shall be deemed to constitute a Non-Qualified Stock Option. Each Person to be granted a Stock Option shall enter into a written agreement with the Company, in such form as the Committee may prescribe, setting forth the terms and conditions (including, without limitation, the exercise price and vesting schedule) of the Stock Option. At any time and from time to time, the Optionee and the Committee may agree to modify an option agreement in such respects as they may deem appropriate, including, without limitation, the conversion of an Incentive Stock Option into a Non-Qualified Stock Option. The Committee may require that an Optionee meet certain conditions before the Stock Option or a portion thereof may vest or be exercised, as, for example, that the Optionee remain in the employ of the Company or a Subsidiary for a stated period or periods of time.

6.2 Incentive Stock Options Limitations.

(a) In no event shall any individual be granted Incentive Stock Options to the extent that the Shares covered by any Incentive Stock Options (and any incentive stock options granted pursuant to any other plans of the Company or its Subsidiaries) that may be exercised for the first time by such individual in any calendar year have an aggregate Fair Market Value in excess of $100,000. For this purpose, the Fair Market Value of the Shares shall be determined as of the date(s) on which the Incentive Stock Options are granted. It is intended that the limitation on Incentive Stock Options provided in this Subsection 6.2(a) be the maximum limitation on Stock Options which may be considered Incentive Stock Options pursuant to the Code.

(b) The option exercise price of an Incentive Stock Option shall not be less than one hundred percent (100%) of the Fair Market Value of the Shares subject to such Incentive Stock Option on the date of the grant of such Incentive Stock Option.

(c) Notwithstanding anything herein to the contrary, in no event shall any Employee owning more than ten percent (10%) of the total combined voting power of the Company or any Subsidiary be granted an Incentive Stock Option unless the option exercise price of such Incentive Stock Option shall be at least one hundred ten percent (110%) of the Fair Market Value of the Shares subject to such Incentive Stock Option on the date of the grant of such Incentive Stock Option.

(d) In no event shall any individual be granted an Incentive Stock Option after the expiration of ten (10) years from the date this Plan is adopted or is approved by the shareholders of the Company (if shareholder approval is required by Section 422 of the Code), whichever is earlier.

(e) To the extent shareholder approval of this Plan is required by Section 422 of the Code, no individual shall be granted an Incentive Stock Option unless this Plan is approved by the shareholders of the Company within twelve (12) months before or after the date this Plan is initially adopted. In the event this Plan is amended to increase the number of Shares subject to issuance upon the exercise of Incentive Stock Options or to change the class of Employees eligible to receive Incentive Stock Options, no individual shall be granted

an Incentive Stock Option unless such amendment is approved by the shareholders of the Company within twelve (12) months before or after such amendment.

(f) No Incentive Stock Option shall be granted to any Employee owning more than ten percent (10%) of the total combined voting power of the Company or any Subsidiary unless the term of such Incentive Stock Option is equal to or less than five (5) years measured from the date on which such Incentive Stock Option is granted.

(g) No Incentive Stock Option granted pursuant to this Plan shall be transferable other than by will or the laws of decent and distribution and it shall be exercisable only by the Optionee during his or her lifetime.

6.3 *Option Term.* The term of a Stock Option shall be for such period of time from the date of its grant as may be determined by the Committee; provided, however, that no Incentive Stock Option shall be exercisable after the expiration of ten (10) years from the date of its grant.

6.4 *Time of Exercise.* No Stock Option may be exercised unless it is exercised prior to the expiration of its stated term and, in connection with options granted to Employees of the Company or its Subsidiaries, at the time of such exercise, the Optionee is, and has been continuously since the date of grant of such Stock Option, employed by the Company or a Subsidiary, except that:

(a) A Stock Option may, to the extent vested as of the date the Optionee ceases to be an Employee of the Company or a Subsidiary, be exercised during the three-month period immediately following the date the Optionee ceases (for any reason other than death, Disability or Retirement) to be an Employee of the Company or a Subsidiary (or within such other period as may be specified in the applicable option agreement), provided that, if

the Stock Option has been designated as an Incentive Stock Option and the option agreement provides for a longer exercise period, the exercise of such Stock Option after such three-month period shall be treated as the exercise of a Non-Qualified Stock Option;

(b) If the Optionee dies while entitled to exercise a Stock Option, such Stock Option may, to the extent vested as of the date of the Optionee's death, be exercised by the Optionee's Designated Beneficiary during the three year period immediately following the date of the Optionee's death (or within such other period as may be specified in the applicable option agreement); provided that, if the Stock Option has been designated as an Incentive Stock Option and the option agreement provides for a longer exercise period, the exercise of such Stock Option after such one-year period shall be treated as the exercise of a Non-Qualified Stock Option;

(c) If the Optionee ceases to be an Employee of the Company or a Subsidiary by reason of the Optionee's Disability or Retirement, a Stock Option, to the extent vested as of the date the Optionee ceases to be an Employee of the Company or a Subsidiary, may be exercised during the three year period immediately following the date of such cessation of employment (or within such other period as may be specified in the applicable option agreement); provided that, if the Stock Option has been designated as an Incentive Stock Option and the option agreement provides for a longer exercise period, the exercise of such

Stock Option after such one-year period shall be treated as the exercise of a Non-Qualified Stock Option; and

(d) If the Optionee's employment is terminated for Cause, all Stock Options held by such Optionee shall simultaneously terminate and will no longer be exercisable.

Nothing contained in this Subsection 6.4 will be deemed to extend the term of a Stock Option or to revive any Stock Option which has previously lapsed or been canceled, terminated or surrendered. Stock Options granted under this Plan to Consultants or non-employee Directors will contain such terms and conditions with respect to the death or disability of a Consultant or non-employee Director or termination of a Consultant's or non-employee Director's relationship with the Company as the Committee deems necessary or appropriate. Such terms and conditions will be set forth in the option agreements evidencing the grant of such Stock Options.

6.5 Vesting of Stock Options.

(a) Each Stock Option granted pursuant to this Plan may only be exercised to the extent that the Optionee is vested in such Stock Option, except as specified below with respect to Early Exercise. Each Stock Option shall vest separately in accordance with the option vesting schedule determined by the Committee, which will be incorporated in the option agreement entered into between the Company and such Optionee. The option vesting schedule may be accelerated if, in the sole discretion of the Committee, the acceleration of the option vesting schedule would be in the best interests the Company.

"*Early Exercise*" means the exercise of a Stock Option prior to vesting in accordance with the applicable provisions of this Plan and the Award agreement evidencing the Stock Option. "*Repurchase Rights*" means the right the Company may have pursuant to this Plan or an Award agreement to repurchase unvested shares of Common Stock that the applicable Participant may have received through Early Exercise of a Stock Option or through an Award of Restricted Stock at the same price that such Participant paid (if any).

An Award agreement covering a Non-Qualified Stock Option may (in the Committee's sole discretion) permit the Early Exercise of all or a portion of such Stock Option prior to the vesting of such Stock Option, but only prior to an Initial Public Offering. Shares purchased through the Early Exercise of such Option will be restricted and will be subject to the same vesting schedule as set forth in the Stock Option, and will also be subject to any repurchase rights if provided in the Award agreement.

(b) In the event of the dissolution or liquidation of the Company, each Stock Option granted pursuant to this Plan shall terminate as of a date to be fixed by the Committee; provided, however, that not less than thirty (30) days' written notice of the date so fixed shall be given to each Optionee. During such period all Stock Options which have not previously been terminated, exercised or surrendered will (subject to the provisions of Subsections 6.3 and 6.4) fully vest and become exercisable, notwithstanding the vesting schedule set forth in the option agreement evidencing the grant of such Stock Option. Upon

the date fixed by the Committee, any unexercised Stock Options shall terminate and be of no further effect.

(c) Upon a Change in Control, all Stock Options and any associated Stock Appreciation Rights will be treated in accordance with the applicable Award agreements. An Award agreement granting an Award pursuant to this Plan may be amended, with the written consent of the parties thereto, to modify the treatment of any Stock Options or Stock Appreciation Rights upon Change in Control as specified in the associated Award agreement. In particular, an Award agreement granting an Award pursuant to this Plan may be amended to eliminate any provision in the associated Award agreement providing for immediate exercisability of Stock Options or Stock Appreciation Rights upon Change in Control.

6.6 Manner of Exercise of Stock Options.

(a) Except as otherwise provided in this Plan, Stock Options may be exercised as to Shares only in amounts and at intervals of time specified in the written option agreement between the Company and the Optionee. Each exercise of a Stock Option, or any part thereof, will, unless otherwise provided in a specific Award agreement, be pursuant to the administrative procedures established by the Company or its authorized designee. Payment for the Shares to be purchased upon exercise of a Stock Option may be made in cash (by check) or in one or more of the following methods as may be stated in the Award agreement (at the Date of Grant with respect to any Stock Option granted as an Incentive Stock Option), approved by the Company and where permitted by law: (i) if a public market for the Common Stock exists, in a cashless exercise through a "same day sale" arrangement between the Optionee and a broker-dealer that is a member of the NASD (an "NASD Dealer") whereby the Optionee elects to exercise the Stock Option and to sell a portion of the shares of Common Stock so purchased to pay for the exercise price and whereby the NASD Dealer commits upon receipt of such shares of Common Stock from the Company in order to complete the Optionee's trade, to forward the exercise price, received by the NASD Dealer as a result of the trade executed on the same-day as the receipt of the Shares from the Company, directly to the Company; (ii) if a public market for that

class of Common Stock exists, through a "margin" commitment from the Optionee and an NASD Dealer whereby the Optionee elects to exercise the Stock Option and to pledge the shares of Common Stock so purchased to the NASD Dealer in a margin account as security for a loan from the NASD Dealer in the amount of the exercise price, and whereby the NASD Dealer commits upon receipt of such shares of Common Stock to forward the exercise price directly to the Company; (iii) by surrender for cancellation of Qualifying Shares at the Fair Market Value per share at the time of exercise (provided that such surrender does not result in an accounting charge for the Company); (iv) where approved by the Committee at the time of exercise, pursuant to Section 3.2(v) of the Plan, by delivery of the Optionee's promissory note with such recourse, interest, security, redemption and other provisions as the Committee may require, provided that the par value of each of the shares of Common Stock to be purchased is paid for in cash; or (v) in any other form of valid consideration that is acceptable to the Committee in its sole discretion. No shares of Common Stock may be issued until arrangements for the full payment of the purchase price therefor has been made. The

payment options provided in Section 6.6(a)(i), (ii), or (iv) above shall not be available to any Optionee who is a Director or executive officer of the Company or any Affiliate if such payment option would be treated as a personal loan prohibited under Section 13(k) of the Exchange Act.

(b) If, as permitted in the option agreement or by the Committee, an Optionee delivers Shares already owned by the Optionee in full or partial payment of the exercise price for any Stock Option or the Optionee elects to have the Company retain that number of Shares out of the Shares being acquired through the exercise of the Stock Option having a Fair Market Value equal to the exercise price of the Stock Option being exercised, the Committee may, in its sole discretion, authorize the grant of a new Stock Option (a "Reload Option") for that number of Shares equal to the number of already owned Shares surrendered or newly acquired Shares being retained by the Company in payment of the option exercise price of the underlying Stock Option being exercised. The grant of a Reload Option will become effective upon the exercise of the underlying Stock Option. The option exercise price of the Reload Option shall be the Fair Market Value of a Share on the effective date of the grant of the Reload Option. Each Reload Option shall be exercisable no later than the time when the underlying stock option being exercised could be last exercised. The Committee may also specify additional terms, conditions and restrictions for the Reload Option and the Shares to be acquired upon the exercise thereof.

(c) An Optionee shall not have any of the rights of a shareholder of the Company with respect to the Shares subject to a Stock Option except to the extent that such Stock Option is exercised and one or more certificates representing such Shares shall have been delivered to the Optionee.

6.7 *First Refusal Rights*. Until such time as the Common Stock is first registered under Section 12 of the Exchange Act, the Company shall have the right of first refusal with respect to any proposed disposition by the Optionee (or any successor in interest) of any Shares issued under the Plan. Such right of first refusal shall be exercisable in accordance with the terms established by the Committee.

ARTICLE 7
STOCK APPRECIATION RIGHTS

7.1 *Grants.* The Committee or the Board may grant to any eligible Consultant, non-employee Director or Employee of the Company or a Subsidiary a stand-alone Stock Appreciation Right or a Stock Appreciation Right issued in tandem with a Stock Option. Stock Appreciation Rights shall be subject to such terms and conditions as the Committee or the Board shall impose. The grant of the Stock Appreciation Right may provide that the holder will be paid for the value of the Stock Appreciation Right either in cash or in Shares, or a combination thereof, at the sole discretion of the Committee or the Board. In the event of the exercise of a Stock Appreciation Right payable in Shares, the holder of the Stock Appreciation Right shall receive that number of whole Shares having an aggregate Fair Market Value on the date of exercise equal to the value obtained by multiplying (i) either (a) in the case of a Stock Appreciation Right issued in tandem with a Stock

Option, the difference between the Fair Market Value of a Share on the date of exercise over the exercise price per share of the related Stock Option, or (b) in the case of a stand-alone Stock Appreciation Right, the difference between the Fair Market Value of a Share on the date of exercise over the Fair Market Value of a Share on the date of the grant of the Stock Appreciation Right by (ii) the number of Shares with respect to which the Stock Appreciation Right is exercised. However, notwithstanding the foregoing, the Committee or the Board, in its sole discretion, may place a ceiling on the amount payable upon exercise of a Stock Appreciation Right, but any such limitation shall be specified at the time that the Stock Appreciation Right is granted.

7.2 *Exercisability.* A Stock Appreciation Right granted in tandem with an Incentive Stock Option (i) may be exercised at, and only at, the times and to the extent the related Incentive Stock Option is exercisable, (ii) will expire upon the termination or expiration of the related Incentive Stock Option, (iii) may not result in a Participant realizing more than 100% of the difference between the exercise price of the related Incentive Stock Option and the Fair Market Value of the Shares subject to the related Incentive Stock Option at the time the Stock Appreciation Right is exercised, and (iv) may be exercised at, and only at, such times as the Fair Market Value of the Shares subject to the related Incentive Stock Option exceeds the exercise price of the related Incentive Stock Option. A Stock Appreciation Right granted in tandem with a Non-Qualified Stock Option will be exercisable as provided by the Committee or the Board and will have such other terms and conditions as the Committee or the Board may determine. A Stock Appreciation Right may be transferred at, and only at, the times and to the extent the related Stock Option is transferable. If a Stock Appreciation Right is granted in tandem with a Stock Option, there shall be surrendered and cancelled from the related Stock Option at the time of exercise of the Stock Appreciation Right, in lieu of exercise pursuant to the related Stock Option, that number of Shares as shall equal the number of Shares as to which the tandem Stock Appreciation Right shall have been exercised.

7.3 *Certain Limitations on Non-Tandem Stock Appreciation Rights.* A stand-alone Stock Appreciation Right will be exercisable as provided by the Committee or the Board and will have such other terms and conditions as the Committee or the Board may determine. A stand-alone Stock Appreciation Right is subject to acceleration of vesting or immediate termination in certain circumstances in the same manner as Stock Options pursuant to Subsections 6.4 and 6.5 of this Plan.

7.4 *Limited Stock Appreciation Rights.* The Committee and the Board may grant Stock Appreciation Rights which will become exercisable only upon the occurrence of a Change in Control or such other event as the Committee or the Board may designate at the time of grant or thereafter. Such a Stock Appreciation Right may be issued either as a stand-alone Stock Appreciation Right or in tandem with a Stock Option.

ARTICLE 8
RESTRICTED STOCK

8.1 *Grants.* The Committee may grant Awards of Restricted Stock to any eligible Consultant, non-employee Director or employee of the Company or a Subsidiary for such minimum consideration, if any, as may be required by applicable law or such greater consideration as may be determined by the Committee, in its sole discretion. The terms and conditions of the Restricted

Stock shall be specified by the grant agreement. The Committee, in its sole discretion, may specify any particular rights which the Participant to whom a grant of Restricted Stock is made shall have in the Restricted Stock during the restriction period and the restrictions applicable to the particular Award, the vesting schedule (which may be based on service, performance or other factors) and rights to acceleration of vesting (including, without limitation, whether non-vested Shares are forfeited or vested upon termination of employment). Further, the Committee may grant performance-based Awards consisting of Restricted Stock by conditioning the grant, or vesting or such other factors, such as the release, expiration or lapse of restrictions upon any such Award (including the acceleration of any such conditions or terms) of such Restricted Stock upon the attainment of specified performance goals or such other factors as the Committee may determine. The Committee shall also determine when the restrictions shall lapse or expire and the conditions, if any, pursuant to which the Restricted Stock will be forfeited or sold back to the Company. Each Award of Restricted Stock may have different restrictions and conditions. Unless otherwise set forth in the grant agreement, Restricted Stock may not be sold, pledged, encumbered or otherwise disposed of by the recipient until the restrictions specified in the Award expire. Awards of Restricted Stock are subject to acceleration of vesting, termination of restrictions and termination in the same manner as Stock Options pursuant to Subsections 6.4 and 6.5 of this Plan.

8.2 *Awards and Certificates.* Any Restricted Stock issued hereunder may be evidenced in such manner as the Committee, in its sole discretion, shall deem appropriate including, without limitation, book-entry registration or issuance of a stock certificate or certificates. In the event any stock certificate is issued in respect of Shares of Restricted Stock, such certificate shall bear an appropriate legend with respect to the restrictions applicable to such Award. The Company may retain, at its option, the physical custody of any stock certificate representing any awards of Restricted Stock during the restriction period or require that the certificates evidencing Restricted Stock be placed in escrow or trust, along with a stock power endorsed in blank, until all restrictions are removed or expire.

ARTICLE 9
PERFORMANCE AWARDS

9.1 *Grants.* A Performance Award may consist of either or both, as the Committee may determine, of (i) the right to receive Shares or Restricted Stock, or any combination thereof as the Committee may determine or (ii) the right to receive a fixed dollar amount payable in Shares, Restricted Stock, cash or any combination thereof, as the Committee may determine. The Committee may grant Performance Awards to any eligible Consultant, non-employee Director or employee of the Company or a Subsidiary, for such minimum consideration, if any, as may be required by applicable law or such greater consideration as may be determined by the Committee, in its sole discretion. The terms and conditions of Performance Awards shall be specified at the time of the grant and may include provisions establishing the performance period, the performance criteria to be achieved during a performance period, the criteria used to determine vesting (including the acceleration thereof), whether Performance Awards are forfeited or vest upon termination of employment during a performance period and the maximum or minimum settlement values. Each Performance Award shall have its own terms and conditions, which shall be determined in the sole

discretion of the Committee. If the Committee determines, in its sole discretion, that the established performance measures or objectives are no longer suitable because of a change in the Company's business, operations, corporate structure or for other reasons that the Committee deems satisfactory, the Committee may modify the performance measures or objectives and/or the performance period. Performance Awards are subject to acceleration of vesting, termination of restrictions and termination in the same manner as Stock Options pursuant to Subsections 6.4 and 6.5 of this Plan.

9.2 *Terms and Conditions.* Performance Awards may be valued by reference to the Fair Market Value of a Share or according to any other formula or method deemed appropriate by the Committee, in its sole discretion, including, but not limited to, achievement of specific financial, production, sales, cost or earnings performance objectives that the Committee believes to be relevant or the Company's performance or the performance of the Shares measured against the performance of the market, the Company's industry segment or its direct competitors. Performance Awards may also be conditioned upon the applicable Participant remaining in the employ of the Company or one of its Subsidiaries for a specified period. Performance Awards may be paid in cash, Shares (including Restricted Stock) or other consideration, or any combination thereof. Performance Awards may be payable in a single payment or in installments and may be payable at a specified date or dates or upon attaining the performance objective or objectives, all at the sole discretion of the Committee. The extent to which any applicable performance objective has been achieved shall be conclusively determined by the Committee in its sole discretion.

ARTICLE 10
OTHER AWARDS

The Committee may grant to any eligible Consultant, non-employee Director or Employee of the Company or a Subsidiary other forms of Awards based upon, payable in or otherwise related to, in whole or in part, Shares, if the Committee, in its sole discretion, determines that such other form of Award is consistent with the purposes of this Plan. The terms and conditions of such other form of Award shall be specified in a written agreement which sets forth the terms and conditions of such Award, including, but not limited to, the price, if any, and the vesting schedule, if any, of such Award. Such Awards may be granted for such minimum consideration, if any, as may be required by applicable law or for such other greater consideration as may be determined by the Committee, in its sole discretion.

ARTICLE 11
COMPLIANCE WITH SECURITIES AND OTHER LAWS

As a condition to the issuance or transfer of any Award or any security issuable in connection with such Award, the Company may require an opinion of counsel, satisfactory to the Company, to the effect that (i) such issuance and/or transfer will not be in violation of the Securities Act or any other applicable securities laws and (ii) such issuance and/or transfer will not be in violation of the rules and regulations of any securities exchange or automated quotation system on which the Shares are listed or admitted to trading. Further, the Company may refrain from issuing, delivering or transferring any Award or any security issuable in connection with such Award until the Committee has determined that such issuance, delivery or transfer will not violate such securities laws or rules

and regulations and that either the recipient has tendered to the Company, or the Company or a Subsidiary has withheld, any federal, state or local tax owed as a result of such issuance, delivery or transfer, when the Company has a legal liability to satisfy such tax. The Company shall not be liable for damages due to delay in the issuance, delivery or transfer of any Award or any security issuable in connection with such Award or any agreement, instrument or certificate evidencing such Award or security for any reason whatsoever, including, but not limited to, a delay caused by the listing requirements of any securities exchange or automated quotation system or any registration requirements under the Securities Act, the Exchange Act, or under any other state or federal law, rule or regulation. The Company is under no obligation to take any action or incur any expense to register or qualify the issuance, delivery or transfer of any Award or any security issuable in connection with such Award under applicable securities laws or to perfect any exemption from such registration or qualification or to list any security on any securities exchange or automated quotation system. Furthermore, the Company will have no liability to any person for refusing to issue, deliver or transfer any Award or any security issuable in connection with such Award if such refusal is based upon the foregoing provisions of this ARTICLE 11. As a condition to any issuance, delivery or transfer of any Award or any security issuable in connection with such Award, the Company may place legends on any agreement, instrument or certificate evidencing such Award or security, issue stop transfer orders with respect thereto and require such agreements or undertakings as the Company may deem necessary or advisable to assure compliance with applicable laws or regulations, including, if the Company or its counsel deems it appropriate, representations from the recipient of such Award or security to the effect that such recipient is acquiring such Award or security solely for investment and not with a view to distribution and that no distribution of the Award or the security will be made unless registered pursuant to applicable federal and state securities laws, or in the opinion of counsel to the Company, such registration is unnecessary.

ARTICLE 12
ADJUSTMENTS UPON THE OCCURRENCE OF A RECAPITALIZATION OR CORPORATE TRANSACTION

12.1 In the event of a Recapitalization, the number and class of Shares subject to this Plan and to each outstanding Award, and the exercise price of each Award which is based upon Shares, shall (to the extent deemed appropriate by the Committee) be proportionately adjusted (as determined by the Committee in its sole discretion) to account for any increase or decrease in the number, or change in the class, of issued and outstanding Shares of the Company resulting from such Recapitalization.

12.2 If a Corporate Transaction is consummated and immediately following the consummation of such Corporate Transaction the Persons who were holders of Shares immediately prior to the consummation of such Corporate Transaction do not receive any securities or other property (hereinafter collectively referred to as "Transactional Consideration") as a result of such Corporate Transaction and substantially all of such Persons continue to hold the Shares held by them immediately prior to the consummation of such Corporate Transaction (in substantially the same proportions relative to each other), the Awards will remain outstanding and will (subject to, and except as provided in, the other provisions of this Plan and the Award agreement) continue in full

force and effect in accordance with its terms (without any modification) following the consummation of the Corporate Transaction.

12.3 If a Corporate Transaction is consummated and immediately following the consummation of such Corporate Transaction the Persons who were holders of Shares immediately prior to the consummation of such Corporate Transaction do receive Transactional Consideration as a result of such Corporate Transaction or substantially all of such Persons do not continue to hold the Shares held by them immediately prior to the consummation of such Corporate Transaction (in substantially the same proportions relative to each other), the terms and conditions of the Awards will be modified as follows:

(a) If the documentation pursuant to which a Corporate Transaction will be consummated provides for the assumption (by the entity issuing Transactional Consideration to the Persons who were the holders of Shares immediately prior to the consummation of such Corporate Transaction) of the Awards granted pursuant to this Plan without any modification or amendment (other than Permitted Modifications), such Awards will remain outstanding and will continue in full force and effect in accordance with its terms following the consummation of such Corporate Transaction (subject to such Permitted Modifications).

(b) If the documentation pursuant to which a Corporate Transaction will be consummated does not provide for the assumption by the entity issuing Transactional Consideration to the Persons who were the holders of Shares immediately prior to the consummation of such Corporate Transaction of the Awards granted pursuant to this Plan without any modification or amendment (other than Permitted Modifications), all vesting restrictions (performance based or otherwise) applicable to Awards which will not be so assumed will accelerate and the holders of such Awards may (subject to the expiration of the term of such Awards) exercise/receive the benefits of such Awards without regard to such vesting restrictions during the ten (10) day period immediately preceding the consummation of such Corporate Transaction. For purposes of the immediately preceding sentence, all performance based goals will be deemed to have been satisfied in full. The Company will provide each Participant holding Awards which will not be so assumed with reasonable notice of the termination of such vesting restrictions and the impending termination of such Awards. Upon the consummation of such a Corporate Transaction, all unexercised Awards which are not to be so assumed will automatically terminate and cease to be outstanding.

12.4 Upon the implementation of any reverse stock split in connection with the initial public offering of the Company's common stock, the maximum number of shares that may be issued with respect to awards granted or to be granted pursuant to the Plan shall remain at 1,500,000 following such reverse stock split, notwithstanding adjustments following such implementation to the number of shares of the Company then outstanding or subject to issuance upon exercise of outstanding options.

Nothing contained in this ARTICLE 12 will be deemed to extend the term of an Award or to revive any Award which has previously lapsed or been canceled, terminated or surrendered.

ARTICLE 13
AMENDMENT OR TERMINATION OF THIS PLAN

13.1 *Amendment of This Plan.* Notwithstanding anything contained in this Plan to the contrary, all provisions of this Plan (including, without limitation, the maximum number of Shares that may be issued with respect to Awards to be granted pursuant to this Plan) may at any time or from time to time be modified or amended by the Board; provided, however, that no Award at any time outstanding pursuant to this Plan may be modified, impaired or canceled adversely to the holder of the Award without the consent of such holder.

13.2 *Termination of This Plan.* The Board may suspend or terminate this Plan at any time, and such suspension or termination may be retroactive or prospective. Termination of this Plan shall not impair or affect any Award previously granted hereunder and the rights of the holder of the Award shall remain in effect until the Award has been exercised in its entirety or has expired or otherwise has been terminated by the terms of such Award.

ARTICLE 14
AMENDMENTS AND ADJUSTMENTS TO AWARDS

The Committee may amend, modify or terminate any outstanding Award with the Participant's consent at any time prior to payment or exercise in any manner not inconsistent with the terms of this Plan, including, without limitation, (i) to change the date or dates as of which and/or the terms and conditions pursuant to which (A) a Stock Option becomes exercisable or (B) a Performance Award is deemed earned, (ii) to amend the terms of any outstanding Award to provide an exercise price per share which is higher or lower than the then current exercise price per share of such outstanding Award or (iii) to cancel an Award and grant a new Award in substitution therefor under such different terms and conditions as the Committee determines in its sole discretion to be appropriate including, but not limited to, having an exercise price per share which may be higher or lower than the exercise price per share of the canceled Award. The Committee may also make adjustments in the terms and conditions of, and the criteria included in agreements evidencing Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in ARTICLE 12 hereof) affecting the Company, or the financial statements of the Company or any Affiliate, or of changes in applicable laws, regulations or accounting principles, whenever the Committee determines that such adjustments are appropriate to prevent reduction or enlargement of the benefits or potential benefits intended to be made available pursuant to this Plan.

ARTICLE 15
GENERAL PROVISIONS

15.1 *No Limit on Other Compensation Arrangements.* Nothing contained in this Plan shall prevent the Company from adopting or continuing in effect other compensation arrangements, and such arrangements may be either generally applicable or applicable only in specific cases. This Plan shall not affect any other stock option, incentive, or other compensation or benefit plan of the Company or any Subsidiary, except as may be expressly provided therein.

15.2 *Other Awards.* The grant of an Award shall not confer upon the recipient the right to receive any future or other Awards under this Plan or any other plans of the Company or any Subsidiary, whether or not any awards may be granted to similarly situated Employees, or the right to receive future Awards upon the same terms or conditions as previously granted.

15.3 *No Right to Employment or Continuation of Relationship.* Nothing in this Plan or in any Award, nor the grant of any Award, shall confer upon or be construed as giving any Participant any right to remain in the employ of the Company or a Subsidiary or to continue as a Consultant or non-employee Director. Further, the Company or a Subsidiary may at any time dismiss a Participant from emp1oyment or terminate the relationship of any Consultant or non-employee Director with the Company or any Subsidiary, free from any liability or any claim pursuant to this Plan. No Consultant, non-employee Director or Employee of the Company or any Subsidiary shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of any Consultant, non-employee Director or Employee of the Company or any Subsidiary or of any Participants.

15.4 *Governing Law*. The validity, construction and effect of this Plan and any rules and regulations relating to this Plan shall be determined in accordance with the laws of the State of Texas, without giving effect to the conflict of laws principles thereof.

15.5 *Severability.* If any provision of this Plan or any Award is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or as to any individual or Award, or would disqualify this Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable law, or if it cannot be construed or deemed amended without, in the sole determination of the Committee, materially altering the intent of this Plan or the Award, such provision shall be stricken as to such jurisdiction, individual or Award and the remainder of this Plan and any such Award shall remain in full force and effect.

15.6 *No Fractional Shares.* No fractional Shares shall be issued or delivered pursuant to this Plan or any Award, and the Committee shall determine, in its sole discretion, whether cash, other securities or other property shall be paid or transferred in lieu of any fractional Shares or whether such fractional Shares or any rights thereto shall be canceled, terminated or otherwise eliminated.

15.7 *Headings.* Headings are given to the ARTICLEs and Subsections of this Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of this Plan or any provision thereof.

15.8 *Gender.* If the context requires, words of one gender when used in this Plan shall include the others and words used in the singular shall include the plural, and vice versa.

15.9 *Transferability of Awards.* Awards shall not be transferable otherwise than by will or the laws of descent and distribution without the written consent of the Committee (which may be granted or withheld at the sole discretion of the Committee). Awards may be exercised, during the lifetime of the holder, only by the holder. Any attempted assignment, transfer, pledge, hypothecation

or other disposition of an Award contrary to the provisions hereof, or the levy of any execution, attachment or similar process upon an Award shall be null and void and without effect.

15.10 *Code Section 83(b) Elections*. The Company, its Subsidiaries and Affiliated Entities have no responsibility for a Participant's election, attempt to elect or failure to elect to include the value of an Award subject to Section 83 in the Participant's gross income for the year of grant pursuant to Section 83(b) of the Code. Any Participant who makes an election pursuant to Section 83(b) will promptly provide the Committee with a copy of the election form.

15.11 *Code Section 162(m).* It is the intent of the Company that the Plan comply in all respects with Section 162(m) of the Code and that any ambiguities or inconsistencies in construction of the Plan be interpreted to give effect to such intention. If the Committee intends for a Performance Award or the Award of Restricted Stock Award to be granted and administered in a manner designed to preserve the deductibility of the resulting compensation in accordance with Section 162(m) of the Code, then the Performance Measure selected, the Performance Goal in terms of an objective formula or standard pursuant to which a

third party with knowledge of the relevant performance results could calculate the amount to be paid, the maximum number of Shares that may be awarded, within the limit described in Section 4.2 hereof, and the Performance Period applicable to such Award shall be established in writing by the Committee no later than the earlier of (i) 90 days after the commencement of the relevant Performance Period and (ii) the date as of which 25% of the Performance Period has elapsed. At the time a Performance Goal is established, its outcome must be substantially uncertain. The Committee's discretion to modify or waive the Performance Goal related to the vesting of the Award may be restricted in order to comply with Section 162(m) of the Code.

15.12 *Code Section 409A*. It is the intent of the Company that no Award under the Plan be subject to Section 409A of the Code. The Committee shall design and administer the Awards under the Plan so that they are not subject to Section 409A of the Code.

15.13 *Compliance With Other Laws and Regulations*. Notwithstanding anything contained herein to the contrary, the Company shall not be required to sell or issue shares of Common Stock under any Award if the issuance thereof would constitute a violation by the Participant or the Company of any provisions of any law or regulation of any governmental authority or any national securities exchange or inter-dealer quotation system or other forum in which shares of Common Stock are quoted or traded (including without limitation Section 16 of the 1934 Act and Section 162(m) of the Code); and, as a condition of any sale or issuance of Shares under an Award, the Committee may require such agreements or undertakings, if any, as the Committee may deem necessary or advisable to assure compliance with any such law or regulation. The Plan, the grant and exercise of an Award hereunder, and the obligation of the Company to sell and deliver Shares, shall be subject to all applicable federal and state laws, rules and regulations and to such approvals by any government or regulatory agency as may be required.

15.14 Tax Requirements.

(a) Whenever Shares are to be issued under an Award of Restricted Stock or a Performance Award, or pursuant to the exercise of a Stock Option or Stock Appreciation Right, or other Award or cash is to be paid pursuant to the terms of the Plan, under

circumstances in which the Company, or its designee, believes that any federal, state or local tax withholding may be imposed, the Company or Subsidiary, as the case may be, shall have the right to require the Participant to remit to the Company or Subsidiary, as the case may be, an amount sufficient to satisfy the minimum federal, state and local tax withholding requirements prior to the electronic transfer of ownership, the delivery of any certificate for Shares, if applicable, or any proceeds; provided, however, that in the case of a Participant who receives an Award of Restricted Stock or a Performance Award under the Plan which remains subject to forfeiture restrictions or is not fully vested, the Participant shall remit such amount on the first business day following the Tax Date. The "Tax Date" for purposes of this Section 15.14 shall be the date on which the amount of tax to be withheld is determined. If a Participant makes a disposition of Common Stock acquired upon the exercise of an Incentive Stock Option within either two years after the Stock Option was granted or one year after its exercise by the Participant, the Participant shall promptly notify the Company and the Company shall have the right to require the Participant to pay to the Company an amount sufficient to satisfy federal, state and local tax withholding requirements.

(b) A Participant who is obligated to pay the Company an amount required to be withheld under applicable tax withholding requirements may pay such amount (i) in cash; (ii) in the discretion of the Committee, or its designee, through the delivery to the Company of previously-owned Shares having an aggregate Fair Market Value on the Tax Date equal to the tax obligation provided that the previously owned Shares delivered in satisfaction of the withholding obligations must have been held by the Participant for at least six (6) months; (iii) in the discretion of the Company, or its designee, through the Company's withholding Shares otherwise issuable to the Participant having a Fair Market Value on the Tax Date equal to the amount of tax required to be withheld, or (iv) in the discretion of the Committee, or its designee, through a combination of the procedures set forth in subsections (i), (ii) and (iii) of this Section 15.14(b).

15.15 ***Transferability of Awards.***

(a) Other than pursuant to a valid qualified domestic relations order as defined in section 414(p) of the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), as provided in paragraph (b) of this Section 16.13, below, Incentive Stock Options may not be transferred or assigned other than by will or the laws of descent and distribution and may be exercised during the lifetime of the Participant only by the Participant or the Participant's legally authorized representative, and each Award agreement in respect of an Incentive Stock Option shall so provide. The designation by a Participant of a Beneficiary will not constitute a transfer of the Stock Option. The Committee may waive or modify any limitation contained in the preceding sentences of this Section 15.14 that is not required for compliance with Section 422 of the Code. The Committee may, in its discretion, authorize all or a portion of a Non-Qualified Stock Option or SAR to be granted to a Participant to be on terms which permit transfer by such Participant to (i) the spouse, children or grandchildren of the Participant ("Immediate Family Members"), (ii) a trust or trusts for the exclusive benefit of such Immediate Family Members, or (iii) a partnership in which such Immediate Family Members are the only partners, (iv) an

entity exempt from federal income tax pursuant to Section 501(c)(3) of the Code or any successor provision, or (v) a split interest trust or pooled income fund described in Section 2522(c)(2) of the Code or any successor provision, provided that (w) there shall be no consideration for any such transfer, (x) the Award Agreement pursuant to which such Non-Qualified Stock Option or SAR is granted must be approved by the Committee and must expressly provided for transferability in a manner consistent with this Section, (y) no such transfer shall be permitted if the Common Stock issuable under such transferred Stock Option would not be eligible to be registered on Form S-8 promulgated under the Securities Act, and (z) subsequent transfers of transferred Non-Qualified Stock Options or Stock Appreciation Rights shall be prohibited except those by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined in the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended. Following transfer, any such Non-Qualified Stock Option and SAR shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, provided that for purposes of Section 6.6 or Section 7, as applicable, and Articles 12, 13, 14, and 15 hereof the term "Participant" shall be deemed to include the transferee. The events of a termination of service shall continue to be applied with respect to the original Participant, following which the Non-Qualified Stock Options and Stock Appreciation Rights shall be exercisable by the transferee only to the extent and for the periods specified in the original Award agreement and applicable to the Participant. The Committee and the Company shall have no obligation to inform any transferee of a Non-Qualified Stock Option or SAR of any expiration, termination, lapse or acceleration of such Option. The Company shall have no obligation to register with any federal or state securities commission or agency any Common Stock issuable or issued under a Non-Qualified Stock Option or SAR that has been transferred by a Participant under this Section 15.15.

(b) Notwithstanding the foregoing, Options and such other Awards as the Committee may determine may be transferred pursuant to a valid qualified domestic relations order as defined in section 414(p) of the Code or Title I of ERISA pursuant to which a court has determined, in connection with a divorce proceeding, that a spouse or former spouse of a Participant has an interest in the Participant's Award under the Plan. Any Incentive Stock Option transferred pursuant to this Section 16.13 shall cease to be an Incentive Stock Option on the date of such transfer and shall be treated for all purposes as a Non-Qualified Stock Option in the hands of the transferee. Following any such transfer each Award transferred shall continue to be subject to the same terms and conditions of the Plan and the Award agreement applicable to the Award immediately prior to transfer, provided that for all purposes under the Plan the term "Participant" shall be deemed to include the transferee. The effect a termination of Service shall have on the exercisability of an Award with respect to the original Participant shall continue to apply to a transferee after a transfer pursuant to this Section 6(e), so that the Award transferred shall be exercisable by the transferee only to the extent and for the periods specified in the Plan, unless different periods are otherwise provided in a Participant's original Award agreement. The Committee and the Company shall have no obligation to inform any transferee of an Award of any expiration, termination, lapse or acceleration of such Award. The Company shall have no obligation to register with

any federal or state securities commission or agency any Stock issuable or issued under an Award that has been transferred pursuant to this Section 15.15.

15.16 *Rights of Participants.* Except as hereinbefore expressly provided in this Plan, any Person to whom an Award is granted shall have no rights by reason of any subdivision or consolidation of stock of any class or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class or by reason of any dissolution, liquidation, reorganization, merger or consolidation or spinoff of assets or stock of another corporation, and any issue by the Company of shares of stock of any class or securities convertible into shares of stock of any class shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or exercise price of Shares subject to an Award.

15.17 *No Limitation Upon the Rights of the Company.* The grant of an Award pursuant to this Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, or changes of its capital or business structure; to merge, convert or consolidate; to dissolve or liquidate; or sell or transfer all or any part of its business or assets.

15.18 *Date of Grant of an Award.* Except as noted in this ARTICLE 15.18, the granting of an Award shall take place only upon the execution and delivery by the Company and the Participant of a written agreement and neither any other action taken by the Committee nor anything contained in this Plan or in any resolution adopted or to be adopted by the Committee, the Board or the shareholders of the Company shall constitute the granting of an Award pursuant to this Plan. Solely for purposes of determining the Fair Market Value of the Shares subject to an Award, such Award will be deemed to have been granted as of the date specified by the Committee notwithstanding any delay which may elapse in executing and delivering the applicable agreement.

15.19 *Effective Date.* The provisions of this Plan that relate to the grant of Incentive Stock Options shall be effective as of the date of the approval of this Plan by the shareholders of the Company. All other provisions of this Plan shall be effective as of the Effective Date.

15.20 *Other Laws.* The Company shall not be obligated to issue any Shares pursuant to any Award granted under the Plan at any time when the offering of the Shares covered by such Award is not either (I) registered under the Securities Act of 1933 and such other state and federal laws, rules or regulations as the Company or the Committee deems applicable or (ii) exempt from the registration requirements of such laws, rules or regulations available for the issuance and sale of such shares.

APPLIED OPTOELECTRONICS, INC.

UNITED COMMERCIAL BANK

AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

This AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT (the "Agreement") is effective as of May 20, 2009, by and between United Commercial Bank ("Bank") and Applied Optoelectronics, Inc., a Texas corporation ("Borrower").

RECITALS

Bank and Borrower are parties to that certain Loan and Security Agreement, dated as of September 6, 2007, as amended as amended from time to time (the "Original Agreement"). Borrower and Bank wish to amend and restate the terms of the Original Agreement. This Agreement sets forth the terms on which Bank will advance credit to Borrower and Borrower will repay the amounts owing to Bank.

AGREEMENT

The parties agree as follows:

1. DEFINITIONS AND CONSTRUCTION.

1.1 Definitions. As used in this Agreement, all capitalized terms shall have the following definitions:

"Accounts" means all presently existing and hereafter arising accounts, contract rights, payment intangibles and all other forms of obligations owing to Borrower arising out of the sale or lease of goods (including, without limitation, the licensing of software and other technology) or the rendering of services by Borrower and any and all credit insurance, guaranties, and other security therefor, as well as all merchandise returned to or reclaimed by Borrower and Borrower's Books relating to any of the foregoing.

"Advance" or "Advances" means a cash advance or cash advances under the Revolving Line.

"Affiliate" means, with respect to any Person, any Person that owns or controls directly or indirectly such Person, any Person that controls or is controlled by or is under common control with such Person, and each of such Person's senior executive officers, directors, and partners.

"Bank Expenses" means all reasonable costs or expenses (including reasonable attorneys' fees and expenses, whether generated in-house or by outside counsel) incurred in connection with the preparation, negotiation, administration, and enforcement of the Loan Documents; reasonable Collateral audit fees; and Bank's reasonable attorneys' fees and expenses (whether generated in-house or by outside counsel) incurred in amending, enforcing or defending the Loan Documents (including fees and expenses of appeal), incurred before, during and after an Insolvency Proceeding, whether or not suit is brought.

"Borrower Agreement" means the Export-Import Bank of the United States Revolving Guarantee Program Borrower Agreement of even date between Bank and Borrower.

"Borrower's Books" means all of Borrower's books and records including: ledgers; records concerning Borrower's assets or liabilities, the Collateral, business operations or financial condition; and all computer programs, or tape files, and the equipment, containing such information.

"Business Day" means any day that is not a Saturday, Sunday, or other day on which banks in the State of California are authorized or required to close.

"Cash" means unrestricted cash and cash equivalents.

"Change in Control" shall mean a transaction in which any "person" or "group" (within the meaning of Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934) becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of a sufficient number of shares of all

classes of stock then outstanding of Borrower ordinarily entitled to vote in the election of directors, empowering such "person" or "group" to elect a majority of the Board of Directors of Borrower, who did not have such power before such transaction.

"Closing Date" means the date of this Agreement.

"Code" means the California Uniform Commercial Code as amended or supplemented from time to time.

"Collateral" means the property described on **Exhibit A** attached hereto and all Negotiable Collateral and Intellectual Property Collateral to the extent not described on **Exhibit A**, except to the extent any such property (i) is nonassignable by its terms without the consent of the licensor thereof or another party (but only to the extent such prohibition on transfer is enforceable under applicable law, including, without limitation, Sections 9406 and 9408 of the Code), (ii) the granting of a security interest therein is contrary to applicable law, provided that upon the cessation of any such restriction or prohibition, such property shall automatically become part of the Collateral, or (iii) constitutes the capital stock of a controlled foreign corporation (as defined in the IRC), in excess of 65% of the voting power of all classes of capital stock of such controlled foreign corporations entitled to vote.

"Contingent Obligation" means, as applied to any Person, any direct or indirect liability, contingent or otherwise, of that Person with respect to (i) any indebtedness, lease, dividend, letter of credit or other obligation of another, including, without limitation, any such obligation directly or indirectly guaranteed,

endorsed, co-made or discounted or sold with recourse by that Person, or in respect of which that Person is otherwise directly or indirectly liable; (ii) any obligations with respect to undrawn letters of credit, corporate credit cards or merchant services issued for the account of that Person; and (iii) all obligations arising under any interest rate, currency or commodity swap agreement, interest rate cap agreement, interest rate collar agreement, or other agreement or arrangement designed to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; provided, however, that the term "Contingent Obligation" shall not include endorsements for collection or deposit in the ordinary course of business. The amount of any Contingent Obligation shall be deemed to be an amount equal to the stated or determined amount of the primary obligation in respect of which such Contingent Obligation is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by such Person in good faith; provided, however, that such amount shall not in any event exceed the maximum amount of the obligations under the guarantee or other support arrangement.

"Copyrights" means any and all copyright rights, copyright applications, copyright registrations and like protections in each work or authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret, now or hereafter existing, created, acquired or held.

"Credit Extension" means each Advance, Equipment Advance, Real Estate Advance, EXIM Advance, or any other extension of credit by Bank to or for the benefit of Borrower hereunder.

"Current Assets" means, as of any applicable date, all amounts that should, in accordance with GAAP, be included as current assets on the consolidated balance sheet of Borrower and its Subsidiaries as at such date.

"Current Liabilities" means, as of any applicable date, all amounts that should, in accordance with GAAP, be included as current liabilities on the consolidated balance sheet of Borrower and its Subsidiaries, as at such date. Notwithstanding the foregoing, if the credit extensions issued by Bank's affiliate entity in China to Global Technology, Inc. is (a) collateralized by real estate owned by Global Technology, Inc. and (b) such credit extension(s) has a maturity of less than one year, then only one-third of the total credit extensions issued to Global Technology, Inc. shall be included in "Current Liabilities."

"Current Ratio" means a ratio of Current Assets to Current Liabilities.

"Domestic Borrowing Base" means an amount equal to 80% of Eligible Accounts plus the lesser of 30% of Eligible Inventory or $1,000,000, as determined by Bank with reference to the most recent Borrowing Base Certificate delivered by Borrower. Notwithstanding the foregoing, Eligible Inventory shall not exceed 50% of the total Domestic Borrowing Base.

"EBITDASO" means earnings before interest, taxes, depreciation amortization and stock option expenses.

"Economic Impact Certification" means the Economic Impact Certification as defined in the Borrower Agreement.

"Eligible Accounts" means those Accounts that arise in the ordinary course of Borrower's business that comply with all of Borrower's representations and warranties to Bank set forth in Section 5.16; provided, that Bank may change the standards of eligibility by giving Borrower 30 days prior written notice. Unless otherwise agreed to by Bank, Eligible Accounts shall not include the following:

(a) Accounts that the account debtor has failed to pay in full within 90 days of invoice date, unless such Accounts are backed by credit insurance in form and substance satisfactory to Bank, in which case such Accounts shall be excluded from Eligible Accounts if the account debtor has failed to pay in full within the "eligible claim days" as set forth in the applicable credit insurance agreement(s);

(b) Accounts with respect to an account debtor, 50% of whose Accounts the account debtor has failed to pay (i) within 90 days of invoice date or (ii) has failed to pay within the "eligible claim days" as set forth in the applicable credit insurance agreement(s) for any such Accounts that are backed by credit insurance in form and substance satisfactory to Bank

(c) Accounts with respect to an account debtor, including Subsidiaries and Affiliates, whose total obligations to Borrower exceed twenty five percent (25%) of all Accounts (the "Concentration Limit"), to the extent such obligations exceed the aforementioned percentage, except as approved in writing by Bank and except that the Concentration Limit for Accounts with respect to which the account debtor is Cisco/SA shall be forty percent (40%);

(d) Accounts with respect to which the account debtor does not have its principal place of business in the United States, except for Eligible Foreign Accounts;

(e) Accounts with respect to which the account debtor is the United States or any department, agency, or instrumentality of the United States;

(f) Accounts with respect to which Borrower is liable to the account debtor for goods sold or services rendered by the account debtor to Borrower, but only to the extent of any amounts owing to the account debtor against amounts owed to Borrower;

(g) Accounts with respect to which goods are placed on consignment, guaranteed sale, sale or return, sale on approval, bill and hold, demo or promotional, retentions and hold-backs, credit memo or other terms by reason of which the payment by the account debtor may be conditional;

(h) Accounts with respect to which the account debtor is an officer, employee, agent or Affiliate of Borrower;

(i) Accounts that have not yet been billed to the account debtor or that relate to deposits (such as good faith deposits) or other property of the account debtor held by Borrower for the performance of services or delivery of goods which Borrower has not yet performed or delivered;

(j) Accounts with respect to which the account debtor disputes liability or makes any claim with respect thereto as to which Bank believes, in its sole discretion, that there may be a basis for dispute (but only to the extent of the amount subject to such dispute or claim), or is subject to any Insolvency Proceeding, or becomes insolvent, or goes out of business;

(k) Customer deposits; and

(l) Accounts the collection of which Bank reasonably determines to be doubtful.

"Eligible Foreign Accounts" means Accounts with respect to which the account debtor does not have its principal place of business in the United States and that arise from "drop shipment" (invoiced by Borrower but shipped from Global Technology, Inc., Applied Optoelectronics Taiwan or other foreign contractors of Borrower) whereby such Accounts are (i) backed by foreign credit insurance or letters of credit reasonably acceptable to Bank or (ii) with publicly traded foreign companies or a foreign subsidiary of a U.S. publicly traded company; and approved by EXIM Bank and EXIM Program s Department of Bank on a case-by-case basis. All Eligible Foreign Accounts must be calculated in U.S. Dollars.

"Eligible Export-Related Accounts" means Eligible Export-Related Accounts Receivable as defined in the Borrower Agreement. Unless otherwise agreed to by Bank, Eligible Export-Related Accounts shall not include the following: Eligible Accounts, ineligible receivables as specified in the Borrower Agreement, receivables that do not comply with the requirements of EXIM's most recent Country Limitation Schedule; or Accounts that the account debtor has failed to pay in full within 60 days of invoice date.

"Eligible Export-Related Inventory" means eligible Export-Related Inventory as defined under Borrower Agreement and EXIM guidelines and as acceptable to Bank, including without limitation, minimum domestic content of fifty percent (50%). Unless otherwise agreed to by Bank, Eligible Export-Related Inventory shall not include the following: Eligible Inventory, Inventory not supported by export purchase orders, or ineligible inventory as specified in the Borrower Agreement.

"Eligible Inventory" means finished goods inventory located in the United States that is acceptable to Bank.

"Environmental Laws" means all laws, rules, regulations, orders and the like issued by any federal state, local foreign or other governmental or quasi-governmental authority or any agency pertaining to the environment or to any hazardous materials or wastes, toxic substances, flammable, explosive or radioactive materials, asbestos or other similar materials.

"Equipment" means all present and future machinery, equipment, tenant improvements, furniture, fixtures, vehicles, tools, parts and attachments in which Borrower has any interest.

"Equipment Advance(s)" means a cash advance or cash advances under the Equipment Line.

"Equipment Facility" or "Equipment Line" means a Credit Extension of up to $2,137,243.61.

"Equipment Maturity Date" means September 6, 2010.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and the regulations thereunder.

"Event of Default" has the meaning assigned in Article 8.

"EXIM" means the Export Import Bank of the United States.

"EXIM Advance" means a cash advance or cash advances under the EXIM Line.

"EXIM Borrowing Base" means an amount equal to 90% of Eligible Export-Related Accounts plus 75% of Eligible Export-Related Inventory, as determined by Bank with reference to the most recent Export Related Borrowing Base Certificate delivered by Borrower; provided, however that Eligible Export-Related Inventory shall not exceed sixty percent (60%) of the aggregate EXIM Borrowing Base.

"EXIM Line" means a Credit Extension of up to $3,500,000.

"EXIM Maturity Date" means May 20, 2010.

"GAAP" means generally accepted accounting principles, consistently applied, as in effect from time to time.

"Indebtedness" means (a) all indebtedness for borrowed money or the deferred purchase price of property or services, including without limitation reimbursement and other obligations with respect to surety bonds and letters of credit, (b) all obligations evidenced by notes, bonds, debentures or similar instruments, (c) all capital lease obligations, and (d) all Contingent Obligations.

"Insolvency Proceeding" means any proceeding commenced by or against any Person or entity under any provision of the United States Bankruptcy Code, as amended, or under any other bankruptcy or insolvency law, including assignments for the benefit of creditors.

"Intellectual Property Collateral" means all of Borrower's right, title, and interest in and to the following:

(a) Copyrights, Trademarks and Patents;

(b) Any and all trade secrets, and any and all intellectual property rights in computer software and computer software products now or hereafter existing, created, acquired or held;

(c) Any and all design rights which may be available to Borrower now or hereafter existing, created, acquired or held;

(d) Any and all claims for damages by way of past, present and future infringement of any of the rights included above, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the intellectual property rights identified above;

(e) All licenses or other rights to use any of the Copyrights, Patents or Trademarks, and all license fees and royalties arising from such use to the extent permitted by such license or rights;

(f) All amendments, renewals and extensions of any of the Copyrights, Trademarks or Patents; and

(g) All proceeds and products of the foregoing, including without limitation all payments under insurance or any indemnity or warranty payable in respect of any of the foregoing.

"Inventory" means all present and future inventory in which Borrower has any interest.

"Investment" means any beneficial ownership of (including stock, partnership or limited liability company interest or other securities) any Person, or any loan, advance or capital contribution to any Person.

"IRC" means the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

"Lien" means any mortgage, lien, deed of trust, charge, pledge, security interest or other encumbrance.

"Liquidity" means the sum of Cash plus the net amount of Credit Extensions available under the Revolving Line.

"Loan Documents" means, collectively, this Agreement, any note or notes executed by Borrower, and any other document, instrument or agreement entered into in connection with this Agreement, including the Borrower Agreement, all as amended or extended from time to time.

"Material Adverse Effect" means a material adverse effect on (i) the business operations, condition (financial or otherwise) or prospects of Borrower and its Subsidiaries taken as a whole, (ii) the ability of Borrower to repay the Obligations or otherwise perform its obligations under the Loan Documents, (iii) Borrower's interest in, or the value, perfection or priority of Bank's security interest in the Collateral.

"Negotiable Collateral" means all of Borrower's present and future letters of credit of which it is a beneficiary, drafts, instruments (including promissory notes), securities, documents of title, and chattel paper, and Borrower's Books relating to any of the foregoing.

"Obligations" means all debt, principal, interest, Bank Expenses and other amounts owed to Bank by Borrower pursuant to this Agreement or any other agreement, whether absolute or contingent, due or to become due, now existing or hereafter arising, including any interest that accrues after the commencement of an Insolvency Proceeding and including any debt, liability, or obligation owing from Borrower to others that Bank may have obtained by assignment or otherwise.

"Orderly Liquidation Value" means the estimated gross amount, expressed in terms of money, that could typically be realized from a failed facility, assuming that the entire facility would be sold intact with a limited time to complete the sale (6 months) as of a specified date, e.g., the effective appraisal date.

"Patents" means all patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

"Periodic Payments" means all installments or similar recurring payments that Borrower may now or hereafter become obligated to pay to Bank pursuant to the terms and provisions of any instrument, or agreement now or hereafter in existence between Borrower and Bank.

"Permitted Indebtedness" means:

(a) Indebtedness of Borrower in favor of Bank arising under this Agreement or any other Loan Document;

(b) Indebtedness existing on the Closing Date and disclosed in the Schedule;

(c) Indebtedness not to exceed $50,000 in the aggregate in any fiscal year of Borrower secured by a lien described in clause (c) of the defined term "Permitted Liens," provided such Indebtedness does not exceed the lesser of the cost or fair market value of the equipment financed with such Indebtedness;

(d) Subordinated Debt;

(e) Indebtedness to trade creditors incurred in the ordinary course of business; and

(f) Extensions, refinancings and renewals of any items of (a) through (e), provided that the principal amount is not increased or the terms modified to impose more burdensome terms upon Borrower or its Subsidiaries, as the case may be.

"Permitted Investment" means:

(a) Investments existing on the Closing Date disclosed in the Schedule;

(b) other Investments with Bank's consent which shall not be unreasonably withheld or delayed.

"Permitted Liens" means the following:

(a) Any Liens existing on the Closing Date and disclosed in the Schedule (excluding Liens to be satisfied with the proceeds of the Advances) or arising under this Agreement or the other Loan Documents;

(b) Liens for taxes, fees, assessments or other governmental charges or levies, either not delinquent or being contested in good faith by appropriate proceedings and for which Borrower maintains adequate reserves, provided the same have no priority over any of Bank's security interests;

(c) Liens not to exceed $50,000 in the aggregate (i) upon or in any Equipment (other than Equipment financed by an Equipment Advance) acquired or held by Borrower or any of its Subsidiaries to secure the purchase price of such Equipment or indebtedness incurred solely for the purpose of financing the acquisition or lease of such Equipment, or (ii) existing on such Equipment at the time of its acquisition, provided that the Lien is confined solely to the property so acquired and improvements thereon, and the proceeds of such Equipment;

(d) Liens incurred in connection with the extension, renewal or refinancing of the indebtedness secured by Liens of the type described in clauses (a) and (c) above, provided that any extension, renewal or replacement Lien shall be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness being extended, renewed or refinanced does not increase; and

"Permitted Transfer" means the conveyance, sale, lease, transfer or disposition by Borrower or any Subsidiary of:

(a) Inventory in the ordinary course of business;

(b) licenses and similar arrangements for the use of the property of Borrower or its Subsidiaries in the ordinary course of business;

(c) worn-out or obsolete Equipment; or

(d) other assets of Borrower or its Subsidiaries that do not in the aggregate exceed $150,000 during any fiscal year.

"Person" means any individual, sole proprietorship, partnership, limited liability company, joint venture, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or governmental agency.

"Prime Rate" means the variable rate of interest, per annum as published in The Wall Street Journal on the date of measurement.

"Real Estate" means (a) the property located at 13115 Jess Pirtle Blvd., Sugar Land, Texas 77478 and (b) the property located on the tract of land containing 2.8911 acres (125,936 square feet) situated in the Brown & Belknap League, Abstract No. 14, Fort Bend County, Texas..

"Real Estate Advance" means a cash advance or cash advances under the Real Estate Facility.

"Real Estate Maturity Date" means September 6, 2010.

"Real Estate Facility" means a Credit Extension of up to $3,740,919.

"Responsible Officer" means each of the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer and the Controller of Borrower.

"Revolving Facility" or "Revolving Line" means a Credit Extension of up to three million five hundred thousand dollars ($3,500,000).

"Revolving Maturity Date" means May 20, 2010.

"Schedule" means the schedule of exceptions attached hereto and approved by Bank, if any.

"Shares" means the capital stock of all of Borrower's Subsidiaries, including without limitation, Prime World International Holdings, Ltd. and Vale Systems, Inc.

"Subordinated Debt" means any debt incurred by Borrower that is subordinated in writing to the debt owing by Borrower to Bank on terms reasonably acceptable to Bank (and identified as being such by Borrower and Bank).

"Subsidiary" means any corporation, partnership or limited liability company or joint venture in which (i) any general partnership interest or (ii) more than 50% of the stock, limited liability company interest or joint venture of which by the terms thereof ordinary voting power to elect the Board of Directors, managers or trustees of the entity, at the time as of which any determination is being made, is owned by Borrower, either directly or through an Affiliate.

"Tangible Net Worth" means at any date as of which the amount thereof shall be determined, the sum of the capital stock, partnership interest or limited liability company interest of Borrower and its Subsidiaries minus intangible assets, determined in accordance with GAAP.

"Total Liabilities" means at any date as of which the amount thereof shall be determined, all obligations that should, in accordance with GAAP be classified as liabilities on the consolidated balance sheet of Borrower, including in any event, to the extent not already included, all Indebtedness.

"Trademarks" means any trademark and servicemark rights, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business of Borrower connected with and symbolized by such trademarks.

"Working Capital Facility" means the Revolving Facility.

1.2 Accounting Terms. Any accounting term not specifically defined in Section 1.1 shall be construed in accordance with GAAP and all calculations shall be made in accordance with GAAP. The term "financial statements" shall include the accompanying notes and schedules.

2. LOAN AND TERMS OF PAYMENT.

2.1 Credit Extensions.

(a) Promise to Pay. Borrower promises to pay to Bank, in lawful money of the United States of America, the aggregate unpaid principal amount of all Credit Extensions made by Bank to Borrower, together with interest on the unpaid principal amount of such Credit Extensions at rates in accordance with the terms hereof.

(b) Advances Under Revolving Line.

(i) Amount. Subject to and upon the terms and conditions of this Agreement (1) Borrower may request Advances in an aggregate outstanding amount not to exceed the lesser of (A) the Revolving Line or (B) the Borrowing Base; and (2) amounts borrowed pursuant to this Section 2.1(b) may be repaid and reborrowed at any time prior to the Revolving Maturity Date, at which time all Advances under this Section 2.1(b) shall be immediately due and payable. Borrower may prepay any Advances without penalty or premium. Borrower shall deliver to Bank a promissory note for the Advances in substantially the form attached hereto as **Exhibit B-1**. Bank may enforce its rights in respect of the Advances under this Agreement without such note.

(ii) Borrowing Procedure. Whenever Borrower desires an Advance, Borrower will notify Bank by facsimile transmission of an advance request in substantially the form of **Exhibit C** hereto no later than noon Pacific Time on the Business Day that is one (1) Business Day prior to the Business Day on which an Advance is made. Bank is authorized to make Advances under this Agreement, based upon instructions received from a Responsible Officer or a designee of a Responsible Officer. Bank will credit the amount of Advances made under this Section 2.1(b) to a Borrower's deposit account, as specified by Borrower.

(iii) Payments. Borrower shall pay interest on the aggregate outstanding principal amount of the Advances on the fifth day of each month for so long as any Advances are outstanding. All Advances shall be due and payable on the Revolving Maturity Date.

(iv) Optional Prepayment of the Advances; Termination. Borrower may at any time prepay any Advance, in whole or in part, without premium or penalty; and may terminate this Agreement and any other Loan Documents by giving notice of termination to Bank and the performance or payment in full of all outstanding Obligations hereunder.

(c) Equipment Advances.

(i) Amount. Subject to and upon the terms and conditions of this Agreement, Bank has made Equipment Advances to Borrower, and the aggregate amount of such Equipment Advances is two million one hundred thirty seven thousand two hundred forth three dollars and sixty one cents ($2,137,243.61). No further Equipment Advances shall be made to Borrower. Borrower shall deliver to Bank a promissory note for the Equipment Advance in substantially the form attached hereto as **Exhibit B-2**. Bank may enforce its rights in respect of the Equipment Advance under this Agreement without such note.

(ii) Payment. On the fifth day of each month until the Equipment Advance Maturity Date, Borrower shall repay the outstanding Equipment Advance in equal monthly installments constituting principal plus accrued interest as prescribed by Bank. The entire principal balance and all accrued but unpaid interest on the Equipment Advance shall be due and payable on the Equipment Advance Maturity Date.

(d) Real Estate Facility.

(i) Amount. Subject to and upon the terms and conditions of this Agreement, a Bank has made one Real Estate Advance to Borrower (recorded as loan number 288-000072-0), and the aggregate principal amount of such Real Estate Advance is three million five hundred thirty six thousand six hundred seventy nine dollars and seventy eight cents ($3,536,679.78). No further Real Estate Advances shall be made to Borrower. Borrower shall deliver to Bank a promissory note for the Real Estate Advance in substantially the form attached hereto as **Exhibit B-3**. Bank may enforce its rights in respect of the Real Estate Advance under this Agreement without such note.

(ii) Payment. On the fifth day of each of each until the Real Estate Maturity Date, Borrower shall repay the Real Estate Advance in equal installments of principal and interest as prescribed by Bank. The entire principal balance and all accrued but unpaid interest on the Real Estate Advance shall be due and payable on the Real Estate Maturity Date.

(e) Advances Under EXIM Line.

(i) Amount. Subject to and upon the terms and conditions of this Agreement, Borrower may request EXIM Advances in an aggregate outstanding amount not to exceed the lesser of (A) the EXIM Line or (B) the EXIM Borrowing Base. Amounts borrowed pursuant to this Section 2.1(e) may be repaid and reborrowed at any time prior to the EXIM Maturity Date, at which time all EXIM Advances under this Section 2.1(e) shall be immediately due and payable. Borrower may prepay any Advances without penalty or premium. Borrower shall deliver to Bank a promissory note for the EXIM Advances in substantially the form attached hereto as **Exhibit B-4**. Bank may enforce its rights in respect of the EXIM Advances under this Agreement without such note.

(ii) Borrowing Procedure. Whenever Borrower desires an EXIM Advance, Borrower will notify Bank by facsimile transmission of an advance request in substantially the form of **Exhibit C** hereto no later than noon Pacific Time on the Business Day that is one (1) Business Day prior to the Business Day on which an EXIM Advance is made. Bank is authorized to make EXIM Advances under this Agreement, based upon instructions received from a Responsible Officer or a designee of a Responsible Officer. Bank will credit the amount of Advances made under this Section 2.1(d) to a Borrower's deposit account, as

specified by Borrower.

(iii) Payments. Borrower shall pay interest on the aggregate outstanding principal amount of the EXIM Advances on the fifth day of each month for so long as any EXIM Advances are outstanding. All EXIM Advances shall be due and payable on the EXIM Maturity Date.

(iv) Additional Conditions. The obligation of Bank to make the initial EXIM Advance is subject to the condition precedent that Bank shall have received, in form and substance satisfactory to Bank, the Borrower Agreement and an Economic Impact Certification.

2.2 Overadvances. If the aggregate amount of the outstanding Advances exceeds the lesser of the Revolving Line or the Borrowing Base at any time, Borrower shall immediately pay to Bank, in cash, the amount of such excess.

2.3 Interest Rates, Payments, and Calculations.

(a) Interest Rates.

(i) Revolving Advance Interest Rate. Except as set forth in Section 2.3(b), the outstanding principal balance of each Revolving Advance shall bear interest (computed daily on the basis of a 360 day year and actual days elapsed), at a floating rate per annum equal to the Prime Rate plus 3.25%.

(ii) Equipment Advance Interest Rate. Except as set forth in Section 2.3(b), the outstanding principal balance of the Equipment Advance shall bear interest (computed daily on the basis of a 360 day year and actual days elapsed), at a variable rate equal to the Prime Rate plus 3.00%.

(iii) Real Estate Advance Interest Rate. Except as set forth in Section 2.3(b), the outstanding principal balance of the Real Estate Advance shall bear interest (computed daily on the basis of a 360 day year and actual days elapsed), at a variable rate equal to the Prime Rate plus 3.00%.

(iv) EXIM Advance Interest Rate. Except as set forth in Section 2.3(b), the outstanding principal balance of the EXIM Advances shall bear interest (computed daily on the basis of a 360 day year and actual days elapsed), at a variable rate equal to the Prime Rate plus 3.25%.

Notwithstanding the foregoing, at no time shall the interest rate applied to any Credit Extension be less than 7.50% per annum (computed daily on the basis of a 360 day year and actual days elapsed) (the "Floor Rate"); provided however, in the event Borrower (A) consummates its next round of equity financing (currently contemplated as a Series F Preferred Stock financing) whereby Borrower receives proceeds of at least $13,500,000 (including the conversion of any outstanding convertible debt securities into Borrower's equity securities) and (B) Borrower achieves at least one calendar quarter with a minimum quarterly EBITDASO of at least $500,000, then the Floor Rate applied to all Credit Extensions shall be 6.50% per annum (computed daily on the basis of a 360 day year and actual days elapsed).

(b) Late Fee/Default Rate. All Obligations shall bear interest, from and after the occurrence and during the continuance of an Event of Default, at a rate equal to five (5) percentage points above the interest rate applicable immediately prior to the occurrence of the Event of Default. If any payment is not made within 10 days after the date such payment is due, Borrower shall pay Agent a late fee equal to the lesser of (i) 5% of the amount of such unpaid amount or (ii) the maximum amount permitted to be charged under applicable law.

(c) Payments. Any interest not paid when due shall be compounded by becoming a part of the Obligations, and such interest shall thereafter accrue interest at the rate then applicable hereunder. All payments shall be made free and clear of, and without deduction or withholding for, any present or future taxes or other charges imposed by any jurisdiction. Payments will be made via auto debit from the Borrower's account at Bank.

(d) Computation. The applicable rate of interest hereunder shall be increased or decreased effective as of the day the Prime Rate is changed as provided in the definition thereof, by an amount equal to such change in the Prime Rate.

(e) Crediting Payments. Prior to the occurrence of an Event of Default, Bank shall credit a wire transfer of funds, check or other item of payment to such deposit account or Obligation as Borrower specifies. After the occurrence and continuance of an Event of Default, the receipt by Bank of any wire transfer of funds, check, or other item of payment shall be immediately applied to conditionally reduce Obligations, but shall not be considered a payment on account unless such payment is of immediately available federal funds or unless and until such check or other item of payment is honored when presented for payment. Notwithstanding anything to the contrary contained herein, any wire transfer or other payment received by Bank after 12:00 noon Pacific time shall be deemed to have been received by Bank as of the opening of business on the immediately following Business Day. Any wire transfer or other payment received by Bank before 12:00 noon Pacific time shall be deemed to have been received by Bank as of the opening of business on such Business Day. Whenever any payment to Bank under the Loan Documents would otherwise be due (except by reason of acceleration) on a date that is not a Business Day, such payment shall instead be due on the next Business Day, and additional fees or interest, as the case may be, shall accrue and be payable for the period of such extension.

2.4 Fees. Borrower shall pay to Bank the following:

(a) Facility Fee. On the Closing Date, a fee equal to $33,850 (which includes an EXIM fee of $16,350) which shall be nonrefundable;

(b) Bank Expenses. On the Closing Date, all Bank Expenses incurred through the Closing Date, and, after the Closing Date, all Bank Expenses, as and when they become due; and

(c) EXIM Fee. Such other fees as EXIM may charge from time to time.

2.5 Term. This Agreement shall become effective on the Closing Date and, subject to Section 12.7, shall continue in full force and effect for so long as any Obligations remain outstanding or Bank has any obligation to make Credit Extensions under this Agreement. Notwithstanding the foregoing, Bank shall have the right to terminate its obligation to make Credit Extensions under this Agreement immediately and without notice upon the occurrence and during the continuance of an Event of Default.

3. CONDITIONS OF LOANS.

3.1 Conditions Precedent to Initial Credit Extension. The obligation of Bank to make the initial Credit Extension is subject to the condition precedent that Bank shall have received, in form and substance satisfactory to Bank, the following:

(a) this Agreement;

(b) a financing statement (Form UCC-1);

(c) an audit of the Collateral conducted by an auditor satisfactory to Bank, the results of which shall be reasonably satisfactory to Bank;

(d) a certificate of the Secretary of Borrower with respect to incumbency and resolutions authorizing the execution and delivery of this Agreement;

(e) a certificate of insurance naming Bank as loss payee and additional insured;

(f) payment of the fees and Bank Expenses then due specified in Section 2.4;

(g) current financial statements, including audited statements for Borrower's most recently ended fiscal year, together with an unqualified opinion, company prepared consolidated and consolidating balance sheets and income statements for the most recently ended month in accordance with Section 6.2, and such other updated financial information as Bank may reasonably request;

(h) an intellectual property security agreement

(i) a Warrant in form and substance satisfactory to Bank;

(j) good standing certificates of Borrower;

(k) a ratification and confirmation of the continuing effectiveness of the Deeds of Trust, in form and substance satisfactory to Bank;

(l) a Compliance Certificate in the form of **Exhibit C** attached hereto, or other mutually agreeable form of such certificate;

(m) an endorsement from Bank's title insurance company to Bank's title insurance policy with respect to the Deeds of Trust, in form and substance satisfactory to Bank;

(n) delivery of the share certificates representing the Shares and for each share certificate, four instruments of assignment ("Assignment Separate from Certificate") in substantially similar form as those attached hereto, and any pledge agreement or other documentation as Bank or its legal counsel may reasonably deem necessary or appropriate to perfect Bank's security interest in the Shares;

(o) evidence of Bank's perfected security interest in the shares of Global Technology Inc., a corporation organized in the British Virgin Islands and wholly-owned subsidiary of Prime World International Holdings, Ltd. including the delivery of the share certificates of Global Technology Inc. and any share pledge agreement or other documentation, as Bank or its legal counsel may reasonably deem necessary or appropriate; and

(p) such other documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate.

3.2 Conditions Precedent to all Credit Extensions. The obligation of Bank to make each Credit Extension, including the initial Credit Extension, is further subject to the following conditions:

(a) timely receipt by Bank of the Payment/Advance Form as provided in Section 2.1; and

(b) the representations and warranties contained in Section 5 shall be true and correct in all material respects on and as of the date of such Payment/Advance Form and on the effective date of each Credit Extension as though made at and as of each such date, and no Event of Default shall have occurred and be continuing, or would exist after giving effect to such Credit Extension (provided, however, that those representations and warranties expressly referring to another date shall be true, correct and complete in all material respects as of such date). The making of each Credit Extension shall be deemed to be a representation and warranty by Borrower on the date of such Credit Extension as to the accuracy of the facts referred to in this Section 3.2(b).

4. CREATION OF SECURITY INTEREST.

4.1 Grant of Security Interest. Borrower grants and pledges to Bank a continuing security interest in all presently existing and hereafter acquired or arising Collateral in order to secure prompt payment of any and all Obligations and in order to secure prompt performance by Borrower of Borrower's covenants and duties under the Loan Documents. Except as set forth in the Schedule and with respect to motor vehicles and trailers, such security interest constitutes a valid, first priority security interest in the presently existing Collateral, and will

constitute a valid, first priority security interest in Collateral acquired after the date hereof. Borrower also hereby agrees not to sell, transfer, assign, mortgage, pledge, lease, grant a security interest in, or encumber any of its intellectual property.

4.2 Delivery of Additional Documentation Required. Borrower shall from time to time execute and deliver to Bank, at the request of Bank, all Negotiable Collateral, all financing statements and other documents that Bank may reasonably request, in form satisfactory to Bank, to perfect and continue perfected Bank's security interests in the Collateral and in order to fully consummate all of the transactions contemplated under the Loan Documents.

4.3 Right to Inspect. Bank (through any of its officers, employees, or agents) shall have the right, upon reasonable prior notice, from time to time during Borrower's usual business hours but no more than once a year (unless an Event of Default has occurred and is continuing), to inspect Borrower's Books and to make copies thereof and to check, test, and appraise the Collateral in order to verify Borrower's financial condition or the amount, condition of, or any other matter relating to, the Collateral.

4.4 Deeds of Trust. Borrower acknowledges Bank's continuing security interest pursuant to the Deed of Trust, Assignments, Fixture Filing and Security Agreement dated as of May 19, 2004 and recorded as instrument number 2004063868, by and between Borrower as Trustor (as defined therein), U.F.

Service Corporation as Trustee (as defined therein), and Bank as Beneficiary (as defined therein), as amended and supplemented from time to time; and Borrower also acknowledges Bank's continuing security interest in the property located on the tract of land containing 2.8911 acres (125,936 square feet) situated in the Brown & Belknap League, Abstract No. 14, Fort Bend County, Texas, recorded as instrument number 2008024303 (collectively, the "Deeds of Trust").

4.5 EXIM. Upon the occurrence and continuation of an Event of Default, in the event EXIM seeks to exercise remedies with respect to the Collateral, Bank will assign such portion of its security interest in the Loan Documents and the Collateral as EXIM reasonably requests to effect such exercise.

4.6 Pledge of Shares. Borrower pledges, assigns and grants to Bank a security interest in all the Shares held or owned of record by Borrower, together with all proceeds and substitutions thereof, all cash, stock and other moneys and property paid thereon, all rights to subscribe for securities declared or granted in connection therewith, and all other cash and noncash proceeds of the foregoing, as security for the performance of the Obligations. On the Closing Date, the certificate or certificates for the Shares will be delivered to Bank, accompanied by instruments of assignment duly executed in blank by Borrower. To the extent required by the terms and conditions governing the Shares, Borrower shall cause the books of each entity whose Shares are part of the Collateral and any transfer Bank to reflect the pledge of the Shares. Unless an Event of Default shall have occurred and be continuing, Borrower shall be entitled to exercise any voting rights with respect to the relevant Shares and to give consents, waivers and ratifications in respect thereof, provided that no vote shall be cast or consent, waiver or ratification given or action taken which would be inconsistent with any of the terms of this Agreement or which would constitute or create any violation of any of such terms. All such rights to vote and give consents, waivers and ratifications shall be suspended upon the occurrence and continuance of an Event of Default.

5. REPRESENTATIONS AND WARRANTIES.

Borrower represents and warrants as follows:

5.1 Due Organization and Qualification. Borrower and each Subsidiary is a corporation duly existing under the laws of the state in which it is incorporated and qualified and licensed to do business in any state in which the conduct of its business or its ownership of property requires that it be so qualified, except where the failure to do so would not reasonably be expected to cause a Material Adverse Effect.

5.2 Due Authorization; No Conflict. The execution, delivery, and performance of the Loan Documents are within Borrower's powers, have been duly authorized, and are not in conflict with nor constitute a breach of any provision contained in Borrower's Certificate of Incorporation or Bylaws, nor will they constitute an event of default under any material agreement by which Borrower is bound. Borrower is not in default under any

agreement by which it is bound, except to the extent such default would not reasonably be expected to cause a Material Adverse Effect.

5.3 No Prior Encumbrances. Borrower has good and marketable title to the Collateral, free and clear of Liens, except for Permitted Liens as determined to exist from time to time.

5.4 Collateral. Borrower has rights in or the power to transfer the Collateral, and its title to the Collateral is free and clear of Liens, adverse claims, and restrictions on transfer or pledge except for Permitted Liens. All Collateral is located solely in the United States. Except as set forth in the Schedule, none of the Collateral is maintained or invested with a Person other than Bank or Bank's Affiliates.

5.5 Merchantable Inventory. All Inventory is in all material respects of good and marketable quality, free from all material defects other than defects at such rate of occurrence as are customary and usual for information technology and consumer electronic goods and software.

5.6 Intellectual Property Collateral. Borrower is the sole owner of the Intellectual Property Collateral, except for non-exclusive licenses granted by Borrower to its customers or other third parties in the ordinary course of business. Each of the Patents is valid and enforceable, and no part of the Intellectual Property Collateral has been judged invalid or unenforceable, in whole or in part, and except as disclosed in the Schedule, no claim has been made that any part of the Intellectual Property Collateral violates the rights of any third party. Borrower's rights as licensees of any individual licensor of intellectual property do not give rise to more than five percent (5%) of its gross revenue in any given quarter, including without limitation revenue derived from the sale, licensing, rendering or disposition of any product or service. Except as set forth in the Schedule, Borrower is not a party to, or bound by, any agreement that restricts the grant by Borrower of a security interest in Borrower's rights under such agreement other than agreements entered into by Borrower with licensors, vendors and business partners in the ordinary course of Borrower's business.

5.7 Name; Location of Chief Executive Office. Except as disclosed in the Schedule, Borrower has not done business under any name other than that specified on the signature page hereof, and its exact legal name is as set forth in the first paragraph of this Agreement. The chief executive office of Borrower is located in the United States at the address indicated in Section 10 hereof.

5.8 Litigation. Except as set forth in the Schedule, there are no actions or proceedings pending by or against Borrower or any Subsidiary before any court or administrative agency in which a likely adverse decision would reasonably be expected to have a Material Adverse Effect.

5.9 No Material Adverse Change in Financial Statements. All consolidated and consolidating financial statements related to Borrower and any Subsidiary that are delivered by Borrower to Bank fairly present in all material respects Borrower's consolidated and consolidating financial condition as of the date thereof and Borrower's consolidated and consolidating results of operations for the period then ended. There has not been a material adverse change in the consolidated or in the consolidating financial condition of Borrower since the date of the most recent of such financial statements submitted to Bank.

5.10 Solvency, Payment of Debts. Borrower is able to pay its debts (including trade debts) as they mature; the fair saleable value of Borrower's assets (including goodwill minus disposition costs) exceeds the fair value of its liabilities; and Borrower is not left with unreasonably small capital after the transactions contemplated by this Agreement.

5.11 Compliance with Laws and Regulations. Borrower and each Subsidiary have met the minimum funding requirements of ERISA with respect to any employee benefit plans subject to ERISA. No event has occurred resulting from Borrower's failure to comply with ERISA that is reasonably likely to result in Borrower's incurring any liability that could have a Material Adverse Effect. Borrower is not an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940. Borrower is not engaged principally, or as one of the important activities, in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulations T and U of the

Board of Governors of the Federal Reserve System). Borrower has complied in all material respects with all the provisions of the Federal Fair Labor Standards Act. Borrower is in compliance with all Environmental Laws, regulations and ordinances except where the failure to comply is not reasonably likely to have a Material Adverse Effect. Borrower has not violated any statutes, laws, ordinances or rules applicable to it, the violation of which would reasonably be expected to have a Material Adverse Effect. Borrower and each Subsidiary have filed or caused to be filed all tax returns required to be filed, and have paid, or have made adequate provision for the payment of, all taxes reflected therein except those being contested in good faith with adequate reserves under GAAP or where the failure to file such returns or pay such taxes would not reasonably be expected to have a Material Adverse Effect.

5.12 Subsidiaries. Except as disclosed on the Schedule, Borrower does not own any stock, partnership interest or other equity securities of any Person, except for Permitted Investments.

5.13 Government Consents. Borrower and each Subsidiary have obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all governmental authorities that are necessary for the continued operation of Borrower's business as currently conducted, except where the failure to do so would not reasonably be expected to cause a Material Adverse Effect.

5.14 Inbound Licenses. Except as disclosed on the Schedule, Borrower is not a party to, nor is bound by, any license or other agreement that prohibits or otherwise restricts Borrower from granting a security interest in Borrower's interest in such license or agreement or any other property.

5.15 Bona Fide Accounts. The Accounts are bona fide existing obligations. The property giving rise to such Accounts has been delivered to the account debtor or to the account debtor's agent for immediate shipment to and unconditional acceptance by the account debtor.

5.16 Shares. Borrower has full power and authority to create a first lien on the Shares and no disability or contractual obligation exists that would prohibit Borrower from pledging the Shares pursuant to this Agreement. There are no subscriptions, warrants, rights of first refusal or other restrictions on transfer relative to, or options exercisable with respect to the Shares. The Shares have been and will be duly authorized and validly issued, and are fully paid and non-assessable. The Shares are not the subject of any present or threatened suit, action, arbitration, administrative or other proceeding, and Borrower knows of no reasonable grounds for the institution of any such proceedings.

5.17 Full Disclosure. No representation, warranty or other statement made by Borrower in any certificate or written statement furnished to Bank taken together with all such certificates and written statements furnished to Bank contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained in such certificates or statements not misleading, it being recognized by Bank that the projections and forecasts provided by Borrower in good faith and based upon reasonable assumptions are not to be viewed as facts and that actual results during the period or periods covered by any such projections and forecasts may differ from the projected or forecasted results.

6. AFFIRMATIVE COVENANTS.

Borrower shall do all of the following:

6.1 Good Standing and Government Compliance. Borrower shall maintain its and each of its Subsidiaries' corporate existence and good standing in each jurisdiction under whose laws Borrower and its Subsidiaries are organized, and shall maintain qualification and good standing in each other jurisdiction in which the failure to so qualify would reasonably be expected to have a Material Adverse Effect. Borrower shall meet, and shall cause each Subsidiary to meet, the minimum funding requirements of ERISA with respect to any employee benefit plans subject to ERISA. Borrower shall comply in all material respects with all applicable Environmental Laws, and maintain all material permits, licenses and approvals required thereunder where the failure to do so would reasonably be expected to have a Material Adverse Effect. Borrower shall comply, and shall cause each Subsidiary to comply, with all statutes, laws, ordinances and government rules and regulations to which it is subject, and shall

maintain, and shall cause each of its Subsidiaries to maintain, in force all licenses, approvals and agreements, the loss of which or failure to comply with which would reasonably be expected to have a Material Adverse Effect.

6.2 Financial Statements, Reports, Certificates. Borrower shall deliver to Bank:

(a) as soon as available, but in any event within 20 days after the end of each calendar month, a company prepared consolidated and consolidating balance sheet and income statement covering Borrower's operations during such period, in a form reasonably acceptable to Bank and certified by a Responsible Officer; (ii) as soon as available, but in any event within 150 days after the end of Borrower's fiscal year, audited consolidated and consolidating financial statements of Borrower prepared in accordance with GAAP, consistently applied, together with an opinion which is unqualified or otherwise consented to in writing by Bank on such financial statements of an independent certified public accounting firm reasonably acceptable to Bank; (iii) if applicable, copies of all statements, reports and notices sent or made available generally by Borrower to its security holders or to any holders of Subordinated Debt and all reports on Forms 10-K and 10-Q filed with the Securities and Exchange Commission; (iv) promptly upon receipt of notice thereof, a report of any legal actions pending or threatened against Borrower or any Subsidiary that could result in damages or costs to Borrower or any Subsidiary of $100,000 or more; (v) promptly upon receipt, each management letter prepared by Borrower's independent certified public accounting firm regarding Borrower's management control systems; and (vi) such budgets, sales projections, operating plans or other financial information generally prepared by Borrower in the ordinary course of business as Bank may reasonably request from time to time. Notwithstanding the foregoing, Borrower shall deliver its audited consolidated and consolidating financial statements for 2008 no later than June 30, 2009.

(b) Within 20 days after the last day of each month, Borrower shall deliver to Bank a Borrowing Base Certificate signed by a Responsible Officer in substantially the form of **Exhibit D-1** hereto, together with an inventory report in format satisfactory to Bank and aged listings by invoice date of accounts receivable and accounts payable. Within 20 days after the last day of each month in which EXIM Advances are outstanding, Borrower shall deliver to Bank an Export Related Borrowing Base Certificate signed by a Responsible Officer in substantially the form of **Exhibit D-2** hereto, together with aged listings by payment due date of foreign accounts receivable and accounts payable, a summary report of export purchase orders and an inventory report in format satisfactory to Bank

(c) Within 20 days after the last day of each month, Borrower shall deliver to Bank with the monthly financial statements a Compliance Certificate certified as of the last day of the applicable month and signed by a Responsible Officer in substantially the form of **Exhibit E** hereto.

(d) As soon as possible and in any event within three (3) Business Days after becoming aware of the occurrence or existence of an Event of Default hereunder, a written statement of a Responsible Officer setting forth details of the Event of Default, and the action which Borrower has taken or proposes to take with respect thereto.

(e) Within 30 days of the last day of each fiscal quarter, a report signed by Borrower, in form reasonably acceptable to Bank, listing any applications or registrations that Borrower has made or filed in respect of any Patents, Copyrights or Trademarks and the status of any outstanding applications or registrations, as well as any material change in Borrower's Intellectual Property Collateral, including but not limited to any subsequent ownership right of Borrower in or to any Trademark, Patent or Copyright not specified in Exhibits A, B, and C of any Intellectual Property Security Agreement delivered to Bank by Borrower in connection with this Agreement.

(f) Within 20 days after the last day of each month, Borrower shall deliver to Bank a monthly summary of Export Purchase Orders, and within 20 days after the last of each quarter, Borrower shall deliver to Bank copies of approximately ten percent (10%) of all actual Export Purchase Orders, as a sample representation of all Export Purchase Orders.

Borrower may deliver to Bank on an electronic basis any certificates, reports or information required pursuant to this Section 6.2, and Bank shall be entitled to rely on the information contained in the electronic files, provided that Bank in good faith believes that the files were delivered by a Responsible Officer. If Borrower

delivers this information electronically, it shall also deliver to Bank by U.S. Mail, reputable overnight courier service, hand delivery, facsimile or .pdf file within 5 Business Days of submission of the unsigned electronic copy the certification of monthly financial statements, the intellectual property report, the Domestic Borrowing Base Certificate, the Export Related Borrowing Base Certificate and the Compliance Certificate, each bearing the physical signature of the Responsible Officer.

6.3 Collateral Audits. Bank shall have a right from time to time hereafter to audit Borrower's Accounts and appraise Collateral at Borrower's expense, provided that such audits will be conducted no more often than twice every twelve months unless an Event of Default has occurred and is continuing.

6.4 Current Ratio. Borrower shall maintain, as of the last day of each month starting with month ending May 31, 2009, a Current Ratio equal to or greater than 1.20 to 1.00.

6.5 Total Liabilities to Tangible Net Worth Ratio. Borrower shall maintain as of the last day of each month starting with month ending May 31, 2009 and through month ending June 30, 2010, a ratio of Total Liabilities to Tangible Net Worth not greater than 1.20 to 1:00; and as of the last day of each month following June 30, 2010, a ratio of Total Liabilities to Tangible Net Worth not greater than 1.10 to 1.00.

6.6 Minimum EBITDASO. Borrower shall maintain a minimum quarterly EBITDASO of at least the following amounts:

Quarter(s) Ending	Amount
June 30, 2009:	(loss not to exceed $600,000)
September 30, 2009:	$500,000
December 31, 2009:	$1,000,000
March 31 of each year starting 2010:	$300,000
June 30, September 30 and December 31 of each year starting 2010:	$1,000,000

6.7 Inventory; Returns. Borrower shall keep all Inventory in good and merchantable condition, free from all material defects except for Inventory for which adequate reserves have been made. Borrower shall cause all returns by their customers and terminations of customer agreements to be on the same basis and in accordance with the usual customary practices of Borrower, as they exist from time to time. Borrower shall promptly notify Bank of all terminations of customer agreements, and of all customer disputes and customer claims, where the termination, dispute or claim involves more than two hundred fifty thousand dollars ($250,000).

6.8 Taxes. Borrower shall make, and cause each Subsidiary to make, due and timely payment or deposit of all material federal, state, and local taxes, assessments, or contributions required of it by law, including, but not limited to, those laws concerning income taxes, F.I.C.A., F.U.T.A. and state disability, and will execute and deliver to Bank, on demand, proof satisfactory to Bank indicating that Borrower or a Subsidiary has made such payments or deposits and any appropriate certificates attesting to the payment or deposit thereof; provided that Borrower or a Subsidiary need not make any payment if the amount or validity of such payment is contested in good faith by appropriate proceedings and is reserved against (to the extent required by GAAP) by Borrower.

6.9 Insurance.

(a) Borrower, at its expense, shall keep the Collateral insured against loss or damage by fire, theft, explosion, sprinklers, and all other hazards and risks, and in such amounts, as ordinarily insured against by other owners in similar businesses conducted in the locations where Borrower's business is conducted on the date hereof, but no less than the sum of the book value of domestic Equipment and domestic Inventory. Borrower shall also maintain liability and other insurance in amounts and of a type that are customary to businesses similar to Borrower's. Borrower, at its expense, shall keep the Real Estate insured against loss or damage by fire, theft, explosion, sprinklers, and all other hazards and risks, and in an amount no less than the replacement cost and on terms reasonably acceptable to Bank.

(b) All such policies of insurance shall be in such form, with such companies, and in such amounts as reasonably satisfactory to Bank. All policies of property insurance shall contain a lender's loss payable endorsement, in a form satisfactory to Bank, showing Bank as an additional loss payee, and all liability insurance policies shall show Bank as an additional insured and specify that the insurer must give at least 20 days notice to Bank before canceling its policy for any reason. Upon Bank's request, Borrower shall deliver to Bank certified copies of the policies of insurance and evidence of all premium payments. If no Event of Default has occurred and is continuing, proceeds payable under any casualty policy will, at Borrower's option, be payable to Borrower to replace the property subject to the claim, provided that any such replacement property shall be deemed Collateral in which Bank has been granted a first priority

security interest. If an Event of Default has occurred and is continuing, all proceeds payable under any such policy shall, at Bank's option, be payable to Bank to be applied on account of the Obligations.

6.10 Primary Depository. Borrower shall maintain all its depository and operating accounts with Bank and its investment accounts with Bank or Bank's Affiliates.

6.11 Registration of Intellectual Property Rights.

(a) Borrower shall register or cause to be registered on an expedited basis (to the extent not already registered) with the United States Patent and Trademark Office or the United States Copyright Office, as the case may be, those registrable intellectual property rights now owned or hereafter developed or acquired by Borrower, to the extent that Borrower, in its reasonable business judgment, deems it appropriate to so protect such intellectual property rights.

(b) Borrower shall promptly give Bank written notice of any applications or registrations of intellectual property rights filed with the United States Patent and Trademark Office, including the date of such filing and the registration or application numbers, if any.

(c) Borrower shall (i) give Bank not less than 30 days prior written notice of the filing of any applications or registrations with the United States Copyright Office, including the title of such intellectual property rights to be registered, as such title will appear on such applications or registrations, and the date such applications or registrations will be filed; (ii) prior to the filing of any such applications or registrations, execute such documents as Bank may reasonably request for Bank to maintain its perfection in such intellectual property rights to be registered by Borrower; (iii) upon the request of Bank, either deliver to Bank or file such documents simultaneously with the filing of any such applications or registrations; (iv) upon filing any such applications or registrations, promptly provide Bank with a copy of such applications or registrations together with any exhibits, evidence of the filing of any documents requested by Bank to be filed for Bank to maintain the perfection and priority of its security interest in such intellectual property rights, and the date of such filing.

(d) Borrower shall execute and deliver such additional instruments and documents from time to time as Bank shall reasonably request to perfect and maintain the perfection and priority of Bank's security interest in the Intellectual Property Collateral.

(e) Borrower shall (i) protect, defend and maintain the validity and enforceability of the trade secrets, Trademarks, Patents and Copyrights, (ii) use commercially reasonable efforts to detect infringements of the Trademarks, Patents and Copyrights and promptly advise Bank in writing of material infringements detected and (iii) not allow any material Trademarks, Patents or Copyrights to be abandoned, forfeited or dedicated to the public without the written consent of Bank, which shall not be unreasonably withheld.

(f) Bank may audit Borrower's Intellectual Property Collateral to confirm compliance with this Section 6.11, provided such audit may not occur more often than once per year, unless an Event of Default has occurred and is continuing. Bank shall have the right, but not the obligation, to take, at Borrower's sole expense, any actions that Borrower is required under this Section 6.11 to take but which Borrower fails to take, after 15 days' notice to Borrower. Borrower shall reimburse and indemnify Bank for all reasonable costs and reasonable expenses incurred in the reasonable exercise of its rights under this Section 6.11.

6.12 Global Technology Inc. Borrower shall cause Prime World International Holdings, Ltd. to execute and deliver such instruments and take such action as may reasonably be requested by Bank to effectuate the perfection of Bank's security interest in the capital stock of Global Technology Inc.

6.13 Further Assurances. At any time and from time to time Borrower shall execute and deliver such further instruments and take such further action as may reasonably be requested by Bank to effect the purposes of this Agreement.

7. NEGATIVE COVENANTS.

Borrower will not do any of the following:

7.1 Dispositions. Convey, sell, lease, transfer or otherwise dispose of (collectively, a "Transfer"), or permit any of its Subsidiaries to Transfer, all or any part of its business, assets or property, other than Transfers in the ordinary course of business.

7.2 Change in Name or Executive Management; Change in Business; Change in Fiscal Year; Change in Control. Change its name without 30 days prior written notification to Bank; terminate or replace its chief executive officer or chief financial officer or other executive level officer without prior written approval of Bank; engage in any business, or permit any of its Subsidiaries to engage in any business, other than or reasonably related or incidental to the businesses currently engaged in by Borrower; change its fiscal year end; or have a Change in Control.

7.3 Mergers or Acquisitions. With prior written consent of Bank, which consent shall not be unreasonably withheld, merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with or into any other business organization (other than mergers or consolidations of a Subsidiary into another Subsidiary or into any Borrower), or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person except where (i) such transactions do not in the aggregate exceed the payment of any amount or the incurrence of any liability greater than $250,000 during any fiscal year, (ii) no Event of Default has occurred, is continuing or would exist after giving effect to such transactions, (iii) such transactions do not result in a Change in Control, and (iv) Borrower is the surviving entity.

7.4 Indebtedness. Create, incur, assume, guarantee or be or remain liable with respect to any Indebtedness, or permit any Subsidiary so to do, other than Permitted Indebtedness, or prepay any Indebtedness or take any actions which impose on any Borrower an obligation to prepay any Indebtedness, except Indebtedness to Bank.

7.5 Encumbrances. Create, incur, assume or suffer to exist any Lien with respect to any of its property, or assign or otherwise convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries so to do, except for Permitted Liens, or enter into any agreement with any Person other than Bank that prohibits or otherwise restricts Borrower from encumbering any of its property other than restrictions in equipment leases or equipment financing documents on Liens on the specific equipment being leased or financed.

7.6 Distributions. Pay any dividends or make any other distribution or payment on account of or in redemption, retirement or purchase of any capital stock, except that Borrower may repurchase the stock of employees or former employees pursuant to stock repurchase agreements as long as an Event

of Default does not exist prior to such repurchase or would not exist after giving effect to such repurchase without the consent of Bank.

7.7 Investments. Directly or indirectly acquire or own, or make any Investment in or to any Person, or permit any of its Subsidiaries so to do, other than Permitted Investments.

7.8 Transactions with Affiliates. Except as set forth in the Schedule, directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower except for transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms that are no less favorable to Borrower than would be obtained in an arm's length transaction with a non-affiliated Person.

7.9 Subordinated Debt. Make any payment in respect of any Subordinated Debt, or permit any of its Subsidiaries to make any such payment, except in compliance with the terms of such Subordinated Debt, or amend any provision contained in any documentation relating to the Subordinated Debt without Bank's prior written consent.

7.10 Inventory and Equipment. Store the Eligible Inventory with a bailee, warehouseman, or similar party (for the avoidance of doubt, such "similar party" shall not include a landlord) unless Bank has received a pledge of the warehouse receipt covering such Inventory. Except for Inventory sold in the ordinary course of business and except for such other locations as Borrower may determine is reasonably necessary for the conduct of its business, Borrower shall keep the Eligible Inventory only at the location set forth in Section 10 hereof, the locations set forth in the Schedule and such other locations of which Borrower give Bank prior notice.

7.11 Compliance. Become an "investment company" or be controlled by an "investment company," within the meaning of the Investment Company Act of 1940, or become principally engaged in, or undertake as one of its important activities, the business of extending credit for the purpose of purchasing or carrying margin stock, or use the proceeds of any Credit Extension for such purpose, or fail to meet the minimum funding requirements of ERISA, permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur, fail to comply in any material respect with the Federal Fair Labor Standards Act or violate any law or regulation, which violation is reasonably likely to have a Material Adverse Effect, or a material adverse effect on the Collateral or the priority of Bank's Lien on the Collateral, or permit any of its Subsidiaries to do any of the foregoing.

8. EVENTS OF DEFAULT.

Any one or more of the following events shall constitute an Event of Default by Borrower under this Agreement:

8.1 Payment Default. If Borrower fails to pay any of the Obligations when due;

8.2 Covenant Default.

(a) If Borrower fails to perform any obligation under Article 6 or violates any of the covenants contained in Article 7 of this Agreement; or

(b) If Borrower fails or neglects to perform or observe any other material term, provision, condition, covenant contained in this Agreement, in any of the Loan Documents, or in any other present or future agreement between Borrower and Bank and as to any default under such other term, provision, condition or covenant that can be cured, has failed to cure such default within 10 days after Borrower receives notice thereof or any officer of Borrower becomes aware thereof; provided, however, that if the default cannot by its nature be cured within the 10 day period or cannot after diligent attempts by Borrower be cured within such 10 day period, and such default is likely to be cured within a reasonable time, then Borrower shall have an additional reasonable period (which shall not in any case exceed 30 days) to attempt to cure such default, and within such reasonable time period the failure to have cured such default shall not be deemed an Event of Default but no Credit Extensions will be made;

8.3 Material Adverse Change. If there occurs any circumstance that could have a Material Adverse Effect.

8.4 Attachment. If any material portion of a Borrower's assets is attached, seized, subjected to a writ or distress warrant, or is levied upon, or comes into the possession of any trustee, receiver or person acting in a similar capacity and such attachment, seizure, writ or distress warrant or levy has not been removed, discharged or rescinded within thirty (30) days or in any event not less than five (5) Business Days prior to the date of any proposed sale thereunder, or if a Borrower is enjoined, restrained, or in any way prevented by court order from continuing to conduct all or any material part of its business affairs, or if a material judgment or other claim becomes a lien or encumbrance upon any material portion of a Borrower's assets, or if a notice of lien, levy, or

assessment is filed of record with respect to any of a Borrower's assets by the United States Government, or any department, agency, or instrumentality thereof, or by any state, county, municipal, or governmental agency, and the same is not paid within thirty (30) days after a Borrower receives notice thereof, provided that none of the foregoing shall constitute an Event of Default where such action or event is stayed or an adequate bond has been posted pending a good faith contest by such Borrower (provided that no Credit Extensions will be required to be made during such cure period);

8.5 Insolvency. If Borrower becomes insolvent, or if an Insolvency Proceeding is commenced by Borrower, or if an Insolvency Proceeding is commenced against Borrower and is not dismissed or stayed within 30 days (provided that no Credit Extensions will be made prior to the dismissal of such Insolvency Proceeding);

8.6 Other Agreements. If there is a default or other failure to perform in any agreement to which Borrower is a party with a third party or parties resulting in a right by such third party or parties, whether or not exercised, to accelerate the maturity of any Indebtedness in an amount in excess of $100,000 or that would reasonably be expected to have a Material Adverse Effect;

8.7 Global Technology, Inc. If there is a default or other failure to perform by Global Technology, Inc. with respect to its credit facility and/or loan agreement with Bank's affiliated lender in China.

8.8 Subordinated Debt. If Borrower makes any payment on account of Subordinated Debt, except to the extent the payment is allowed under any subordination agreement entered into with Bank;

8.9 Judgments. If a judgment or judgments for the payment of money in an amount, individually or in the aggregate, of at least $100,000 shall be rendered against Borrower and shall remain unsatisfied and unstayed for a period of 30 days (provided that no Credit Extensions will be made prior to the satisfaction or stay of the judgment);

8.10 Misrepresentations. If any material misrepresentation or material misstatement exists now or hereafter in any warranty or representation set forth herein or in any certificate delivered to Bank by any Responsible Officer pursuant to this Agreement or to induce Bank to enter into this Agreement or any other Loan Document;

9. BANK'S RIGHTS AND REMEDIES.

9.1 Rights and Remedies. Upon the occurrence and during the continuance of an Event of Default, Bank may, at its election, without notice of its election and without demand, do any one or more of the following, all of which are authorized by Borrower:

(a) Declare all Obligations, whether evidenced by this Agreement, by any of the other Loan Documents, or otherwise, immediately due and payable (provided that upon the occurrence of an Event of Default described in Section 8.5 (insolvency), all Obligations shall become immediately due and payable without any action by Bank);

(b) Cease advancing money or extending credit to or for the benefit of Borrower under this Agreement or under any other agreement between a Borrower and Bank;

(c) Require that Borrower (i) deposit cash with Bank in an amount equal to the amount of any letters of credit remaining undrawn, as collateral security for the repayment of any future drawings under such letter of credit, and Borrower shall forthwith deposit and pay such amounts, and (ii) pay in advance all letters of credit fees scheduled to be paid or payable over the remaining term of the letters of credit;

(d) Settle or adjust disputes and claims directly with account debtors for amounts, subject to a notice sent to the Borrower, upon terms and in whatever order that Bank reasonably considers advisable;

(e) Make such payments and do such acts as Bank considers necessary or reasonable to protect its security interest in the Collateral. Borrower agrees to assemble the Collateral if Bank so requires, and to make the Collateral available to Bank as Bank may designate. Borrower authorizes Bank to enter the premises where the Collateral is located, to take and maintain possession of the Collateral, or any part of it, and to pay, purchase, contest, or compromise any encumbrance, charge, or lien which in Bank's determination appears to be prior or superior to its security interest and to pay all expenses incurred in connection therewith. With respect to any of Borrower's owned premises, Borrower hereby grants Bank a license to enter into possession of such premises and to occupy the same, without charge, in order to exercise any of Bank's rights or remedies provided herein, at law, in equity, or otherwise;

(f) Set off and apply to the Obligations any and all (i) balances and deposits of Borrower held by Bank, and (ii) indebtedness at any time owing to or for the credit or the account of Borrower held by Bank;

(g) Ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell (in the manner provided for herein) the Collateral. Bank is hereby granted a license or other right, solely pursuant to the provisions of this Section 9.1, to use, without charge, Borrower's labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks, service marks, and advertising matter, or any property of a similar nature, as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and, in connection with Bank's exercise of its rights under this Section 9.1, Borrower's rights under all licenses and all franchise agreements shall inure to Bank's benefit;

(h) Dispose of the Collateral at either a public or private sale, or both, by way of one or more contracts or transactions, for cash or on terms, in such manner and at such places (including Borrower's premises) as Bank determines is commercially reasonable, and apply any proceeds to the Obligations in whatever manner or order Bank deems appropriate. Bank may sell the Collateral without giving any warranties as to the Collateral;

(i) Bank may credit bid and purchase at any public sale;

(j) Apply for the appointment of a receiver, trustee, liquidator or conservator of the Collateral, without notice and without regard to the adequacy of the security for the Obligations and without regard to the solvency of Borrower, any guarantor or any other Person liable for any of the Obligations; and

(k) Any deficiency that exists after disposition of the Collateral as provided above will be paid immediately by Borrower.

Bank may comply with any applicable state or federal law requirements in connection with a disposition of the Collateral and compliance will not be considered adversely to affect the commercial reasonableness of any sale of the Collateral.

9.2 Power of Attorney. Effective only upon the occurrence and during the continuance of an Event of Default, Borrower hereby irrevocably appoints Bank (and any of Bank's designated officers, or employees) as Borrower's true and lawful attorney to: (a) send requests for verification of Accounts or notify account debtors of Bank's security interest in the Accounts; (b) endorse Borrower's name on any checks or other forms of payment or security that may come into Bank's possession; (c) sign Borrower's name on any invoice or bill of lading relating to any Account, drafts against account debtors, schedules and assignments of Accounts, verifications of Accounts, and notices to account debtors; (d) dispose of any Collateral; (e) make, settle, and adjust all claims under and decisions with respect to Borrower's policies of insurance; (f) settle and adjust disputes and claims respecting the accounts directly with account debtors, for amounts and upon terms which Bank determines to be reasonable; (g) enter into a short-form intellectual property security agreement consistent with the terms of this Agreement for recording purposes only or modify, in its sole discretion, any intellectual property security agreement entered into between Borrower and Bank without first obtaining Borrower's approval of or signature to such modification by amending Exhibits A, B, and C thereof, as appropriate, to include reference to any right, title or interest in any Copyrights, Patents or Trademarks acquired by Borrower after the execution hereof or to delete any reference to any right, title or interest in any Copyrights, Patents or Trademarks in which Borrower no longer has or

claims to have any right, title or interest; and (h) file, in its sole discretion, one or more financing or continuation statements and amendments thereto, relative to any of the Collateral without the signature of Borrower where permitted by law; provided Bank may exercise such power of attorney to sign the name of Borrower on any of the documents described in clauses (g) and (h) above, regardless of whether an Event of Default has occurred. The appointment of Bank as Borrower's attorney in fact, and each and every one of Bank's rights and powers, being coupled with an interest, is irrevocable until all of the Obligations have been fully repaid and performed and Bank's obligation to provide advances hereunder is terminated.

9.3 Accounts Collection. After the occurrence of an Event of Default that continues, Bank may notify any Person owing funds to Borrower of Bank's security interest in such funds and verify the amount of such Account. Borrower shall collect all amounts owing to Borrower, receive in trust all payments as Bank's trustee, and immediately deliver such payments to Bank in their original form as received from the account debtor, with proper endorsements for deposit.

9.4 Right of Set-off. Subject to Section 2, in addition to any rights now or hereafter granted under applicable law or otherwise, and not by way of limitation of any such rights, upon the occurrence and during the continuation of an Event of Default, Bank is authorized at any time or from time to time, without presentment, demand, protest or other notice of any kind to Borrower or to any other Person, any such notice being hereby expressly waived, to set off and to appropriate and apply any and all deposits (general or special) and any other Indebtedness at any time held or owing by Bank (including, without limitation, by branches and agencies of Bank wherever located) to or for the credit or the account of Borrower against and on account of the Obligations and liabilities of Borrower to Bank under this Agreement or under any of the other Loan Documents, and all other claims of any nature or description arising out of or connected with this Agreement or any other Loan Document, irrespective of whether or not Bank shall have made any demand hereunder and although said Obligations, liabilities or claims, or any of them, shall be contingent or unmatured.

9.5 Bank Expenses. If Borrower fails to pay any amounts or furnish any required proof of payment due to third persons or entities, as required under the terms of this Agreement, then Bank may do any or all of the following after reasonable notice to Borrower: (a) make payment of the same or any part thereof; (b) set up such reserves under the Revolving Line or EXIM Line as Bank deems necessary to protect Bank from the exposure created by such failure; or (c) obtain and maintain insurance policies of the type discussed in Section 6.8 of this Agreement, and take any action with respect to such policies as Bank deems prudent. Any amounts so paid or deposited by Bank shall constitute Bank Expenses, shall be immediately due and payable, and shall bear interest at the then applicable rate hereinabove provided, and shall be secured by the Collateral. Any payments made by Bank shall not constitute an agreement by Bank to make similar payments in the future or a waiver by Bank of any Event of Default under this Agreement. After the occurrence of an Event of Default which continues, Borrower shall reimburse Bank, upon demand, for all costs and expenses, including reasonable attorney's fees, incurred in connection with any of the Loan Documents.

9.6 Bank's Liability for Collateral. So long as Bank (i) complies with reasonable banking practices, (ii) is not grossly negligent, or (iii) does not engage in willful misconduct with respect to the Collateral, Bank shall not in any way or manner be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage thereto occurring or arising in any manner or fashion from any cause; (c) any diminution in the value thereof; or (d) any act or default of any carrier, warehouseman, bailee, forwarding agency, or other person whomsoever. All risk of loss, damage or destruction of the Collateral not consented to by Bank shall be borne by Borrower. Any surplus remaining after payment in full of the Obligations from the proceeds of the liquidation of any of the Collateral, shall be paid to Borrower as provided by law.

9.7 Shares. Borrower recognizes that Bank may be unable to effect a public sale of any or all the Shares, by reason of certain prohibitions contained in federal securities laws and applicable state securities laws or otherwise, and may be compelled to resort to one or more private sales thereof to a restricted group of purchasers which will be obliged to agree, among other things, to acquire such securities for their own account for investment and not with a view to the distribution or resale thereof. Borrower acknowledges and agrees that any such private sale may result in prices and other terms less favorable than if such sale were a public sale and, notwithstanding such circumstances, agrees that any such private sale shall be deemed to have been made in a commercially reasonable manner. Bank shall be under no obligation to delay a sale of any of the Shares for the

period of time necessary to permit the issuer thereof to register such securities for public sale under federal securities laws or under applicable state securities laws, even if such issuer would agree to do so. Upon the occurrence of an Event of Default which continues, Bank shall have the right to exercise all such rights as a secured party under the California Uniform Commercial Code as it, in its sole judgment, shall deem necessary or appropriate, including without limitation the right to liquidate the Shares and apply the proceeds thereof to reduce the Obligations. Effective only upon the occurrence and during the continuance of an Event of Default, Borrower hereby irrevocably appoints Bank (and any of Bank's designated officers, or employees) as Borrower's true and lawful attorney to enforce Borrower's rights against any Subsidiary, including the right to compel any Subsidiary to make payments or distributions owing to Borrower.

9.8 Remedies Cumulative. Bank's rights and remedies under this Agreement, the Loan Documents, and all other agreements shall be cumulative. Bank shall have all other rights and remedies not inconsistent herewith as provided under the Code, by law, or in equity. No exercise by Bank of one right or remedy shall be deemed an election, and no waiver by Bank of any Event of Default on Borrower's part shall be deemed a continuing waiver. No delay by Bank shall constitute a waiver, election, or acquiescence by it. No waiver by Bank shall be effective unless made in a written document signed on behalf of Bank and then shall be effective only in the specific instance and for the specific purpose for which it was given. Borrower expressly agrees that this Section 9.7 may not be waived or modified by Bank by course of performance, conduct, estoppel or otherwise.

9.9 Demand; Protest. Borrower waives demand, protest, notice of protest, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees at any time held by Bank on which Borrower may in any way be liable.

10. NOTICES.

Unless otherwise provided in this Agreement, all notices or demands by any party relating to this Agreement or any other agreement entered into in connection herewith shall be in writing and (except for financial statements and other informational documents which may be sent by first-class mail, postage prepaid) shall be personally delivered or sent by a recognized overnight delivery service, certified mail, postage prepaid, return receipt requested, or by telefacsimile to Borrower or to Bank, as the case may be, at its addresses set forth below:

If to Borrower: APPLIED OPTOELECTRONICS, INC.
13115 Jess Pirtle Blvd.
Sugar Land, TX 77478

Attn: Thompson Lin
Attn: N. Stephan Kinsella
FAX: (281) 295-1889

If to Bank: UNITED COMMERCIAL BANK
United Commercial Bank
555 Montgomery Street, 4th Floor
San Francisco, CA 94111

Attn: Technology Banking Group #288
Phone : (408) 496-5406
Fax: (408) 748-1268

Additional Contact Person: Yu-Fu Lin
FAX: (408) 748-1268

The parties hereto may change the address at which they are to receive notices hereunder, by notice in writing in the foregoing manner given to the other.

11. JURY TRIAL WAIVER, JUDICIAL REFERENCE.

This Agreement shall be governed by, and construed in accordance with, the internal laws of the State of California, without regard to principles of conflicts of law. Each of Borrower and Bank hereby submits to the exclusive jurisdiction of the state and Federal courts located in the County of Santa Clara, State of California. BORROWER AND BY ITS ACCEPTANCE OF THE BENEFITS HEREOF, BANK AGREES TO WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREIN. The scope of this waiver is intended to be all-encompassing of any and all disputes that may be filed in any court and that relate to the subject matter of this transaction, including without limitation contract claims, tort claims, breach of duty claims and all other common law and statutory claims. Borrower and, by its acceptance of the benefits hereof, Bank each (i) acknowledges that this waiver is a material inducement for Borrower and Bank to enter into a business relationship, that Borrower and Bank have already relied on this waiver in entering into this Agreement or accepting the benefits thereof, as the case may be, and that each will continue to rely on this waiver in their related future dealings, and (ii) further warrants and represents that each has reviewed this waiver with its legal counsel, and that each knowingly and voluntarily waives its jury trial rights following consultation with legal counsel. THIS WAIVER IS IRREVOCABLE, MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS AGREEMENT. In the event of litigation, this Agreement may be filed as a written consent to a trial by the court. IF THIS JURY TRIAL WAIVER IS NOT ENFORCEABLE THE PARTIES HERETO WILL RESOLVE ALL CLAIMS, DISPUTES AND OTHER MATTERS BY JUDICIAL REFERENCE UNDER CODE OF CIVIL PROCEDURE SECTION 638 ET SEQ. BEFORE A MUTUALLY ACCEPTABLE REFEREE OR, IF NONE, BY A REFEREE APPOINTED BY THE PRESIDING JUDGE OF THE CALIFORNIA SUPERIOR COURT FOR SANTA CLARA COUNTY.

12. GENERAL PROVISIONS.

12.1 Successors and Assigns. This Agreement shall bind and inure to the benefit of the respective successors and permitted assigns of each of the parties and shall bind all persons who become bound as a debtor to this Agreement; provided, however, that neither this Agreement nor any rights hereunder may be assigned by Borrower without Bank's prior written consent, which consent may be granted or withheld in Bank's sole discretion. Bank shall have the right without the consent of or notice to Borrower to sell, transfer, negotiate, or grant participation in all or any part of, or any interest in, Bank's obligations, rights and benefits hereunder.

12.2 Indemnification. Borrower shall defend, indemnify and hold harmless Bank and its officers, employees, and agents against: (a) all obligations, demands, claims, and liabilities claimed or asserted by any other party in connection with the transactions contemplated by this Agreement; and (b) all losses or Bank Expenses in any way suffered, incurred, or paid by Bank, its officers, employees and agents as a result of or in any way arising out of, following, or consequential to transactions between Bank and Borrower whether under this Agreement, or otherwise (including without limitation reasonable attorneys fees and expenses), except for losses caused by Bank's gross negligence or willful misconduct.

12.3 Time of Essence. Time is of the essence for the performance of all obligations set forth in this Agreement.

12.4 Severability of Provisions. Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

12.5 Restatement; Amendments in Writing, Integration. This Agreement amends and restates, without novation, the terms under which Bank will advance credit to Borrower and Borrower will repay Bank. All security agreements and financing statements previously executed or filed continue to perfect the security interest of Bank in Borrower's property. All amendments to or terminations of this Agreement or the other Loan Documents must be in writing. All prior agreements, understandings, representations, warranties, and negotiations between the parties hereto with respect to the subject matter of this Agreement and the other Loan Documents, if any, are merged into this Agreement and the Loan Documents.

12.6 Counterparts. This Agreement may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same Agreement.

12.7 Survival. All covenants, representations and warranties made in this Agreement shall continue in full force and effect so long as any Obligations remain outstanding or Bank has any obligation to make any Credit Extension to Borrower. The obligations of Borrower to indemnify Bank with respect to the expenses, damages, losses, costs and liabilities described in Section 12.2 shall survive until all applicable statute of limitations periods with respect to actions that may be brought against Bank have run.

12.8 Confidentiality. In handling any confidential information, Bank and all employees and agents of Bank shall exercise the same degree of care that Bank exercises with respect to its own proprietary information of the same types to maintain the confidentiality of any non-public information thereby received or received pursuant to this Agreement except that disclosure of such information may be made (i) to the subsidiaries or Affiliates of Bank in connection with their present or prospective business relations with Borrower, (ii) to prospective transferees or purchasers of any interest in the Loans, provided that they have entered into a comparable confidentiality agreement in favor of Borrower and have delivered a copy to Borrower, (iii) as required by law, regulations, rule or order, subpoena, judicial order or similar order, (iv) as may be required in connection with the examination, audit or similar investigation of Bank and (v) as Bank may determine in connection with the enforcement of any remedies hereunder. Confidential information hereunder shall not include information that either: (a) is in the public domain or in the knowledge or possession of Bank when disclosed to Bank, or becomes part of the public domain after disclosure to Bank through no fault of Bank; or (b) is disclosed to Bank by a third party, provided Bank does not have actual knowledge that such third party is prohibited from disclosing such information.

12.9 Borrower Agreement. The terms of the Borrower Agreement shall control in the event of any conflict between the terms of this Agreement and the Borrower Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first above written.

APPLIED OPTOELECTRONICS, INC.

By: /s/ Lin, Chih-Hsiang

Title: President/CEO

UNITED COMMERCIAL BANK

By: /s/ Yu-Fu Lin

Title: FVP and Manager

DEBTOR: **APPLIED OPTOELECTRONICS, INC.**

SECURED PARTY: **UNITED COMMERCIAL BANK**

EXHIBIT A

COLLATERAL DESCRIPTION ATTACHMENT TO LOAN AND SECURITY AGREEMENT

The Collateral shall consist of all right, title and interest of Borrower in and to the property of Borrower, whether presently existing or hereafter created or acquired, and wherever located, including, but not limited to:

(a) all accounts (including health-care-insurance receivables), chattel paper (including tangible and electronic chattel paper), deposit accounts, documents (including negotiable documents), equipment (including all accessions and additions thereto), general intangibles (including payment intangibles and software), goods (including fixtures), instruments (including promissory notes), inventory (including all goods held for sale or lease or to be furnished under a contract of service, and including returns and repossessions), investment property (including securities and securities entitlements), letter of credit rights, money, and all of Debtor's books and records with respect to any of the foregoing, and the computers and equipment containing said books and records;

(b) all common law and statutory copyrights and copyright registrations, applications for registration, now existing or hereafter arising, in the United States of America or in any foreign jurisdiction, obtained or to be obtained on or in connection with any of the forgoing, or any parts thereof or any underlying or component elements of any of the forgoing, together with the right to copyright and all rights to renew or extend such copyrights and the right (but not the obligation) of Secured Party to sue in its own name and/or in the name of the Debtor for past, present and future infringements of copyright;

(c) all trademarks, service marks, trade names and service names and the goodwill associated therewith, together with the right to trademark and all rights to renew or extend such trademarks and the right (but not the obligation) of Secured Party to sue in its own name and/or in the name of the Debtor for past, present and future infringements of trademark;

(d) all (i) patents and patent applications filed in the United States Patent and Trademark Office or any similar office of any foreign jurisdiction, and interests under patent license agreements, including, without limitation, the inventions and improvements described and claimed therein, (ii) licenses pertaining to any patent whether Debtor is licensor or licensee, (iii) income, royalties, damages, payments, accounts and accounts receivable now or hereafter due and/or payable under and with respect thereto, including, without limitation, damages and payments for past, present or future infringements thereof, (iv) right (but not the obligation) to sue in the name of Debtor and/or in the name of Secured Party for past, present and future infringements thereof, (v) rights corresponding thereto throughout the world in all jurisdictions in which such patents have been issued or applied for, and (vi) reissues, divisions, continuations, renewals, extensions and continuations-in-part with respect to any of the foregoing; and

(e) any and all cash proceeds and/or noncash proceeds of any of the foregoing, including, without limitation, insurance proceeds, and all supporting obligations and the security therefor or for any right to payment. All terms above have the meanings given to them in the California Uniform Commercial Code, as amended or supplemented from time to time.

EXHIBIT B-1

WORKING CAPITAL FACILITY NOTE

$8,000,000 September , 2007
Santa Clara, California

FOR VALUE RECEIVED, the undersigned, Applied Optoelectronics, Inc. (the "***Borrower"***), **HEREBY PROMISES TO PAY** to the order of United Commercial Bank (the "***Bank"***) at its Principal Office located at 5201 Great American Parkway, Suite 300, Santa Clara, CA 95054, or at such other place as Bank may from time to time designate in writing, in lawful money of the United States and in immediately available funds, the principal amount of **EIGHT MILLION DOLLARS** ($8,000,000) or so much of the Advances (as defined in the Loan Agreement (defined below)) as may be advanced from time to time, together with interest from the date of disbursement computed on the principal balances hereof from time to time outstanding as set forth in the Loan and Security Agreement dated as of the date hereof by and between Bank and Borrower (the "***Loan Agreement"***). The Loan Agreement is incorporated herein by this reference in its entirety. Capitalized terms used but not otherwise defined herein are used in this Working Capital Facility Note as defined in the Loan Agreement.

This Working Capital Facility Note is entitled to the benefits of, the Loan Agreement. The Loan Agreement, among other things, contains provisions for acceleration of the maturity of this Working Capital Facility Note upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity of this Working Capital Facility Note upon the terms and conditions specified in the Loan Agreement. This Working Capital Facility Note is also secured by the Collateral described in the Loan Agreement, and reference to the Loan Agreement is hereby made for a description of the rights of Borrower and Bank in respect to such Collateral.

Borrower further promises to pay interest on the unpaid principal amount hereof outstanding from time to time from the date hereof until payment in full hereof at the rate (or rates) from time to time applicable to the Advances as determined in accordance with the Loan Agreement. Interest shall be calculated on the basis of a three hundred sixty (360) day year for the actual days elapsed.

Borrower waives demand, presentment and protest, and notice of demand, presentment, protest and nonpayment. Except as otherwise provided in the Loan Agreement or other Loan Documents, Borrower waives all rights to notice and hearing of any kind upon the occurrence of an Event of Default prior to the exercise by Bank of its rights to repossess the Collateral without judicial process or to replevy, attach or levy upon the Collateral without notice or hearing.

If this Working Capital Facility Note is not paid when due, whether at its specified or accelerated maturity date, Borrower promises to pay all costs of collection and enforcement of this Working Capital Facility Note, including, but not limited to, reasonable attorneys' fees and costs, incurred by Bank hereof on account of such collection or enforcement, whether or not suit is filed hereon.

This Working Capital Facility Note shall be governed and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Working Capital Facility Note as of the date and year first above written.

APPLIED OPTOELECTRONICS, INC.

By: _____

Title: _____

EXHIBIT B-2

EQUIPMENT ADVANCE NOTE

$4,500,000 September , 2007
Santa Clara, California

FOR VALUE RECEIVED, the undersigned, Applied Optoelectronics, Inc. (the "***Borrower"***), **HEREBY PROMISES TO PAY** to the order of United Commercial Bank (the "***Bank"***) at its Principal Office located at 5201 Great American Parkway, Suite 300, Santa Clara, CA 95054, or at such other place as Bank may from time to time designate in writing, in lawful money of the United States and in immediately available funds, the principal amount of **FOUR MILLION FIVE HUNDRED THOUSAND DOLLARS** ($4,500,000) or so much of the Equipment Advances (as defined in the Loan Agreement (defined below)) as may be advanced from time to time, together with interest from the date of disbursement computed on the principal balances hereof from time to time outstanding as set forth in the Loan and Security Agreement dated as of the date hereof by and between Bank and Borrower (the "***Loan Agreement"***). The Loan Agreement is incorporated herein by this reference in its entirety. Capitalized terms used but not otherwise defined herein are used in this Equipment Advance Note as defined in the Loan Agreement.

This Equipment Advance Note (the "***Equipment Advance Note"***) is entitled to the benefits of, the Loan Agreement. The Loan Agreement, among other things, contains provisions for acceleration of the maturity of this Equipment Advance Note upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity of this Equipment Advance Note upon the terms and conditions specified in the Loan Agreement. This Equipment Advance Note is also secured by the Collateral described in the Loan Agreement, and reference to the Loan Agreement is hereby made for a description of the rights of Borrower and Bank in respect to such Collateral.

Borrower further promises to pay interest on the unpaid principal amount hereof outstanding from time to time from the date hereof until payment in full hereof at the rate (or rates) from time to time applicable to the Equipment Advances as determined in accordance with the Loan Agreement. Interest shall be calculated on the basis of a three hundred sixty (360)-day year for the actual days elapsed.

Borrower waives demand, presentment and protest, and notice of demand, presentment, protest and nonpayment. Except as otherwise provided in the Loan Agreement or other Loan Documents, Borrower waives all rights to notice and hearing of any kind upon the occurrence of an Event of Default prior to the exercise by Bank of its rights to repossess the Collateral without judicial process or to replevy, attach or levy upon the Collateral without notice or hearing.

If this Equipment Advance Note is not paid when due, whether at its specified or accelerated maturity date, Borrower promises to pay all costs of collection and enforcement of this Equipment Advance Note, including, but not limited to, reasonable attorneys' fees and costs, incurred by Bank hereof on account of such collection or enforcement, whether or not suit is filed hereon.

This Equipment Advance Note shall be governed and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Equipment Advance Note as of the date and year first above written.

APPLIED OPTOELECTRONICS, INC.

By: _____

Title: _____

EXHIBIT B-3

REAL ESTATE ADVANCE NOTE

$3,756,031 September , 2007
Santa Clara, California

FOR VALUE RECEIVED, the undersigned, Applied Optoelectronics, Inc. (the "***Borrower"***), **HEREBY PROMISES TO PAY** to the order of United Commercial Bank (the "***Bank"***) at its Principal Office located at 5201 Great American Parkway, Suite 300, Santa Clara, CA 95054, or at such other place as Bank may from time to time designate in writing, in lawful money of the United States and in immediately available funds, the principal amount of **THREE MILLION SEVEN HUNDRED FIFTY SIX THOUSAND THIRTY ONE DOLLARS** ($3,756,031) or so much of the Real Estate Advance (as defined in the Loan Agreement (defined below)) as may be advanced from time to time, together with interest from the date of disbursement computed on the principal balances hereof from time to time outstanding as set forth in the Loan and Security Agreement dated as of the date hereof by and between Bank and Borrower (the "***Loan Agreement"***). The Loan Agreement is incorporated herein by this reference in its entirety. Capitalized terms used but not otherwise defined herein are used in this Equipment Advance Note as defined in the Loan Agreement.

This Real Estate Advance Note (the "***Real Estate Advance Note"***) is entitled to the benefits of, the Loan Agreement. The Loan Agreement, among other things, contains provisions for acceleration of the maturity of this Real Estate Advance Note upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity of this Real Estate Advance Note upon the terms and conditions specified in the Loan Agreement. This Real Estate Advance Note is also secured by the Collateral described in the Loan Agreement, and reference to the Loan Agreement is hereby made for a description of the rights of Borrower and Bank in respect to such Collateral.

Borrower further promises to pay interest on the unpaid principal amount hereof outstanding from time to time from the date hereof until payment in full hereof at the rate (or rates) from time to time applicable to the Real Estate Advances as determined in accordance with the Loan Agreement. Interest shall be calculated on the basis of a three hundred sixty (360)-day year for the actual days elapsed.

Borrower waives demand, presentment and protest, and notice of demand, presentment, protest and nonpayment. Except as otherwise provided in the Loan Agreement or other Loan Documents, Borrower waives all rights to notice and hearing of any kind upon the occurrence of an Event of Default prior to the exercise by Bank of its rights to repossess the Collateral without judicial process or to replevy, attach or levy upon the Collateral without notice or hearing.

If this Real Estate Advance Note is not paid when due, whether at its specified or accelerated maturity date, Borrower promises to pay all costs of collection and enforcement of this Real Estate Advance Note, including, but not limited to, reasonable attorneys' fees and costs, incurred by Bank hereof on account of such collection or enforcement, whether or not suit is filed hereon.

This Real Estate Advance Note shall be governed and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Real Estate Advance Note as of the date and year first above written.

APPLIED OPTOELECTRONICS, INC.

By: _____

Title: _____

EXHIBIT B-4

EXIM LINE PROMISSORY NOTE

$5,000,000 February , 2008
Santa Clara, California

FOR VALUE RECEIVED, the undersigned, **APPLIED OPTOELECTRONICS, INC.** (the "***Borrower"***), **HEREBY PROMISES TO PAY** to the order of United Commercial Bank (the "***Bank"***) at its Principal Office located at 5201 Great American Parkway, Suite 300, Santa Clara, CA 95054, or at such other place as Bank may from time to time designate in writing, in lawful money of the United States and in immediately available funds, the principal amount of five million dollars ($5,000,000) or so much of the EXIM Advances (as defined in the Loan Agreement (defined below)) as may be advanced from time to time, together with interest from the date of disbursement computed on the principal balances hereof from time to time outstanding as set forth in the Loan and Security

Agreement dated the date hereof by and between Bank and Borrower (the "***Loan Agreement***"). The Loan Agreement is incorporated herein by this reference in its entirety. Capitalized terms used but not otherwise defined herein are used in this EXIM Line Promissory Note as defined in the Loan Agreement.

This EXIM Line Promissory Note is entitled to the benefits of, the Loan Agreement. The Loan Agreement, among other things, contains provisions for acceleration of the maturity of this EXIM Line Promissory Note upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity of this EXIM Line Promissory Note upon the terms and conditions specified in the Loan Agreement. This EXIM Line Promissory Note is also secured by the Collateral described in the Loan Agreement, and reference to the Loan Agreement is hereby made for a description of the rights of Borrower and Bank in respect to such Collateral.

Borrower further promises to pay interest on the unpaid principal amount hereof outstanding from time to time from the date hereof until payment in full hereof at the rate (or rates) from time to time applicable to the EXIM Advances as determined in accordance with the Loan Agreement. Interest shall be calculated on the basis of a three hundred sixty (360)-day year for the actual days elapsed.

Borrower waives demand, presentment and protest, and notice of demand, presentment, protest and nonpayment. Except as otherwise provided in the Loan Agreement or other Loan Documents, Borrower waives all rights to notice and hearing of any kind upon the occurrence of an Event of Default prior to the exercise by Bank of its rights to repossess the Collateral without judicial process or to replevy, attach or levy upon the Collateral without notice or hearing.

If this EXIM Line Promissory Note is not paid when due, whether at its specified or accelerated maturity date, Borrower promises to pay all costs of collection and enforcement of this EXIM Line Promissory Note, including, but not limited to, reasonable attorneys' fees and costs, incurred by Bank hereof on account of such collection or enforcement, whether or not suit is filed hereon.

This EXIM Line Promissory Note shall be governed and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the undersigned has executed and delivered this EXIM Line Promissory Note as of the date and year first above written.

APPLIED OPTOELECTRONICS, INC.

By: _____

Title: _____

FIRST AMENDMENT
TO
AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

This First Amendment to Amended and Restated Loan and Security Agreement is entered into as of May 3, 2010 (the "Amendment"), by and between EAST WEST BANK as successor in interest and assignee to East West Bank ("Bank") and Applied Optoelectronics, Inc., a Texas corporation ("Borrower").

RECITALS

Borrower and Bank are parties to that certain Amended and Restated Loan and Security Agreement dated as of May 20, 2009, as amended from time to time (the "Agreement"). The parties desire to amend the Agreement in accordance with the terms of this Amendment.

AGREEMENT

NOW, THEREFORE, the parties agree as follows:

1. The following defined terms set forth in Section 1.1 of the Agreement are added or amended in their entirety to read as follows:

"Domestic Borrowing Base" means an amount equal to (i) 80% of Eligible Accounts plus (ii) the lesser of 30% of Eligible Inventory or $1,000,000, plus (iii) the lesser of 50% of the Orderly Liquidation Value of domestic Equipment (as set forth in the appraisal completed in April 2009 and in the form previously provided to Bank) or $1,600,000, as determined by Bank with reference to the most recent Borrowing Base Certificate delivered by Borrower. Notwithstanding the foregoing, Eligible Inventory shall not exceed 50% of the total Domestic Borrowing Base.

"Equipment Maturity Date" means May 3, 2014.

"EXIM Maturity Date" means May 3, 2011.

"Real Estate Maturity Date" means May 3, 2014.

"Revolving Maturity Date" means May 3, 2011.

2. Subsection (c) to the defined term "Domestic Eligible Accounts" is amended in its entirety to read as follows:

Accounts with respect to an account debtor, including Subsidiaries and Affiliates, whose total obligations to Borrower exceed twenty five percent (25%) of all domestic and foreign Accounts (the "Concentration Limit"), to the extent such obligations exceed the aforementioned percentage, except as approved in writing by Bank and except that the Concentration Limit for Accounts with respect to which the account debtor is Cisco/Scientific-A shall be forty percent (40%);

3. The following is added as a new subsection (c) to the defined term "Permitted Investment" set forth in Section 1.1 of the Agreement:

(c) Investments into Global Technology, Inc., a Chinese corporation (through Borrower's wholly owned subsidiary Prime World International Holdings Ltd.) in an amount not to exceed the required registered capital requirement and in the ordinary course of business.

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4. Section 2.1(c) is amended in its entirety to read as follows:

(c) Equipment Advances.

(i) Subject to and upon the terms and conditions of this Agreement, Bank agrees to make Equipment Advances to Borrower in an aggregate amount not to exceed the lesser of (A) $390,795 or (B) fifty percent (50%) of the Orderly Liquidation Value (as set forth in the appraisal completed in April 2009 and in the form previously provided to Bank) of such Equipment minus $3,000,000. Borrower shall deliver to Bank a promissory note for the Equipment Advances in substantially the form attached hereto as Exhibit B-2. Bank may enforce its rights in respect of the Equipment Advance under this Agreement without such note.

(ii) On the fifth day of each month until the Equipment Advance Maturity Date, Borrower shall repay the outstanding Equipment Advance in forty eight (48) equal monthly installments of principal, plus accrued interest. The entire principal balance and all accrued but unpaid interest on the Equipment Advance shall be due and payable on the Equipment Advance Maturity Date. Equipment Advances, once repaid, may not be reborrowed. Borrower may prepay any Equipment Advances without penalty or premium.

(iii) When Borrower desires to obtain an Equipment Advance, Borrower shall notify Bank (which notice shall be irrevocable) by facsimile transmission to be received no later than 3:00 p.m. Pacific time three (3) Business Days before the day on which the Equipment Advance is to be made. Such notice shall be substantially in the form of **Exhibit C**. The notice shall be signed by a Responsible Officer or its designee and include a copy of the invoice and proof of payment of such invoice for any Equipment to be financed.

5. Section 2.1(d)(ii) is amended in its entirety to read as follows:

(ii) Payments. The outstanding principal amount of the Real Estate Advance as of May 3, 2010 is $3,452,638.13. On the fifth day of each of each until the Real Estate Maturity Date, Borrower shall repay the Real Estate Advance in equal installments of principal and interest based on a 240-month amortization schedule as prescribed by Bank. The entire principal balance and all accrued but unpaid interest on the Real Estate Advance shall be due and payable on the Real Estate Maturity Date.

6. Section 2.3(a) of the Agreement is amended in its entirety to read as follows:

(a) Interest Rates.

(i) Revolving Advance Interest Rate. Except as set forth in Section 2.3(b), the outstanding principal balance of each Revolving Advance shall bear interest (computed daily on the basis of a 360 day year and actual days elapsed), at a variable rate per annum equal to the Prime Rate plus 2.25%.

(ii) Equipment Advance Interest Rate. Except as set forth in Section 2.3(b), the outstanding principal balance of the Equipment Advance shall bear interest (computed daily on the basis of a 360 day year and actual days elapsed), at a variable rate equal to the Prime Rate plus 2.25%.

(iii) Real Estate Advance Interest Rate. Except as set forth in Section 2.3(b), the outstanding principal balance of the Real Estate Advance shall bear interest (computed daily on the basis of a 360 day year and actual days elapsed), at a variable rate

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equal to the Prime Rate plus 2.25%.

(iv) EXIM Advance Interest Rate. Except as set forth in Section 2.3(b), the outstanding principal balance of the EXIM Advances shall bear interest (computed daily on the basis of a 360 day year and actual days elapsed), at a variable rate equal to the Prime Rate plus 2.25%.

Notwithstanding the foregoing, at no time shall the interest rate applied to any Credit Extension be less than 5.75% per annum (computed daily on the basis of a 360 day year and actual days elapsed) (the "Floor Rate").

7. The following is added as a new subsection (g) to Section 6.2 of the Agreement:

(g) Within 20 days after the last day of each month, Borrower shall deliver to Bank (i) a monthly accounts payable aging report (against invoice date) of all accounts payable owing by account debtor Global Technology, Inc. to Borrower, and (ii) a monthly accounts payable aging report (against invoice date) of all accounts payable owing by the account debtor AOI Taiwan (Borrower's subsidiary operating in Taiwan) to Borrower.

8. Section 6.3 of the Agreement is amended in its entirety to read as follows:

6.3 Collateral Audits. Bank shall have a right from time to time hereafter to audit Borrower's Accounts and appraise Collateral at Borrower's expense, provided that such audits will be conducted no more often than once every twelve months unless an Event of Default has occurred and is continuing.

9. Section 6.4 of the Agreement is amended in its entirety to read as follows:

6.4 Current Ratio. Borrower shall maintain, as of the last day of each month, a Current Ratio equal to or greater than 1.00 to 1.00.

10. Section 6.5 of the Agreement is amended in its entirety to read as follows:

6.5 Total Liabilities to Tangible Net Worth Ratio. Borrower shall maintain as of the last day of each month starting, a ratio of Total Liabilities to Tangible Net Worth not greater than 1.20 to 1:00.

11. Section 6.6 of the Agreement is amended in its entirety to read as follows:

6.6 Minimum EBITDASO. Borrower shall maintain a minimum quarterly EBITDASO of at least the following amounts:

Quarter(s) Ending	Amount
June 30, 2010:	$ 200,000
September 30, 2010:	$ 225,000
December 31, 2010:	$ 225,000
March 31, 2011:	$ 225,000
June 30, 2011:	$ 250,000
September 30, 2011 and thereafter:	$ 275,000

12. The following is added as a new Section 6.14 of the Agreement:

6.14 Beginning on May 3, 2010 and continuing thereafter, Borrower shall cause its subsidiaries, Prime World International Holdings, Ltd and Global Technology Inc., to pay all accounts receivable owing to Borrower within 60 days of invoice date.

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13. Exhibit B-2 to the Agreement is replaced in its entirety with Exhibit B-2 attached hereto.

14. Bank and Borrower each acknowledge and agree that the warrant issued to United Commercial Bank on June 30, 2009 has been assigned in full to Bank, and such warrant provides Bank with rights to acquire 400,000 shares of Borrower's Series F Preferred Stock at an exercise price of $0.25 (the "2009 Warrant"). In connection with this Amendment, Borrower shall issue to Bank an additional 250,000 shares warrant to purchase Borrower's Series F Preferred Stock at an exercise price of $0.60 per share (the "2010 Warrant"). The 2010 Warrant shall be in addition to Bank's 2009 Warrant, and does not replace or supersede the 2009 Warrant.

15. Unless otherwise defined, all initially capitalized terms in this Amendment shall be as defined in the Agreement. The Agreement, as amended hereby, shall be and remains in full force and effect in accordance with its terms and hereby is ratified and confirmed in all respects. Except as expressly set forth herein, the execution, delivery, and performance of this Amendment shall not operate as a waiver of, or as an amendment of, any right, power, or remedy of Bank under

the Agreement, as in effect prior to the date hereof. Borrower ratifies and reaffirms the continuing effectiveness of all instruments, documents and agreements entered into in connection with the Agreement.

16. Borrower represents and warrants that the representations and warranties contained in the Agreement are true and correct as of the date of this Amendment, and that no Event of Default has occurred and is continuing.

17. Borrower represents and warrants that the Schedule of Exceptions attached hereto is true and complete as of the date hereof.

18. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument.

19. As a condition to the effectiveness of this Amendment, Bank shall have received, in form and substance satisfactory to Bank, the following:

(a) this Amendment, duly executed by Borrower;

(b) the 2010 Warrant;

(c) Corporation Resolutions and Incumbency Certification;

(d) Schedule of Exceptions, as of the date hereof;

(e) the stock certificate of Global Technology, Inc., pursuant to Section 6.12 of the Agreement;

(f) an amendment fee of $34,608.59 to Bank, plus an amount equal to all Bank Expenses incurred through the date of this Amendment; and

(g) such other documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate.

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IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the first date above written.

APPLIED OPTOELECTRONICS, INC.

By: /s/ Lin, Chih-Hsiang

Title: Lin, Chih-Hsiang, President

EAST WEST BANK

By: /s/ Yu-Fu Lin

Title: First Vice President

EXHIBIT B-2
EQUIPMENT ADVANCE NOTE

$390,795 May 3, 2010
Santa Clara, California

FOR VALUE RECEIVED, the undersigned, Applied Optoelectronics, Inc. (the "***Borrower***"), **HEREBY PROMISES TO PAY** to the order of East West Bank (the "***Bank***") at its Principal Office located at 5201 Great American Parkway, Suite 300, Santa Clara, CA 95054, or at such other place as Bank may from time to time designate in writing, in lawful money of the United States and in immediately available funds, the principal amount of **THREE HUNDRED NINETY THOUSAND SEVEN HUNDRED NINETY FIVE DOLLARS** ($390.795.00) or so much of the Equipment Advances (as defined in the Loan Agreement (defined below)) as may be advanced from time to time, together with interest from the date of disbursement computed on the principal balances hereof from time to time outstanding as set forth in the Amended and Restated Loan and Security Agreement dated as of the date hereof by and between Bank and Borrower (the "***Loan Agreement***"). The Loan Agreement is incorporated herein by this reference in its entirety. Capitalized terms used but not otherwise defined herein are used in this Equipment Advance Note as defined in the Loan Agreement.

This Equipment Advance Note (the "***Equipment Advance Note***") is entitled to the benefits of, the Loan Agreement. The Loan Agreement, among other things, contains provisions for acceleration of the maturity of this Equipment Advance Note upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity of this Equipment Advance Note upon the terms and conditions specified in the Loan Agreement. This Equipment Advance Note is also secured by the Collateral described in the Loan Agreement, and reference to the Loan Agreement is hereby made for a description of the rights of Borrower and Bank in respect to such Collateral.

Borrower further promises to pay interest on the unpaid principal amount hereof outstanding from time to time from the date hereof until payment in full hereof at the rate (or rates) from time to time applicable to the Equipment Advances as determined in accordance with the Loan Agreement. Interest shall be calculated on the basis of a three hundred sixty (360)-day year for the actual days elapsed.

Borrower waives demand, presentment and protest, and notice of demand, presentment, protest and nonpayment. Except as otherwise provided in the Loan Agreement or other Loan Documents, Borrower waives all rights to notice and hearing of any kind upon the occurrence of an Event of Default prior to the exercise by Bank of its rights to repossess the Collateral without judicial process or to replevy, attach or levy upon the Collateral without notice or hearing.

If this Equipment Advance Note is not paid when due, whether at its specified or accelerated maturity date, Borrower promises to pay all costs of collection and enforcement of this Equipment Advance Note, including, but not limited to, reasonable attorneys' fees and costs, incurred by Bank hereof on account of such collection or enforcement, whether or not suit is filed hereon.

This Equipment Advance Note shall be governed and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Equipment Advance Note as of the date and year first above written.

APPLIED OPTOELECTRONICS, INC.

By: _____

Title: Lin, Chih-Hsiang, President

SECOND AMENDMENT
TO
AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

This Second Amendment to Amended and Restated Loan and Security Agreement is entered into as of October 28, 2010 (the "Amendment"), by and between APPLIED OPTOELECTRONICS, INC ("Borrower") and EAST WEST BANK ("Bank").

RECITALS

Borrower and Bank are parties to that certain Amended and Restated Loan and Security Agreement dated as of June 30, 2009, as amended from time to time including that certain First Amendment to Amended and Restated Loan and Security Agreement dated as of May 3, 2010 (collectively, the "Agreement"). The parties desire to amend the Agreement in accordance with the terms of this Amendment.

AGREEMENT

NOW, THEREFORE, the parties agree as follows:

1. Bank consents to the incurrence of up to $13,000,000 of Indebtedness by Global Technology, Inc., a wholly owned subsidiary of Prime World International Holdings, Ltd. (which is a wholly owned subsidiary of Borrower), in connection with a credit facility from a bank or financial institution acceptable to Bank (the "GTI Debt"), provided that (i) Borrower is not a co-borrower or guarantor to the GTI Debt, or in any way obligated or liable with respect to the GTI Debt, (ii) none of Bank's Collateral shall be pledged or used to secure the GTI Debt, and (iii) Borrower shall not make any Investment into Global Technology, Inc. in support of the GTI Debt.

2. Section 2.3(a) of the Agreement is amended in its entirety to read as follows:

(a) Interest Rates. Except as set forth in Section 2.3(b), the outstanding principal balance of each Revolving Advance, each Equipment Advance, each Real Estate Advance and each EXIM Advance shall bear interest (computed daily on the basis of a 360 day year and actual days elapsed), at a variable rate per annum equal to the Prime Rate plus 2.125%. Notwithstanding the foregoing, at no time shall the interest rate applied to any Credit Extension be less than 5.375% per annum (computed daily on the basis of a 360 day year and actual days elapsed) (the "Floor Rate").

3. Section 6.2(a)(ii) of the Agreement is amended in its entirety to read as follows:

(ii) as soon as available, but in any event no later than on July 30 following the end of Borrower's fiscal year, audited consolidated and consolidating financial statements of Borrower prepared in accordance with GAAP, consistently applied, together with an opinion which is unqualified or otherwise consented to in writing by Bank on such financial statements of an independent certified public accounting firm reasonably acceptable to Bank;

4. Section 6.5 of the Agreement is amended in its entirety to read as follows:

6.5 Total Liabilities to Tangible Net Worth Ratio. Borrower shall maintain as of the last day of each month, a ratio of Total Liabilities to Tangible Net Worth not greater than 1.50 to 1:00.

5. The following is added as a new Section 6.15 of the Agreement:

6.15 Minimum Debt Service Coverage. Borrower shall maintain a minimum ratio of EBITDASO on a consolidated basis for the trailing two quarter period to the sum of (x) all accrued interest payable in the same two quarter period plus (y) all principal payable in the same

two quarter period on any Indebtedness (not including principal oustanding on any revolving lines of credit) owing by Borrower and its Subsidiaries to Bank or other financial institutions, of at least 1.35 to 1.00, measured on a quarterly basis.

6. Unless otherwise defined, all initially capitalized terms in this Amendment shall be as defined in the Agreement. The Agreement, as amended hereby, shall be and remains in full force and effect in accordance with its terms and hereby is ratified and confirmed in all respects. Except as expressly set forth herein, the execution, delivery, and performance of this Amendment shall not operate as a waiver of, or as an amendment of, any right, power, or remedy of Bank under the Agreement, as in effect prior to the date hereof. Borrower ratifies and reaffirms the continuing effectiveness of all instruments, documents and agreements entered into in connection with the Agreement.

7. Borrower represents and warrants that the representations and warranties contained in the Agreement are true and correct as of the date of this Amendment, and that no Event of Default has occurred and is continuing.

8. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument.

9. As a condition to the effectiveness of this Amendment, Bank shall have received, in form and substance satisfactory to Bank, the following:

(a) this Amendment, duly executed by Borrower;

(b) an amendment fee of $2,000 to Bank, plus an amount equal to all Bank Expenses incurred through the date of this Amendment; and

(c) such other documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate.

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the first date above written.

APPLIED OPTOELECTRONICS, INC.

By: /s/ Chih-Hsiang (Thompson) Lin

Title: CEO

EAST WEST BANK

By: /s/ Lisa Chang

Title: AVP

THIRD AMENDMENT
TO
AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

This Third Amendment to Amended and Restated Loan and Security Agreement is entered into as of December 6, 2010 (the "Amendment"), by and between APPLIED OPTOELECTRONICS, INC ("Borrower") and EAST WEST BANK ("Bank").

RECITALS

Borrower and Bank are parties to that certain Amended and Restated Loan and Security Agreement dated as of May 20, 2009, as amended from time to time including that certain First Amendment to Amended and Restated Loan and Security Agreement dated as of May 3, 2010 and that certain Second Amendment to Amended and Restated Loan and Security Agreement dated as of October 28, 2010 (collectively, the "Agreement"). The parties desire to amend the Agreement in accordance with the terms of this Amendment.

AGREEMENT

NOW, THEREFORE, the parties agree as follows:

1. The following defined terms set forth in Section 1.1 of the Agreement are added or amended in their entirety to read as follows:

"Credit Extension" means each Advance, Equipment Advance, Real Estate Advance, EXIM Advance, Line II Advance or any other extension of credit by Bank to or for the benefit of Borrower hereunder.

"Domestic Borrowing Base" means an amount equal to (i) 80% of Eligible Accounts plus (ii) the lesser of 30% of Eligible Inventory or $1,000,000, plus (iii) the lesser of the Maximum OLV or 50% of the Orderly Liquidation Value of domestic Equipment (as set forth in the appraisal completed in April 2009 and in the form previously provided to Bank), as determined by Bank with reference to the most recent Domestic Borrowing Base Certificate delivered by Borrower. Notwithstanding the foregoing, Eligible Inventory shall not exceed 50% of the total Domestic Borrowing Base.

"Maximum OLV" means $1,600,000 minus fifty percent (50%) of the proceeds from the sale, disposal, lease, transfer or other disposition or liquidation of any domestic Equipment occurring on or after May 3, 2010.

"Line II Advance" or "Line II Advances" means a cash advance or cash advances under the Revolving Line II.

"Line II Borrowing Base" means an amount equal to up to $1,500,000 in excess of the available Domestic Borrowing Base, derived from the following: (i) 80% of Eligible Accounts plus (ii) the lesser of 30% of Eligible Inventory or $1,000,000, plus (iii) the lesser of the Maximum OLV or 50% of the Orderly Liquidation Value of domestic Equipment (as set forth in the appraisal completed in April 2009 and in the form previously provided to Bank), as determined by Bank with reference to the most recent Domestic Borrowing Base Certificate delivered by Borrower (without duplication of any Accounts included in the Domestic Borrowing Base). Notwithstanding the foregoing, Eligible Inventory shall not exceed 50% of the total Line II Borrowing Base.

"Revolving Line II" means a Credit Extension of up to one million five hundred thousand dollars ($1,500,000).

"Revolving Line II Maturity Date" means May 3, 2011.

2. The following is added as a new section 2.1(f) of the Agreement as follows:

(f) Line II Advances Under Revolving Line II.

(i) Amount. Subject to and upon the terms and conditions of this Agreement and only when an aggregate of $3,500,000 in Advances are outstanding, Borrower may request Line II Advances in an aggregate outstanding amount not to exceed the lesser of (A) the Revolving Line II or (B) the Line II Borrowing Base. Amounts borrowed pursuant to this Section 2.1(f) may be repaid and reborrowed at any time prior to the Revolving Line II Maturity Date without penalty or premium. Borrower shall deliver to Bank a promissory note for the Line II Advances in substantially the form attached hereto as Exhibit B-5. Bank may enforce its rights in respect of the Line II Advances under this Agreement without such note.

(ii) Borrowing Procedure. Whenever Borrower desires a Line II Advance, Borrower will notify Bank by facsimile transmission of an advance request in substantially the form of Exhibit C hereto no later than noon Pacific Time on the Business Day that is one (1) Business Day prior to the Business Day on which a Line II Advance is made. Bank is authorized to make Line II Advances under this Agreement, based upon instructions received from a Responsible Officer or a designee of a Responsible Officer. Bank will credit the amount of Line II Advances made under this Section 2.1(f) to a Borrower's deposit account, as specified by Borrower.

(iv) Payments. Borrower shall pay interest on the aggregate outstanding principal amount of the Line II Advances on the fifth day of each month for so long as any Line II Advances are outstanding. All Line II Advances shall be due and payable on the Revolving Line II Maturity Date.

3. The following is added as a new subsection (g) to Section 2.1 of the Agreement as follows:

(g) Priority. Notwithstanding the foregoing provisions, any payments by Borrower to Bank following an Event of Default shall not be applied to any Line II Advance or any interest accrued thereon until all other Credit Extensions are fully repaid.

4. Section 2.2 of the Agreement is amended to read as follows:

2.2 Overadvances. If the aggregate amount of the outstanding Advances exceeds the lesser of the Revolving Line or the Domestic Borrowing Base at any time, Borrower shall immediately pay to Bank, in cash, the amount of such excess. If the aggregate amount of the outstanding Line II Advances exceeds the lesser of the Revolving Line II or the Line II Borrowing Base at any time, Borrower shall immediately pay to Bank, in cash, the amount of such excess.

5. The following is added as a new subsection (h) to Section 6.2 of the Agreement as follows:

(h) With respect to Accounts permitted in the Domestic Borrowing Base or the Line II Borrowing Base pursuant to subsections (a) and (b) of the defined term "Domestic Eligible Accounts" as set forth in Section 1.1 of the Agreement, upon Bank's reasonable request, evidence of credit insurance claim compliance and all supporting documents with respect to such Accounts.

6. Section 2.3(a) of the Agreement is amended in its entirety to read as follows:

(a) Interest Rates. Except as set forth in Section 2.3(b), the outstanding principal balance of each Credit Extension shall bear interest (computed daily on the basis of a 360 day year and actual days elapsed), at a variable rate per annum equal to the Prime Rate plus 2.25%. Notwithstanding the foregoing, at no time shall the interest rate applied to any Credit Extension be less than 5.375% per annum (computed daily on the basis of a 360 day year and actual days elapsed) (the "Floor Rate").

7. Exhibit B-5 attached hereto is incorporated in its entirety as Exhibit B-5 to the Agreement.

8. Exhibit D-1 to the Agreement is replaced in its entirety with the Domestic Borrowing Base Certificate provided by Bank to Borrower.

9. Unless otherwise defined, all initially capitalized terms in this Amendment shall be as defined in the Agreement. The Agreement, as amended hereby, shall be and remains in full force and effect in accordance with its terms and hereby is ratified and confirmed in all respects. Except as expressly set forth herein, the execution, delivery, and performance of this Amendment shall not operate as a waiver of, or as an amendment of, any right, power, or remedy of Bank under the Agreement, as in effect prior to the date hereof. Borrower ratifies and reaffirms the continuing effectiveness of all instruments, documents and agreements entered into in connection with the Agreement.

10. Borrower represents and warrants that the representations and warranties contained in the Agreement are true and correct as of the date of this Amendment, and that no Event of Default has occurred and is continuing.

11. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument.

12. As a condition to the effectiveness of this Amendment, Bank shall have received, in form and substance satisfactory to Bank, the following:

(a) this Amendment, duly executed by Borrower;

(a) Corporate Resolutions and Incumbency Certification, duly executed by Borrower;

(b) Line II Promissory Note, duly executed by Borrower;

(c) an amendment fee of $1,875 to Bank, plus an amount equal to all Bank Expenses incurred through the date of this Amendment; and

(d) such other documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate.

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IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the first date above written.

APPLIED OPTOELECTRONICS, INC.

By: /s/ Chih-Hsiang (Thompson) Lin

Title: CEO

EAST WEST BANK

By: /s/ Lisa Chang

Title: AVP

EXHIBIT B-5

LINE II PROMISSORY NOTE

$1,500,000 December 6, 2010
Santa Clara, California

FOR VALUE RECEIVED, the undersigned, Applied Optoelectronics, Inc. (the "***Borrower***"), **HEREBY PROMISES TO PAY** to the order of East West Bank (the "***Bank***") at its principal office located at 2350 Mission College Blvd., Suite 988, Santa Clara, California 95054, or at such other place as Bank may from time to time designate in writing, in lawful money of the United States and in immediately available funds, the principal amount of **ONE MILLION FIVE HUNDRED THOUSAND DOLLARS** ($1,500,000) or so much of the Line II Advances (as defined in the Loan Agreement (defined below)) as may be advanced from time to time, together with interest from the date of disbursement computed on the principal balances hereof from time to time outstanding as set forth in the Amended and Restated Loan and Security Agreement dated as of May 20, 2009 by and between Bank and Borrower (the "***Loan Agreement***"). The Loan Agreement is incorporated herein by this reference in its entirety. Capitalized terms used but not otherwise defined herein are used in this Line II Promissory Note as defined in the Loan Agreement.

This Line II Promissory Note is entitled to the benefits of the Loan Agreement. The Loan Agreement, among other things, contains provisions for acceleration of the maturity of this Line II Promissory Note upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity of this Line II Promissory Note upon the terms and conditions specified in the Loan Agreement. This Line II Promissory Note is also secured by the Collateral described in the Loan Agreement, and reference to the Loan Agreement is hereby made for a description of the rights of Borrower and Bank in respect to such Collateral.

Borrower further promises to pay interest on the unpaid principal amount hereof outstanding from time to time from the date hereof until payment in full hereof at the rate (or rates) from time to time applicable to the Advances as determined in accordance with the Loan Agreement. Interest shall be calculated on the basis of a three hundred sixty (360) day year for the actual days elapsed.

Borrower waives demand, presentment and protest, and notice of demand, presentment, protest and nonpayment. Except as otherwise provided in the Loan Agreement or other Loan Documents, Borrower waives all rights to notice and hearing of any kind upon the occurrence of an Event of Default prior to the exercise by Bank of its rights to repossess the Collateral without judicial process or to replevy, attach or levy upon the Collateral without notice or hearing.

If this Line II Promissory Note is not paid when due, whether at its specified or accelerated maturity date, Borrower promises to pay all costs of collection and enforcement of this Line II Promissory Note, including, but not limited to, reasonable attorneys' fees and costs, incurred by Bank hereof on account of such collection or enforcement, whether or not suit is filed hereon.

This Line II Promissory Note shall be governed and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Line II Promissory Note as of the date and year first above written.

APPLIED OPTOELECTRONICS, INC.

By: _____

Title: _____

Exhibit 10.23

FOURTH AMENDMENT
TO
AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

This Fourth Amendment to Amended and Restated Loan and Security Agreement is entered into as of May 5th, 2011 (the "Amendment"), by and between APPLIED OPTOELECTRONICS, INC ("Borrower") and EAST WEST BANK ("Bank").

RECITALS

Borrower and Bank are parties to that certain Amended and Restated Loan and Security Agreement dated as of May 20, 2009, as amended from time to time including that certain First Amendment to Amended and Restated Loan and Security Agreement dated as of May 3rd, 2010, that certain Second Amendment to Amended and Restated Loan and Security Agreement dated as of October 28th, 2010 and that certain Third Amendment to Amended and Restated Loan and Security Agreement dated as of December 6th, 2010 (collectively, the "Agreement"). The parties desire to amend the Agreement in accordance with the terms of this Amendment.

AGREEMENT

NOW, THEREFORE, the parties agree as follows:

1. Borrower acknowledges that there are existing and uncured Events of Default arising from Borrower's failure to comply with Sections 6.6 and 6.15 of the Agreement for the quarter ending December 31, 2010 (the "Existing Defaults"). Subject to the conditions contained herein and performance by Borrower of all of the terms of the Agreement after the date hereof, Bank forbears from exercising its remedies arising out of the Existing Defaults until Borrower's attainment of the Equity Event. Bank does not forbear or waive Borrower's obligations under such respective Sections for any event other than the Existing Defaults, Bank does not waive any other failure by Borrower to perform its Obligations under the Loan Documents.

2. The following defined terms set forth in Section 1.1 of the Agreement are added or amended in their entirety to read as follows:

"Cash Secured Maturity Date" means May 5th, 2013

"Credit Extension" means each Advance, Equipment Advance, Real Estate Advance, EXIM Advance, Line II Advance, Cash-Secured Advance or any other extension of credit by Bank to or for the benefit of Borrower hereunder.

"Equity Event" means Borrower's receipt of at least $5,000,000 in cash proceeds from the sale and issuance of Borrower's equity or Subordinated Debt securities

"EXIM Maturity Date" means September 30, 2011.

"Revolving Line Maturity Date" means September 30, 2012.

"Revolving Line II Maturity Date" means September 30, 2012.

3. Section 2.1(d)(ii) is amended in its entirety to read as follows:

(ii) Payment. Borrower shall repay the Real Estate Advance as follows: on the fifth day of each month until the Real Estate Maturity Date, Borrower shall pay $8,750 in fixed principal payments for each month, plus all accrued interest. The entire principal balance and all accrued but unpaid interest on the Real Estate Advance shall be due and payable on the Real Estate Maturity Date.

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4. The following is added as a new Section 2.1(g) of the Agreement as follows:

(g) Cash-Secured Advances.

(i) Amount. Subject to and upon the terms and conditions of this Agreement, Borrower may request advances pursuant to this Section 2.1(g) (each, a "Cash Secured Advance") in an aggregate outstanding principal amount not to exceed $60,000. Amounts borrowed pursuant to this Section 2.1(g) may be repaid and reborrowed at any time prior to the Cash Secured Maturity Date, at which time all Obligations under this Section 2.1(g) shall be immediately due and payable. Borrower may prepay any Cash Secured Advances without penalty or premium.

(ii) Borrowing Procedure. Whenever Borrower desires a Cash-Secured Advance, Borrower will notify Bank by facsimile transmission of an advance request in substantially the form of Exhibit C hereto no later than noon Pacific Time on the Business Day that is three (3) Business Days prior to the Business Day on which an Cash Secured Advance is made. Bank is authorized to make Cash Secured Advances under this Agreement, based upon instructions received from a Responsible Officer or a designee of a Responsible Officer. Bank will credit the amount of Cash Secured Advances made under this Section 2.1(g) to Borrower's deposit account, as specified by Borrower.

(iii) Payments. Borrower shall pay interest on the aggregate outstanding principal amount of the Cash Secured Advances on the fifth day of each month for so long as any Cash Secured Advances are outstanding. The entire principal balance and all accrued but unpaid interest on the Cash Secured Advances shall be due and payable on the Revolving Maturity Date; and Borrower authorizes Bank to apply the Cash Collateral towards the repayment of the Obligations under this Section 2.1(g) on the Revolving Maturity Date.

(iv) Security. Borrower shall provide to Bank cash collateral in an amount equal to all outstanding Cash Secured Advances (the "Cash Collateral") to secure all of the Obligations relating to such Cash Secured Advances. Borrower agrees to execute any further documentation in connection with the Cash Secured Advances as Bank may reasonably request.

5. Section 2.3(a) of the Agreement is amended in its entirety to read as follows:

(a) Interest Rates. Except as set forth in Section 2.3(b), the outstanding principal balance of each Revolving Advance, Equipment Advance, EXIM Advance and Line II Advance shall bear interest at a variable rate per annum equal to the Prime Rate plus 1.75%, provided however, that at no time shall the interest rate applied to any such Credit Extension be less than 5.0% per annum. Except as set forth in Section 2.3(b), the outstanding principal balance of each Cash Secured Advance shall bear interest at a variable rate per annum equal to the Prime Rate minus 2.0%. Except as set forth in Section 2.3(b), the outstanding principal balance of each Real Estate Advance, shall bear interest at a variable rate per annum equal to the Prime Rate plus 0.90%, provided however, that at no time shall the interest rate applied to any Real Estate Advance be less than 5.375% per annum (the "Floor Rate") unless Borrower has entered into an interest rate swap contract in form and substance satisfactory to Bank, upon which time the Floor Rate shall not apply. Interest shall be computed daily on the basis of a 360 day year and actual days elapsed.

6. Section 6.6 of the Agreement is amended in its entirety to read as follows:

6.6 Minimum EBITDASO. Borrower shall maintain a minimum quarterly EBITDASO of at least $275,000, measured on a rolling four quarter basis. Notwithstanding the foregoing, Borrower's failure to maintain the minimum quarterly EBITDASO set forth in the preceding sentence shall not constitute an Event of Default if, within 60 days after the reporting period of such failure, Borrower receives cash proceeds from the sale and issuance of its equity and/or Subordinated Debt securities in an amount no less than the shortfall amount that caused Borrower's failure to attain such minimum EBITDASO amount.

7. Section 6.15 of the Agreement is amended in its entirety to read as follows:

6.15 Minimum Debt Service Coverage. Borrower shall maintain a minimum ratio of EBITDASO on a consolidated basis for the trailing four quarter period to the sum of (x) all accrued interest payable in the same four quarter period plus (y) all principal payable in the same four quarter period on any Indebtedness (not including principal oustanding on any revolving lines of credit) owing by Borrower and its Subsidiaries to Bank or other financial institutions, of at least 1.35 to 1.00 (the "DSC Ratio"), measured on a quarterly basis. Notwithstanding the foregoing, Borrower's failure to maintain the DSC Ratio shall not constitute an Event of Default if, within 60 days after the reporting period of such failure, Borrower receives cash proceeds from the sale and issuance of its equity and/or Subordinated Debt securities in an amount no less than the shortfall amount that caused Borrower's failure to maintain the DSC Ratio.

8. The following is added to the end of Section 7.9 of the Agreement:

Notwithstanding the foregoing, Borrower may pay to each of its shareholders who are holders of Subordinated Debt and who are party to a subordination agreement with Bank, in form and substance satisfactory to Bank (the "Subordination Agreement"), payments of principal and accrued interest on the Subordinated Debt, provided that (a) said payments are made using funds raised from the initial public offering or a private equity fundraising of Borrower, (b) no Event of Default has occurred under the Agreement which is continuing or would exist immediately after giving effect to such payment, (c) Borrower's Cash maintained at Bank is at least equal to the amount as of the date hereof after each such payment, and (d) such payments are subject to the rights, if any, of Bank under any applicable Subordination Agreement.

9. Unless otherwise defined, all initially capitalized terms in this Amendment shall be as defined in the Agreement. The Agreement, as amended hereby, shall be and remains in full force and effect in accordance with its terms and hereby is ratified and confirmed in all respects. Except as expressly set forth herein, the execution, delivery, and performance of this Amendment shall not operate as a waiver of, or as an amendment of, any right, power, or remedy of Bank under the Agreement, as in effect prior to the date hereof. Borrower ratifies and reaffirms the continuing effectiveness of all instruments, documents and agreements entered into in connection with the Agreement.

10. Borrower represents and warrants that the representations and warranties contained in the Agreement are true and correct as of the date of this Amendment, and that no Event of Default has occurred and is continuing.

11. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument.

12. As a condition to the effectiveness of this Amendment, Bank shall have received, in form and substance satisfactory to Bank, the following:

(a) this Amendment, duly executed by Borrower;

(b) Corporate Resolutions and Incumbency Certification, duly executed by Borrower;

(c) an amendment fee of $10,600 to Bank, plus an amount equal to all Bank Expenses incurred through the date of this Amendment; and

(d) such other documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate.

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the first date above written.

APPLIED OPTOELECTRONICS, INC.

By: /s/ Chih-Hsiang (Thompson) Lin

Title: CEO, President

EAST WEST BANK

By: /s/ Lisa Chang

Title: VP

Exhibit 10.24

FIFTH AMENDMENT
TO
AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

This Fifth Amendment to Amended and Restated Loan and Security Agreement is entered into as of November 30, 2011 (the "Amendment"), by and between APPLIED OPTOELECTRONICS, INC ("Borrower") and EAST WEST BANK ("Bank").

RECITALS

Borrower and Bank are parties to that certain Amended and Restated Loan and Security Agreement dated as of May 20, 2009, as amended from time to time including that certain First Amendment to Amended and Restated Loan and Security Agreement dated as of May 3rd, 2010, that certain Second Amendment to Amended and Restated Loan and Security Agreement dated as of October 28th, 2010, that certain Third Amendment to Amended and Restated Loan and Security Agreement dated as of December 6th, 2010, that certain Fourth Amendment to Amended and Restated Loan and Security Agreement dated as of May 5th, 2011, and that certain letter dated September 30, 2011 (collectively, the "Agreement"). The parties desire to amend the Agreement in accordance with the terms of this Amendment.

AGREEMENT

NOW, THEREFORE, the parties agree as follows:

1. Borrower acknowledges that there are existing and uncured Events of Default arising from Borrower's failure to comply with Sections 6.6 and 6.15 of the Agreement for the quarter ended September 30, 2011 (the "Existing Defaults"). Subject to the conditions contained herein and performance by Borrower of all of the terms of the Agreement after the date hereof, Bank waives the Existing Defaults. Bank does not waive Borrower's obligations under such sections after the date hereof, and Bank does not waive any other failure by Borrower to perform its Obligations under the Loan Documents.

2. The following defined term set forth in Section 1.1 of the Agreement is amended in its entirety to read as follows:

"EXIM Maturity Date" means March 31, 2012.

3. Unless otherwise defined, all initially capitalized terms in this Amendment shall be as defined in the Agreement. The Agreement, as amended hereby, shall be and remains in full force and effect in accordance with its terms and hereby is ratified and confirmed in all respects. Except as expressly set forth herein, the execution, delivery, and performance of this Amendment shall not operate as a waiver of, or as an amendment of, any right, power, or remedy of Bank under the Agreement, as in effect prior to the date hereof. Borrower ratifies and reaffirms the continuing effectiveness of all instruments, documents and agreements entered into in connection with the Agreement.

4. Borrower represents and warrants that the representations and warranties contained in the Agreement are true and correct as of the date of this Amendment, and that no Event of Default has occurred and is continuing.

5. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument.

6. As a condition to the effectiveness of this Amendment, Bank shall have received, in form and substance satisfactory to Bank, the following:

(a) this Amendment, duly executed by Borrower;

(b) an amendment fee of $1,000 to Bank, plus an amount equal to all Bank Expenses incurred through the date of this Amendment; and

(c) such other documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate.

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the first date above written.

APPLIED OPTOELECTRONICS, INC.

By: /s/ Chih-Hsiang (Thompson) Lin

Title: CEO

EAST WEST BANK

By: /s/ Lisa Chang

Title: VP

Exhibit 10.25

SIXTH AMENDMENT
TO
AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

This Sixth Amendment to Amended and Restated Loan and Security Agreement is entered into as of March 29, 2012 (the "Amendment"), by and between APPLIED OPTOELECTRONICS, INC ("Borrower") and EAST WEST BANK ("Bank").

RECITALS

Borrower and Bank are parties to that certain Amended and Restated Loan and Security Agreement dated as of May 20, 2009, as amended from time to time including that certain First Amendment to Amended and Restated Loan and Security Agreement dated as of May 3rd, 2010, that certain Second Amendment to Amended and Restated Loan and Security Agreement dated as of October 28th, 2010, that certain Third Amendment to Amended and Restated Loan and Security Agreement dated as of December 6th, 2010, that certain Fourth Amendment to Amended and Restated Loan and Security Agreement dated as of May 5th, 2011, that certain letter dated September 30, 2011 and that certain Fifth Amendment to Amended and Restated Loan and Security Agreement dated as of November 30th, 2011 (collectively, the "Agreement"). The parties desire to amend the Agreement in accordance with the terms of this Amendment.

AGREEMENT

NOW, THEREFORE, the parties agree as follows:

1. Borrower acknowledges that there are existing and uncured Events of Default arising from Borrower's failure to comply with Sections 6.6 and 6.15 of the Agreement for the quarter ended December 31, 2011 (the "Existing Defaults"). Subject to the conditions contained herein and performance by Borrower of all of the terms of the Agreement after the date hereof, Bank forbears from exercising its remedies arising out of the Existing Defaults until the earlier to occur of (i) Borrower's attainment of the Equity Milestone 1 or (ii) April 30, 2012 (the "Forbearance Period"). On Borrower's timely attainment of the Equity Milestone I, the Forbearance Period shall be extended until the earlier to occur of (x) Borrower's timely attainment of the Equity Milestone II or (y) May 31, 2012. Bank does not forbear or waive Borrower's obligations under such respective sections for any event other than the Existing Defaults, Bank does not waive any other failure by Borrower to perform its Obligations under the Loan Documents.

2. The following defined term set forth in Section 1.1 of the Agreement is amended in its entirety to read as follows:

"EXIM Maturity Date" means May 31, 2012.

3. The following is added as a new Section 6.16 to the Agreement:

6.16 Equity Milestones.

(a) On or before April 30, 2012, Borrower shall deliver to Bank a fully executed term sheet evidencing a commitment for at least $10,000,000 of new cash proceeds (excluding the conversion of any convertible debt securities outstanding as of February 29, 2012) to be received by Borrower from the sale and issuance of its equity securities or Subordinated Debt securities to the investors named therein, in form and substance satisfactory to Bank (the "Equity Milestone I").

(b) On or before May 31, 2012, Borrower shall deliver to Bank evidence, in form and substance satisfactory to Bank, that Borrower has received at least $10,000,000 in

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new cash proceeds (excluding the conversion of any convertible debt securities outstanding as of February 29, 2012) from the sale and issuance of its equity securities or Subordinated Debt securities (the "Equity Milestone II").

4. Unless otherwise defined, all initially capitalized terms in this Amendment shall be as defined in the Agreement. The Agreement, as amended hereby, shall be and remains in full force and effect in accordance with its terms and hereby is ratified and confirmed in all respects. Except as expressly set forth herein, the execution, delivery, and performance of this Amendment shall not operate as a waiver of, or as an amendment of, any right, power, or remedy of Bank under the Agreement, as in effect prior to the date hereof. Borrower ratifies and reaffirms the continuing effectiveness of all instruments, documents and agreements entered into in connection with the Agreement.

5. Borrower represents and warrants that the representations and warranties contained in the Agreement are true and correct as of the date of this Amendment, and that no Event of Default has occurred and is continuing other than the Existing Defaults.

6. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument.

7. As a condition to the effectiveness of this Amendment, Bank shall have received, in form and substance satisfactory to Bank, the following:

(a) this Amendment, duly executed by Borrower;

(b) payment of an amendment fee of $2,000, plus an amount equal to all Bank Expenses incurred through the date of this Amendment; and

(c) such other documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate.

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the first date above written.

APPLIED OPTOELECTRONICS, INC.

By: /s/ Chih-Hsiang (Thompson) Lin

Title: CEO

EAST WEST BANK

By: /s/ Lisa Chang

Title: VP

Exhibit 10.26

SEVENTH AMENDMENT
TO
AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

This Seventh Amendment to Amended and Restated Loan and Security Agreement is entered into as of June 29, 2012 (the "Amendment"), by and between APPLIED OPTOELECTRONICS, INC ("Borrower") and EAST WEST BANK ("Bank").

RECITALS

Borrower and Bank are parties to that certain Amended and Restated Loan and Security Agreement dated as of May 20, 2009, as amended from time to time including that certain First Amendment to Amended and Restated Loan and Security Agreement dated as of May 3rd, 2010, that certain Second Amendment to Amended and Restated Loan and Security Agreement dated as of October 28th, 2010, that certain Third Amendment to Amended and Restated Loan and Security Agreement dated as of December 6th, 2010, that certain Fourth Amendment to Amended and Restated Loan and Security Agreement dated as of May 5th, 2011, that certain letter dated September 30, 2011, that certain Fifth Amendment to Amended and Restated Loan and Security Agreement dated as of November 30th, 2011 and that certain Sixth Amendment to Amended and Restated Loan and Security Agreement dated as of March 29th, 2012 (collectively, the "Agreement"). The parties desire to amend the Agreement in accordance with the terms of this Amendment.

AGREEMENT

NOW, THEREFORE, the parties agree as follows:

1. Borrower acknowledges that there are existing and uncured Events of Default arising from Borrower's failure to comply with Section 6.16 of the Agreement (the "Equity Milestone Default"). Subject to the conditions contained herein and performance by Borrower of all of the terms of the Agreement after the date hereof, Bank forbears from exercising its remedies arising out of the Equity Milestone Default until the earlier to occur of (i) Borrower's attainment of the equity milestone set forth in Section 6.16 as amended herein or (ii) July 6, 2012. On Borrower's timely compliance with Section 6.16, Bank shall waive the Equity Milestone Default. Upon Borrower's failure to timely comply with Section 6.16, all outstanding Obligations shall begin accruing interest at the default rate set forth in Section 2.3(b) of the Agreement. Bank does not forbear or waive Borrower's obligations under such respective section for any event other than the Equity Milestone Default; and Bank does not waive any other failure by Borrower to perform its Obligations under the Loan Documents.

2. Borrower acknowledges that there are also existing and uncured Events of Default arising from Borrower's failure to comply with Sections 6.6 and 6.15 for the quarter ended December 31, 2011 and Borrower's failure to comply with Section 6.16 for quarter ended March 31, 2012 (collectively, the "Financial Covenant Defaults"). Subject to the conditions contained herein and performance by Borrower of all of the terms of the Agreement after the date hereof, Bank forbears from exercising its remedies arising out of the Financial Covenant Defaults until September 30, 2012. Bank does not forbear or waive Borrower's obligations under such respective sections for any event other than the Financial Covenant Defaults; and Bank does not waive any other failure by Borrower to perform its Obligations under the Loan Documents.

3. The following defined term set forth in Section 1.1 of the Agreement is amended in its entirety to read as follows:

"EXIM Maturity Date" means September 30, 2012.

4. Section 6.16 of the Agreement is amended in its entirety to read as follows:

6.16 Equity Milestone. On or before July 6, 2012, Borrower shall deliver to Bank evidence, in form and substance satisfactory to Bank, that Borrower has received, between May 1, 2012 and July 6, 2012, at least $4,000,000 in new cash proceeds (excluding the conversion of any

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convertible debt securities outstanding as of April 30, 2012) from the sale and issuance of its equity securities or Subordinated Debt securities.

5. Concurrently upon the execution of this Amendment, Borrower shall make a cash payment to Bank of $500,000 on account of the outstanding EXIM Advances.

6. Effective upon Borrower's compliance with Section 6.16 as amended herein and all other covenants set forth in the Agreement (including Sections 6.5, 6.6 and 6.15 for period ending June 30, 2012), Borrower may resume requesting Advances, Line II Advances or EXIM Advances pursuant and subject to the terms set forth in the Agreement.

7. Bank consents to Borrower's use of a storage unit located at 9870 Hwy 90A, #1701, Sugar Land, Texas to hold certain of Borrower's equipment and other collateral, and no consent or waiver shall be required to be obtained by the landlord of such location.

8. Unless otherwise defined, all initially capitalized terms in this Amendment shall be as defined in the Agreement. The Agreement, as amended hereby, shall be and remains in full force and effect in accordance with its terms and hereby is ratified and confirmed in all respects. Except as expressly set forth herein, the execution, delivery, and performance of this Amendment shall not operate as a waiver of, or as an amendment of, any right, power, or remedy of Bank under the Agreement, as in effect prior to the date hereof. Borrower ratifies and reaffirms the continuing effectiveness of all instruments, documents and agreements entered into in connection with the Agreement.

9. Borrower represents and warrants that the representations and warranties contained in the Agreement are true and correct as of the date of this Amendment, and that no Event of Default has occurred and is continuing other than the Existing Defaults.

10. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument.

11. As a condition to the effectiveness of this Amendment, Bank shall have received, in form and substance satisfactory to Bank, the following:

(a) this Amendment, duly executed by Borrower;

(b) payment in accordance with Section 5 above, along with payment an amendment fee of $2,000, any fees as are required by EXIM, and all Bank Expenses incurred through the date of this Amendment; and

(c) such other documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the first date above written.

APPLIED OPTOELECTRONICS, INC.

By: /s/ Chih-Hsiang (Thompson) Lin

Title: CEO/President

EAST WEST BANK

By: /s/ Lisa Chang

Title: VP

Exhibit 10.27

EIGHTH AMENDMENT
TO
AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT

This Eighth Amendment to Amended and Restated Loan and Security Agreement is entered into as of November 2nd, 2012 (the "Amendment"), by and between APPLIED OPTOELECTRONICS, INC. ("Borrower") and EAST WEST BANK ("Bank").

RECITALS

Borrower and Bank are parties to that certain Amended and Restated Loan and Security Agreement dated as of May 20, 2009 and as amended from time to time including that certain First Amendment to Amended and Restated Loan and Security Agreement dated as of May 3rd, 2010, that certain Second Amendment to Amended and Restated Loan and Security Agreement dated as of October 28th, 2010, that certain Third Amendment to Amended and Restated Loan and Security Agreement dated as of December 6th, 2010, that certain Fourth Amendment to Amended and Restated Loan and Security Agreement dated as of May 5th, 2011, that certain letter dated September 30, 2011, that certain Fifth Amendment to Amended and Restated Loan and Security Agreement dated as of November 30th, 2011, that certain Sixth Amendment to Amended and Restated Loan and Security Agreement dated as of March 29th, 2012 and that certain Seventh Amendment to Amended and Restated Loan and Security Agreement dated as of June 29, 2012 (collectively, the "Agreement"). The parties desire to amend the Agreement in accordance with the terms of this Amendment.

AGREEMENT

NOW, THEREFORE, the parties agree as follows:

1. Notwithstanding Section 6.2(a)(ii) of the Agreement, Bank waives the requirement that Borrower's 2011 audited financial statements are delivered with an unqualified opinion from an independent certified public accounting firm, and accepts the 2011 audited financial statements previously delivered to Bank with a qualified opinion in satisfaction of the covenant set forth in Section 6.2(a)(ii) for the fiscal year ended 2011.

2. Bank consents to the incurrence of an aggregate of $16,000,000 of Indebtedness by Global Technology, Inc., a wholly owned subsidiary of Prime World International Holdings, Ltd. (which is a wholly owned subsidiary of Borrower), in connection with a credit facility from a bank or financial institution acceptable to Bank (the "GTI Debt"), provided that (i) Borrower is not a co-borrower or guarantor to the GTI Debt, or in any way obligated or liable with respect to the GTI Debt, (ii) none of Borrower's assets shall be pledged or used to secure the GTI Debt, and (iii) Borrower shall not make any Investment into Global Technology, Inc. in support of the GTI Debt. Such consent is in replacement of (and not in addition to) the consent granted in that certain Second Amendment to Amended and Restated Loan and Security Agreement dated October 28th, 2010.

3. The following defined terms set forth in Section 1.1 of the Agreement are amended and restated in their entirety to read as follows:

"EXIM Maturity Date" means November 15, 2013.

"Revolving Line Maturity Date" means November 15, 2013.

"Revolving Line II" means a Credit Extension of up to three million five hundred thousand dollars ($3,500,000).

"Revolving Line II Maturity Date" means November 15, 2013.

4. Clause (c) of the definition of "Eligible Accounts" set forth in Section 1.1 of the Agreement is amended and restated in its entirety to read as follows:

(c) Accounts with respect to an account debtor, including Subsidiaries and Affiliates, whose total obligations to Borrower exceed twenty five percent (25%) of all Accounts (the "Concentration Limit"), to the extent such obligations exceed the aforementioned percentage, except as approved in writing by Bank, provided however that the Concentration Limit for Accounts with respect to which the account debtor is Cisco/Scientific-Atlanta shall be sixty percent (60%) and the Concentration Limit for Accounts with respect to which the account debtor is Google/Motorola shall be forty percent (40%);

5. Clause (c) of the definition of "Permitted Investment" set forth in Section 1.1 of the Agreement is amended and restated in its entirety to read as follows:

(c) [Intentionally Deleted.]

6. The first sentence in Section 2.3(a) of the Agreement is amended and restated in its entirety to read as follows:

Except as set forth in Section 2.3(b), the outstanding principal balance of each Revolving Advance, Equipment Advance, EXIM Advance and Line II Advance shall bear interest at a variable rate per annum equal to the Prime Rate plus 1.25%, provided however, that at no time shall the interest rate applied to any such Credit Extension be less than 4.5% per annum.

7. Section 6.4 of the Agreement is amended and restated in its entirety to read as follows:

6.4 Adjusted Current Ratio. Borrower shall maintain, as of the last day of each month, a ratio of Borrower's unrestricted cash maintained at Bank plus Accounts billed in the United States to all Obligations (not including the Real Estate Advance) owing to Bank (the "Adjusted Current Ratio") equal to or greater than 1.15 to 1.00.

8. Section 6.15 of the Agreement is amended in its entirety to read as follows:

6.15 Minimum Debt Service Coverage. Borrower shall maintain a minimum ratio of EBITDASO on a consolidated basis for the trailing four quarter period to the sum of (x) all accrued interest payable in the same four quarter period plus (y) all principal payable in the same four quarter period on any Indebtedness (not including principal outstanding on any revolving lines of credit) owing by Borrower and its Subsidiaries

to Bank or other financial institutions, of at least 1.00 to 1.00 (the "DSC Ratio"), measured on a quarterly basis. Notwithstanding the foregoing, Borrower's failure to maintain the DSC Ratio shall not constitute an Event of Default if, within 60 days after the reporting period of such failure, Borrower receives cash proceeds from the sale and issuance of its equity and/or Subordinated Debt securities in an amount no less than the shortfall amount that caused Borrower's failure to maintain the DSC Ratio.

9. Section 6.16 of the Agreement is amended and restated in its entirety to read as follows:

6.16 Minimum Cash. Borrower shall maintain, at all times, unrestricted cash in accounts at Bank of at least $4,000,000.

10. Unless otherwise defined, all initially capitalized terms in this Amendment shall be as defined in the Agreement. The Agreement, as amended hereby, shall be and remains in full force and effect in accordance with its terms and hereby is ratified and confirmed in all respects. Except as expressly set forth herein, the execution, delivery, and performance of this Amendment shall not operate as a waiver of, or as an amendment of, any right, power, or remedy of Bank under the Agreement, as in effect prior to the date hereof. Borrower ratifies and reaffirms

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the continuing effectiveness of all instruments, documents and agreements entered into in connection with the Agreement.

11. Borrower represents and warrants that the representations and warranties contained in the Agreement are true and correct as of the date of this Amendment, and that no Event of Default has occurred and is continuing.

12. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument.

13. As a condition to the effectiveness of this Amendment, Bank shall have received, in form and substance satisfactory to Bank, the following:

(a) this Amendment, duly executed by Borrower;

(b) Warrant to Purchase Borrower's Series G Preferred Stock;

(c) payment an amendment fee of $13,125, any fees as are required by EXIM, and all Bank Expenses incurred through the date of this Amendment; and

(d) such other documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the first date above written.

APPLIED OPTOELECTRONICS, INC.

By: /s/ Chih-Hsiang (Thompson) Lin

Title: President and CEO

EAST WEST BANK

By: /s/ Lisa Chang

Title: Vice President

EMPLOYMENT AGREEMENT REGARDING
CHANGE OF CONTROL OR SEPARATION OF SERVICE

This employment agreement ("Agreement") is made and entered into effective as of January 28, 2007 ("Effective Date"), by and between Applied Optoelectronics, Inc. ("AOI" or the "Company"), whose address is 13111 Jess Pirtle Boulevard, Sugar Land, Texas 77478, and Chih-Hsiang (Thompson) Lin ("Executive"), whose address is 1906 Lake Front Drive, Missouri City, TX 77459. This Agreement may sometimes refer to AOI and Executive singularly as a "Party" or collectively as the "Parties."

1. Confirmation of Employment At-Will

Executive's employment with AOI has been, is, and shall continue to be on an at-will basis. This means that either Executive or AOI may terminate Executive's employment with the Company at any time and for any reason or no reason at all, except that if (i) a Change of Control of the Company shall have occurred and the Executive's employment by the Company is thereafter terminated (whether by the Executive with Good Reason or the Company without Cause as provided in Paragraph 3), or (ii) Executive's employment is terminated in certain other circumstances delineated in this Agreement, then the Executive shall be entitled to receive certain benefits as provided in this Agreement.

2. Change of Control

A. "Change of Control" shall be deemed to have occurred on the date that one or more of the following occurs:

(i) Individuals who, on the date hereof, constitute the entire Board of Directors of the Company ("Incumbent Directors") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the then Incumbent Directors shall be considered as though such individual was an Incumbent Director, but excluding, for this purpose any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest, as such terms are used in Rule 14a-11 under the Securities Exchange Act of 1934, as amended ("Exchange Act") or other actual or threatened solicitation of proxies or consents by or on behalf of any Person (as defined below) other than the Board; or

(ii) (a) The consummation of any merger, consolidation or recapitalization of the Company (or, if the capital stock of the Company is affected, any subsidiary of the Company), or any sale, lease, or other transfer (in one transaction or a series of transactions contemplated or arranged by any party as a single plan) of all or substantially all of the assets of the Company (each of the foregoing being an "Acquisition Transaction") where (1) the shareholders of the Company immediately prior to such Acquisition Transaction would not immediately after such Acquisition Transaction beneficially own, directly or

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indirectly, shares or other ownership interests representing in the aggregate fifty-one percent (51%) or more of (a) the then outstanding common stock or other equity interests of the corporation or other entity surviving or resulting from such merger, consolidation or recapitalization or acquiring such assets of the Company, as the case may be (the "Surviving Entity") (or of its ultimate parent corporation or other entity, if any), and (b) the Combined Voting Power of the then outstanding Voting Securities of the Surviving Entity (or of its ultimate parent corporation or other entity, if any) or (2) the Incumbent Directors at the time of the initial approval of such Acquisition Transaction would not immediately after such Acquisition Transaction constitute a majority of the Board of Directors, or similar managing group, of the Surviving Entity (or of its ultimate parent corporation or other entity, if any), or (b) the filing of any plan for the liquidation or dissolution of the Company.

B. For purposes of the definition of "Change of Control":

(i) "Affiliate" shall mean, as to a specified Person, another Person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the specified Person, within the meaning of such terms as used in Rule 405 under the Securities Act of 1933, as amended ("Securities Act"), or any successor rule.

(ii) "Combined Voting Power" shall mean the aggregate votes entitled to be cast generally in the election of the Board of Directors, or similar managing group, of a corporation or other entity by holders of then outstanding Voting Securities of such corporation or other entity.

(iii) "Person" shall mean any individual, entity (including, without limitation, any corporation, partnership, trust, joint venture, association or governmental body) or group (as defined in Sections 14(d)(3) or 15(d)(2) of the Exchange Act and the rules and regulations thereunder); provided, however, that Person shall not include the Company, any of its subsidiaries, any employee benefit plan of the Company or any of its majority-owned subsidiaries or any entity organized, appointed or established by the Company or such subsidiaries for or pursuant to the terms of any such plan.

(iv) "Voting Securities" shall mean all securities of a corporation or other entity having the right under ordinary circumstances to vote in an election of the Board of Directors, or similar managing group, of such corporation or other entity.

3. Termination Following a Change of Control

A. If a Change of Control of the Company shall have occurred, any subsequent termination of Executive's employment (i) by the Executive upon an Event of Termination for Good Reason (hereafter defined) or (ii) by the Company upon an Event of Termination for Cause (hereafter defined), shall be communicated by written notice to the other party. If the notice is

from the Company and states that the Executive's employment by the Company is terminated by the Company as a result of the occurrence of an Event of Termination for Cause, the notice shall specifically describe the action or inaction of the Executive that the Company believes constitutes an Event of Termination for Cause. If the notice is from the Executive and states that the Executive's employment by the Company is terminated by the Executive as a result of the occurrence of an Event of Termination for Good Reason, the notice shall specifically describe the action or inaction of the Company that the Executive believes constitutes an Event of Termination for Good Reason.

B. An "Event of Termination for Cause" shall have occurred: (i) if Executive should be convicted of or pleads *nolo contendre* to any felony offense or to a crime that the Board determines, in its sole discretion, is a crime of moral turpitude (whether or not a felony); (ii) if Executive should commit willful misconduct (that is, done in bad faith or without reasonable belief that such action is in the best interest of the Company) or violate any law in connection with the performance of any of Executive's duties, including, without limitation, (a) misappropriation of funds or property of the Company or any of its affiliates or customers, (b) securing or attempting to secure personally any profit in connection with any transaction entered into on behalf of the Company or any of its affiliates, or (c) making any material misrepresentation to the Board, the Company, or any of the Company's affiliates; (iii) if Executive materially violates or fails to comply with any written Company policy; (iv) if Executive materially breaches any term of this Agreement; or (v) the willful and continued failure or neglect of the Executive to substantially perform his/her duties with the Company (other than any such failure resulting from incapacity due to physical or mental illness). The Board shall not have Cause to terminate Executive's employment under Paragraph 3.B. (iii), (iv), or (v) of this Agreement unless and until the Board provides written notice to Executive identifying Executive's alleged violation of policy, breach of this Agreement, or failure to perform (or neglect of) any duty and Executive fails to cure such violation of policy, breach of this Agreement or failure to perform (or neglect of) any duty within 60 days.

C. An "Event of Termination for Good Reason" shall have occurred in the event of any of the following:

(i) Executive's assignment to any duties or the significant reduction of Executive's duties or a significant change of Executive's title, any of which is inconsistent with his or her position or title with the Company and responsibilities in effect immediately prior to such assignment, except in each case in connection with a promotion. For purposes of clarification, if Executive is not the President and CEO of the successor entity or its ultimate parent, if any, then Executive will have suffered a significant reduction of his/her duties which qualifies as an Event of Termination for Good Reason pursuant to this paragraph;

(ii) reduction by the Company in Executive's base compensation as in effect immediately prior to such reduction, provided that an Event of Termination for Good Reason shall not be deemed to have occurred where Executive's base compensation is reduced as part of an overall cost reduction program that affects all senior executives of the Company and does not disproportionately affect Executive;

(iii) any purported termination of Executive by the Company (other than a voluntary resignation initiated by Executive, except for a voluntary termination initiated by Executive for the reasons described in this paragraph) which is not effected for disability or for Cause;

(iv) the failure of any successor entity to the Company to expressly assume in writing the terms of this agreement; and

(v) any material breach by the Company of any material provision of this agreement which has not been cured within 30 days of written notice to the Company by Executive of such breach.

4. Severance Benefits

A. If a Change of Control occurs and, within one year thereafter, the Executive's employment by the Company is terminated by the Executive following an Event of Termination for Good Reason or by the Company otherwise than as a result of an Event of Termination for Cause, Executive will be entitled to receive benefits ("Change of Control Severance Benefits") consisting of: (a) a lump sum payment equal to one year of Executive's base salary as in effect immediately prior to the Change of Control (minus lawful withholdings); (b) a lump sum payment equal to the dollar amount of Executive's full target bonus percentage as in effect immediately prior to the Change of Control (minus lawful withholdings); (c) a lump sum payment of $10,000 (minus lawful withholdings) that Executive may use for benefit continuation under COBRA or for any other purpose; and (d) accelerated vesting of Executive's stock options under any stock option agreement(s) between Executive and AOI, meaning that all outstanding but unvested stock options shall be accelerated and fully vested, and all vested options shall be exercisable until the later of (i) the 15th day of the third month following the date at which the stock options would otherwise have expired in accordance with their original terms, (ii) December 31 of the calendar year in which the stock options would otherwise have expired in accordance with their original terms and (iii) such longer period (not to exceed twelve months following the Separation from Service (as defined in paragraph 4.0 below) as may be provided by the Treasury Department in the final regulations addressing Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"); provided, however, that the foregoing shall not be construed to cause an incentive stock option to fail to meet the statutory requirements of Section 422 of the Code.

B. If at any time prior to a Change of Control the Executive's employment is terminated by the Company for any reason other than an Event of Termination for Cause or if Executive resigns because of an Event of Termination for Good Reason, Executive shall be entitled to receive payment equal to (i) a lump sum payment equal to one year of Executive's base salary as in effect immediately prior to such termination (minus lawful withholdings); (ii) a lump sum payment equal to the dollar amount of Executive's full target bonus percentage as in effect immediately prior to such termination (minus lawful withholdings); (iii) a lump sum payment of $15,000 (minus lawful withholdings) that Executive may use for benefit continuation under COBRA or for any other purpose ("Separation Benefits").

C. If payable under paragraph 4.A, the Change of Control Severance Benefits shall be paid on the later of the 60 day after the effective date of Executive's "separation from service" (within the meaning of Section 409A and the regulations issued thereunder) ("Separation from Service"), or six months and one day after the Executive's Separation from Service if the Executive is a "specified employee" (as that term is defined under Section 409A of the Code and the regulations issued thereunder) ("Specified Employee") at the time the Executive becomes entitled to Change of Control Severance Benefits under this Paragraph. If payable under paragraph 4.B, the Separation Benefits shall be paid periodically in installments over the twelve months following the Executive's Separation from Service, in accordance with the Company's regular payroll practices, provided that no payment shall be made prior to the 60th day after the effective date of Executive's Separation from Service or six months and one day after the Executive's Separation from Service if the Executive is a Specified Employee at the time the Executive becomes entitled to the Separation Benefits under this Paragraph. Notwithstanding the foregoing, no Change of Control Severance Benefits or Separation Benefits shall be due under this Agreement unless (a) prior to the 60th day after the effective date of Executive's separation from service, Executive has signed a release agreement ("Release Agreement") that the Company will provide in which Executive releases any possible claims against the Company and all of

its parents, divisions, subsidiaries, affiliates, and related companies, and their present and former agents, employees, officers, directors, attorneys, stockholders, plan fiduciaries, successors, and assigns; and (b) prior to the 60th day after the effective date of Executive's separation from service, the seven day revocation period in the Release Agreement has expired without Executive's revocation. In the case of Separation Benefits, the Release Agreement shall also include a reasonable agreement to cooperate for a period of six months following the employment termination date and a mutual non-disparagement clause.

5. Confidential Information and Trade Secrets

A. AOI is engaged in the highly competitive business of the design, development, manufacture and sale of advanced optical components, including modules and circuitry, systems and processes ("Company's Business"). In this business, Company generates a significant amount of Confidential Information and Trade Secrets, certain of which it hereby agrees to share with Executive, and which Executive will have access to and knowledge of through or as a result of Executive's employment with the Company. As used in this Agreement, "Confidential Information and Trade Secrets" includes any information, data or compilation of information or data developed, acquired or generated by Company, or its employees (including information and materials conceived, originating, discovered, or developed in whole or in part by Executive at the request of or for the benefit of Company or while employed by Company), which is not generally known to persons who are not employees of Company, and which Company generally does not share other than with its employees, or with its customers and suppliers on an individual transactional basis. "Confidential Information and Trade Secrets" may be written, verbal or recorded by electronic, magnetic or other methods, whether or not expressly identified as "Confidential" by Company.

B. "Confidential Information and Trade Secrets" includes, but is not limited to, the following information and materials:

(i) Financial information of any kind pertaining to Company, including, without limitation, information about the profit margins, profitability, pricing, income and expenses of Company or any of its products or lines of business;

(ii) All information about and all communications received from, sent to or exchanged between Company and any person or entity which has purchased, licensed, exchanged or otherwise entered into a transaction with Company, or to which Company has made a proposal with respect to the purchase, sale, license, exchange or other transaction involving any component, products or services which form any part of Company's Business (such person or entity being hereinafter referred to as customer or customers);

(iii) Any and all information and records relating to Company's contracts or transactions with, or charges, prices or sales to, its customers, including invoices, proposals, confirmations, bills of ladings, statements, accounting records, bids, payment records or any other information or documents regarding amounts charged to or paid by customers, for any software, products or services which form any part of Company's Business;

(iv) All information regarding Company's scientific, technical or technological information, designs, processes, procedures, formulas, equipment or systems, including without limitation, any components, modules, circuits, software, programs, codes, algorithms, calculations, drawings, plans, or specifications related to the development, design, construction, fabrication, manufacture, operation or furnishing of any software, products, services, or equipment which constitute any part of the Company's Business, including Company Products. As used in this Agreement, "Company Products" shall mean any and all computer software, optical component, module, circuitry, equipment, products, services, together with any updates, substitutions, enhancements or modifications thereof, and any user manuals, programming manuals and other documentation of any kind.

C. Executive acknowledges that all notes, data, forms, reference and training materials, leads, memoranda, computer programs, computer print-outs, disks and the information contained in any computer, and any other records which contain, reflect or describe any Confidential Information and Trade Secrets, belong exclusively to Company. Upon the termination of Executive's employment with the Company, Executive shall promptly return such materials and all copies thereof in Executive's possession to Company, regardless of whether such termination is the result of an Event of Termination for Good Reason or an Event of Termination for Cause (the "Termination Date").

D. During Executive's employment with Company and thereafter, Executive will not copy, publish, convey, transfer, disclose nor use, directly or indirectly, for Executive's own benefit or for the benefit of any other person or entity (except Company) any Confidential Information and Trade Secrets; provided, that any copying or other prohibited use of Confidential Information and Trade Secrets shall not include copying or otherwise using

Confidential Information and Trade Secrets in connection with communications with current or potential customers or vendors that the Executive reasonably expects to have a direct benefit to the Company. Executive will abide by all rules, guidelines, policies and procedures relating to Confidential Information and Trade Secrets implemented and/or amended from time to time by Company.

E. Executive acknowledges that any actual or threatened breach of the covenants contained herein will cause Company irreparable harm and that money damages would not provide an adequate remedy to Company for any such breach. For these reasons, and because of the unique nature of the Confidential Information and Trade Secrets and the necessity to preserve such Confidential Information and Trade Secrets in order to protect Company's property rights in the event of a breach or threatened breach of any of the provisions herein, Company, in addition to any other remedies available to it at law or in equity, shall be entitled to immediate injunctive relief against Executive to enforce the provisions of this Agreement and shall be entitled to recover from Executive its reasonable attorneys' fees and other expenses incurred in connection with such proceedings.

6. Covenant Not to Compete

A. Throughout Executive's employment with the Company, Company agrees to give Executive access to certain of its Confidential Information and Trade Secrets concerning Company's Business and its employees, customers and customer representatives, suppliers and supplier representatives, and Company's transactional histories as well as information about the logistics, details and expenses of Company in connection with any goods, products or services which form any part of Company's Business. Company agrees to provide this information to Executive in order to allow Executive to perform Executive's duties under this Agreement, and to develop relationships with customers, customer representatives, suppliers and supplier representatives of the Company.

B. Company agrees to provide, and to continue to provide, Executive with both specialized knowledge and education in Company's Business, in order to allow Executive to perform Executive's duties in an efficient, proper and effective manner. Such knowledge and education may consist of verbal

instructions and information, the furnishing of written materials, consultation and counseling, sales, staff and employee meetings, training sessions and seminars, in addition to formal or informal information and orientation methodologies and procedures. Executive will have access to certain of Company's transactional histories, and the details of prior purchases, sales, trades or exchanges, in order that Executive can learn Company's Business and/or improve Executive's skills, experience and knowledge.

C. In consideration of Company's employment of Executive as a highly valued employee, the Company's agreement to provide Executive with access to certain Confidential Information and Trade Secrets, and the Company's agreement to provide specialized knowledge and education, Executive agrees to refrain from competing with Company or otherwise engaging in Restricted Activities, as defined below, during the Restricted Period.

D. Executive agrees that during the term of his employment with Company and for a period of one (1) year after the Executive's employment with the Company terminates (the

"Restricted Period"), regardless of whether the termination occurs with or without cause and regardless of who terminates this Agreement, Executive will not directly or indirectly, as an employee, officer, director, shareholder, proprietor, agent, partner, recruiter, consultant, independent contractor or in any other individual or representative capacity engage in any of the Restricted Activities.

E. "Restricted Activities" means and includes the following:

(i) Conducting, engaging or participating, directly or indirectly, as the chief executive officer or division head, agent, independent contractor, consultant, partner, shareholder, investor, lender, underwriter, supplier, customer or in any other similar capacity, in any business that competes with any part of the Company's Business;

(ii) Recruiting, hiring, and/or attempting to recruit or hire, directly or by assisting others, any other employee, temporary or permanent, contract, part time or full time of the Company. For purposes of this covenant "any other employee" shall refer to employees, consultants or others who are under contract to provide services to the Company and who are still actively employed by, or doing business with, the Company at the time of the attempted recruiting or hiring, or were so employed or doing business at any time within six (6) months prior to the time of such attempted recruiting or hiring; and

(iii) Using, disclosing, publishing, copying, distributing or communicating any Confidential Information and Trade Secrets to, or for the use or benefit of Executive or any other person or entity other than Company.

F. "Restricted Area" shall mean and include each of the following:

(i) Fort Bend County, Texas and Harris County, Texas;

(ii) Within a twenty-five (25) mile radius of the location of any office, facility or other business location of any customer, customer representative, supplier or supplier representative; and

(iii) Within a sixty (60) miles radius of any office, facility or other business location of Company.

G. Executive acknowledges that this Agreement prohibits the performance of Restricted Activities from outside the Restricted Area into the Restricted Area.

H. The Company and Executive acknowledge that the provisions contained in this Article 6 shall not prevent Executive or Executive's Affiliates from owning solely as an investment, directly or indirectly, securities of any publicly traded corporation engaged in the Company's Business if Executive and Executive's Affiliates do not, directly or indirectly, beneficially own in the aggregate more than 5% of all classes of outstanding equity securities of such entity.

I. Executive and the Company agree that this Covenant Not to Compete is ancillary to the Company's agreement to employ the Executive as described by this Agreement, this Agreement's provisions regarding severance benefits, and this Agreement's provisions regarding non-disclosure of confidential information and trade secrets.

J. Executive and the Company agree that the limitations as to time and scope of activity to be restrained are reasonable and do not impose a greater restraint on Executive than is necessary to protect the property rights and other business interests of Company.

K. If Executive fails to comply with, or breaches, or threatens to breach, any of the provisions herein, Company in addition to any other remedies available to it at law or in equity, shall be entitled to immediate injunctive relief to enforce the provisions of this Section 6 and shall be entitled to recover from Executive reasonable attorneys' fees and other expenses incurred by Company in connection with such proceedings.

7. General Provisions

A. This Agreement may not be assigned by Executive. This Agreement may be assigned in whole or in part by the Company to a successor in interest. Executive expressly agrees to honor and accept such assignment or other transfer and, on the consummation thereof, to attorn to the Company's assignee and to perform Executive's duties and obligations under this Agreement for the benefit of the Company's assignee as if the Company's assignee were the Company. Executive further agrees that, on the consummation of such assignment or other transfer, all references in this Agreement to the Company shall become and shall be deemed to be references to the Company's assignee and the Company shall be relieved of all obligations under this Agreement.

B. This Agreement shall be governed by, construed, and enforced in accordance with the internal, local laws, of the State of Texas (without regard to conflicts of law rules) and the obligations of the Company and Executive shall be performable in the State of Texas. The Parties agree that proper jurisdiction and venue for any dispute arising under this Agreement are in state or federal court in Harris County, Texas.

C. This Agreement contains the entire agreement between the Parties regarding any benefit Executive may receive from any type of change of control or separation benefits (as defined in this Agreement or otherwise) at AOI and supersedes and replaces all prior communications and agreements (oral or written) between Executive and the Company regarding any benefit Executive may receive from any type of change of control or separation benefits (as defined in this Agreement or otherwise) at AOI. This Agreement does not extinguish any previous written stock option agreements between Executive and the Company; however, it modifies any previous written stock option agreements as provided in Paragraph 4 of this Agreement. Except as provided in this paragraph C, this Agreement does not extinguish any other agreements between Executive and the Company. Except as expressly provided in this Agreement, no variation, modification, or change of this Agreement shall be binding upon either Party hereto unless set forth in a document duly executed by both Parties.

D. This Agreement is intended to express the Parties' mutual intent, and irrespective of the Party preparing this document, no rule of construction shall be applied against such Party, as both Parties have actively participated in the preparation and negotiation of this Agreement.

E. No Party's waiver of the other Party's breach of any condition or provision of this Agreement shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. Failure on either Party's part to complain of any act or failure to act of the other Party or to declare the other Party in default, irrespective of how long such failure or default continues, shall not constitute a waiver by such Party of such Party's rights under this Agreement.

F. If any provision of this Agreement or the application thereof to any person or circumstance shall be invalid or unenforceable to any extent, the remainder of this Agreement and the application of such provision to other persons or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by law.

G. This Agreement shall inure to the benefit of and be binding on the undersigned Parties and their respective permitted successors and permitted assigns. Whenever, in this Agreement, a reference to any Party is made, such reference shall be deemed to include a reference to such Party's permitted successors and permitted assigns; however, neither this Paragraph 7.G. nor any other portion of this Agreement shall be interpreted to constitute a consent to any assignment or other transfer of this Agreement or any part hereof other than pursuant to and in accordance with this Agreement's other provisions.

H. The prevailing Party in any dispute between the Parties to this Agreement, arising out of the interpretation, application, or enforcement of any provision of this Agreement, shall be entitled to recover all of its reasonable attorneys' fees and costs, whether suit be filed or not, including, without limitation, costs and attorneys' fees related to or arising out of any arbitration, administrative proceedings, trial, or appellate proceedings, or petition for review before any other court or administrative body.

I. Notwithstanding any other provision of this Agreement to the contrary, Executive and the Company shall in good faith amend this Agreement to the limited extent necessary to comply with the requirements under Section 409A of the Code, and any regulations or other guidance issued thereunder, in order to ensure that any amounts paid or payable hereunder are not subject to the additional 20% income tax thereunder while maintaining to the maximum extent practicable the original intent of this Agreement.

EXECUTED, in multiple counterparts, each of which shall have the force and effect of an original, on the Effective Date.

APPLIED OPTOELECTRONICS, INC.

By: /s/William H. Yeh
Printed Name: William H. Yeh
Title: Director

Date: Jan. 28, 2007

EXECUTIVE
CHIH-HSIANG (THOMPSON) LIN

/s/ Chih-Hsiang (Thompson) Lin
signature

Date: Jan. 28, 2007

APPLIED OPTOELECTRONICS, INC.

By: /s/ Chih-Hsiang (Thompson) Lin
Printed Name: Chih-Hsiang (Thompson) Lin
Title: President

Date: Jan. 28, 2007

EMPLOYMENT AGREEMENT REGARDING
CHANGE OF CONTROL OR SEPARATION OF SERVICE

This employment agreement ("Agreement") is made and entered into effective as of January 28, 2007 ("Effective Date"), by and between Applied Optoelectronics, Inc. ("AOI" or the "Company"), whose address is 13111 Jess Pirtle Boulevard, Sugar Land, Texas 77478, and Stefan J. Murry ("Executive"), whose address is 5719 Indigo, Houston TX 77096. This Agreement may sometimes refer to AOI and Executive singularly as a "Party" or collectively as the "Parties."

1. Confirmation of Employment At-Will

Executive's employment with AOI has been, is, and shall continue to be on an at-will basis. This means that either Executive or AOI may terminate Executive's employment with the Company at any time and for any reason or no reason at all, except that if (i) a Change of Control of the Company shall have occurred and the Executive's employment by the Company is thereafter terminated (whether by the Executive with Good Reason or the Company without Cause as provided in Paragraph 3), or (ii) Executive's employment is terminated in certain other circumstances delineated in this Agreement, then the Executive shall be entitled to receive certain benefits as provided in this Agreement.

2. Change of Control

A. "Change of Control" shall be deemed to have occurred on the date that one or more of the following occurs:

(i) Individuals who, on the date hereof, constitute the entire Board of Directors of the Company ("Incumbent Directors") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the then Incumbent Directors shall be considered as though such individual was an Incumbent Director, but excluding, for this purpose any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest, as such terms are used in Rule 14a-11 under the Securities Exchange Act of 1934, as amended ("Exchange Act") or other actual or threatened solicitation of proxies or consents by or on behalf of any Person (as defined below) other than the Board; or

(ii) (a) The consummation of any merger, consolidation or recapitalization of the Company (or, if the capital stock of the Company is affected, any subsidiary of the Company), or any sale, lease, or other transfer (in one transaction or a series of transactions contemplated or arranged by any party as a single plan) of all or substantially all of the assets of the Company (each of the foregoing being an "Acquisition Transaction") where (1) the shareholders of the Company immediately prior to such Acquisition Transaction would not immediately after such Acquisition Transaction beneficially own, directly or

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indirectly, shares or other ownership interests representing in the aggregate fifty-one percent (51%) or more of (a) the then outstanding common stock or other equity interests of the corporation or other entity surviving or resulting from such merger, consolidation or recapitalization or acquiring such assets of the Company, as the case may be (the "Surviving Entity") (or of its ultimate parent corporation or other entity, if any), and (b) the Combined Voting Power of the then outstanding Voting Securities of the Surviving Entity (or of its ultimate parent corporation or other entity, if any) or (2) the Incumbent Directors at the time of the initial approval of such Acquisition Transaction would not immediately after such Acquisition Transaction constitute a majority of the Board of Directors, or similar managing group, of the Surviving Entity (or of its ultimate parent corporation or other entity, if any), or (b) the filing of any plan for the liquidation or dissolution of the Company.

B. For purposes of the definition of "Change of Control":

(i) "Affiliate" shall mean, as to a specified Person, another Person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the specified Person, within the meaning of such terms as used in Rule 405 under the Securities Act of 1933, as amended ("Securities Act"), or any successor rule.

(ii) "Combined Voting Power" shall mean the aggregate votes entitled to be cast generally in the election of the Board of Directors, or similar managing group, of a corporation or other entity by holders of then outstanding Voting Securities of such corporation or other entity.

(iii) "Person" shall mean any individual, entity (including, without limitation, any corporation, partnership, trust, joint venture, association or governmental body) or group (as defined in Sections 14(d)(3) or 15(d)(2) of the Exchange Act and the rules and regulations thereunder); provided, however, that Person shall not include the Company, any of its subsidiaries, any employee benefit plan of the Company or any of its majority-owned subsidiaries or any entity organized, appointed or established by the Company or such subsidiaries for or pursuant to the terms of any such plan.

(iv) "Voting Securities" shall mean all securities of a corporation or other entity having the right under ordinary circumstances to vote in an election of the Board of Directors, or similar managing group, of such corporation or other entity.

3. Termination Following a Change of Control

A. If a Change of Control of the Company shall have occurred, any subsequent termination of Executive's employment (i) by the Executive upon an Event of Termination for Good Reason (hereafter defined) or (ii) by the Company upon an Event of Termination for Cause (hereafter defined), shall be communicated by written notice to the other party. If the notice is

from the Company and states that the Executive's employment by the Company is terminated by the Company as a result of the occurrence of an Event of Termination for Cause, the notice shall specifically describe the action or inaction of the Executive that the Company believes constitutes an Event of Termination for Cause. If the notice is from the Executive and states that the Executive's employment by the Company is terminated by the Executive as a result of the occurrence of an Event of Termination for Good Reason, the notice shall specifically describe the action or inaction of the Company that the Executive believes constitutes an Event of Termination for Good Reason.

B. An "Event of Termination for Cause" shall have occurred: (i) if Executive should be convicted of or pleads *nolo contendre* to any felony offense or to a crime that the Board determines, in its sole discretion, is a crime of moral turpitude (whether or not a felony); (ii) if Executive should commit willful misconduct (that is, done in bad faith or without reasonable belief that such action is in the best interest of the Company) or violate any law in connection with the performance of any of Executive's duties, including, without limitation, (a) misappropriation of funds or property of the Company or any of its affiliates or customers, (b) securing or attempting to secure personally any profit in connection with any transaction entered into on behalf of the Company or any of its affiliates, or (c) making any material misrepresentation to the Board, the Company, or any of the Company's affiliates; (iii) if Executive materially violates or fails to comply with any written Company policy; (iv) if Executive materially breaches any term of this Agreement; or (v) the willful and continued failure or neglect of the Executive to substantially perform his/her duties with the Company (other than any such failure resulting from incapacity due to physical or mental illness). The Board shall not have Cause to terminate Executive's employment under Paragraph 3.B. (iii), (iv), or (v) of this Agreement unless and until the Board provides written notice to Executive identifying Executive's alleged violation of policy, breach of this Agreement, or failure to perform (or neglect of) any duty and Executive fails to cure such violation of policy, breach of this Agreement or failure to perform (or neglect of) any duty within 60 days.

C. An "Event of Termination for Good Reason" shall have occurred in the event of any of the following:

(i) Executive's assignment to any duties or the significant reduction of Executive's duties or a significant change of Executive's title, any of which is inconsistent with his or her position or title with the Company and responsibilities in effect immediately prior to such assignment, except in each case in connection with a promotion. For purposes of clarification, if Executive is not the Vice President—Global Sales and Marketing of the successor entity or its ultimate parent, if any, then Executive will have suffered a significant reduction of his/her duties which qualifies as an Event of Termination for Good Reason pursuant to this paragraph;

(ii) reduction by the Company in Executive's base compensation as in effect immediately prior to such reduction, provided that an Event of Termination for Good Reason shall not be deemed to have occurred where Executive's base compensation is reduced as part of an overall cost reduction program that affects

all senior executives of the Company and does not disproportionately affect Executive;

(iii) any purported termination of Executive by the Company (other than a voluntary resignation initiated by Executive, except for a voluntary termination initiated by Executive for the reasons described in this paragraph) which is not effected for disability or for Cause;

(iv) the failure of any successor entity to the Company to expressly assume in writing the terms of this agreement; and

(v) any material breach by the Company of any material provision of this agreement which has not been cured within 30 days of written notice to the Company by Executive of such breach.

4. Severance Benefits

A. If a Change of Control occurs and, within one year thereafter, the Executive's employment by the Company is terminated by the Executive following an Event of Termination for Good Reason or by the Company otherwise than as a result of an Event of Termination for Cause, Executive will be entitled to receive benefits ("Change of Control Severance Benefits") consisting of: (a) a lump sum payment equal to one year of Executive's base salary as in effect immediately prior to the Change of Control (minus lawful withholdings); (b) a lump sum payment equal to the dollar amount of Executive's full target bonus percentage as in effect immediately prior to the Change of Control (minus lawful withholdings); (c) a lump sum payment of $10,000 (minus lawful withholdings) that Executive may use for benefit continuation under COBRA or for any other purpose; (d) accelerated vesting of Executive's stock options under any stock option agreement(s) between Executive and AOI, meaning that all outstanding but unvested stock options shall be accelerated and fully vested, and all vested options shall be exercisable until the later of (i) the 15th day of the third month following the date at which the stock options would otherwise have expired in accordance with their original terms, (ii) December 31 of the calendar year in which the stock options would otherwise have expired in accordance with their original terms and (iii) such longer period (not to exceed twelve months following the Separation from Service (as defined in paragraph 4.0 below) as may be provided by the Treasury Department in the final regulations addressing Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"); provided, however, that the foregoing shall not be construed to cause an incentive stock option to fail to meet the statutory requirements of Section 422 of the Code; and (e) a lump sum equal to the commissions payable to Executive over the ensuing twelve months following the Termination Date, which amount Executive and the Company agree shall be equal to the sum of Executive's most recent four (full, quarterly) commission payments".

B. If at any time prior to a Change of Control the Executive's employment is terminated by the Company for any reason other than an Event of Termination for Cause or if Executive resigns because of an Event of Termination for Good Reason, Executive shall be entitled to receive payment equal to (i) a lump sum payment equal to one year of Executive's base salary as in effect immediately prior to such termination (minus lawful withholdings); (ii) a

lump sum payment equal to the dollar amount of Executive's full target bonus percentage as in effect immediately prior to such termination (minus lawful withholdings); (iii) a lump sum payment of $15,000 (minus lawful withholdings) that Executive may use for benefit continuation under COBRA or for any other purpose; and (iv) a lump sum equal to the commissions payable to Executive over the ensuing twelve months following the Termination Date, which amount Executive and the Company agree shall be equal to the sum of Executive's most recent four commission payments (collectively, "Separation Benefits").

C. If payable under paragraph 4.A, the Change of Control Severance Benefits shall be paid on the later of the 60 day after the effective date of Executive's "separation from service" (within the meaning of Section 409A and the regulations issued thereunder) ("Separation from Service"), or six months and one day after the Executive's Separation from Service if the Executive is a "specified employee" (as that term is defined under Section 409A of the Code and the regulations issued thereunder) ("Specified Employee") at the time the Executive becomes entitled to Change of Control Severance Benefits under this Paragraph.

If payable under paragraph 4.B, the Separation Benefits shall be paid periodically in installments over the twelve months following the Executive's Separation from Service, in accordance with the Company's regular payroll practices, provided that no payment shall be made prior to the 60th day after the effective date of Executive's Separation from Service or six months and one day after the Executive's Separation from Service if the Executive is a Specified Employee at the time the Executive becomes entitled to the Separation Benefits under this Paragraph. Notwithstanding the foregoing, no Change of Control Severance Benefits or Separation Benefits shall be due under this Agreement unless (a) prior to the 60th day after the effective date of Executive's separation from service, Executive has signed a release agreement ("Release Agreement") that the Company will provide in which Executive releases any possible claims against the Company and all of its parents, divisions, subsidiaries, affiliates, and related companies, and their present and former agents, employees, officers, directors, attorneys, stockholders, plan fiduciaries, successors, and assigns; and (b) prior to the 60th day after the effective date of Executive's separation from service, the seven day revocation period in the Release Agreement has expired without Executive's revocation. In the case of Separation Benefits, the Release Agreement shall also include a reasonable agreement to cooperate for a period of six months following the employment termination date and a mutual non-disparagement clause.

5. Confidential Information and Trade Secrets

A. AOI is engaged in the highly competitive business of the design, development, manufacture and sale of advanced optical components, including modules and circuitry, systems and processes ("Company's Business"). In this business, Company generates a significant amount of Confidential Information and Trade Secrets, certain of which it hereby agrees to share with Executive, and which Executive will have access to and knowledge of through or as a result of Executive's employment with the Company. As used in this Agreement, "Confidential Information and Trade Secrets" includes any information, data or compilation of information or data developed, acquired or generated by Company, or its employees (including information and materials conceived, originating, discovered, or developed in whole or in part by Executive at the request of or for the benefit of Company or while employed by Company), which is not generally known to persons who are not employees of Company, and which Company generally does not share other than with its employees, or with its customers and suppliers on an individual

transactional basis. "Confidential Information and Trade Secrets" may be written, verbal or recorded by electronic, magnetic or other methods, whether or not expressly identified as "Confidential" by Company.

B. "Confidential Information and Trade Secrets" includes, but is not limited to, the following information and materials:

(i) Financial information of any kind pertaining to Company, including, without limitation, information about the profit margins, profitability, pricing, income and expenses of Company or any of its products or lines of business;

(ii) All information about and all communications received from, sent to or exchanged between Company and any person or entity which has purchased, licensed, exchanged or otherwise entered into a transaction with Company, or to which Company has made a proposal with respect to the purchase, sale, license, exchange or other transaction involving any component, products or services which form any part of Company's Business (such person or entity being hereinafter referred to as customer or customers);

(iii) Any and all information and records relating to Company's contracts or transactions with, or charges, prices or sales to, its customers, including invoices, proposals, confirmations, bills of ladings, statements, accounting records, bids, payment records or any other information or documents regarding amounts charged to or paid by customers, for any software, products or services which form any part of Company's Business;

(iv) All information regarding Company's scientific, technical or technological information, designs, processes, procedures, formulas, equipment or systems, including without limitation, any components, modules, circuits, software, programs, codes, algorithms, calculations, drawings, plans, or specifications related to the development, design, construction, fabrication, manufacture, operation or furnishing of any software, products, services, or equipment which constitute any part of the Company's Business, including Company Products. As used in this Agreement, "Company Products" shall mean any and all computer software, optical component, module, circuitry, equipment, products, services, together with any updates, substitutions, enhancements or modifications thereof, and any user manuals, programming manuals and other documentation of any kind.

C. Executive acknowledges that all notes, data, forms, reference and training materials, leads, memoranda, computer programs, computer print-outs, disks and the information contained in any computer, and any other records which contain, reflect or describe any Confidential Information and Trade Secrets, belong exclusively to Company. Upon the termination of Executive's employment with the Company, Executive shall promptly return such materials and all copies thereof in Executive's possession to Company, regardless of whether

such termination is the result of an Event of Termination for Good Reason or an Event of Termination for Cause (the "Termination Date").

D. During Executive's employment with Company and thereafter, Executive will not copy, publish, convey, transfer, disclose nor use, directly or indirectly, for Executive's own benefit or for the benefit of any other person or entity (except Company) any Confidential Information and Trade Secrets; provided, that any copying or other prohibited use of Confidential Information and Trade Secrets shall not include copying or otherwise using Confidential Information and Trade Secrets in connection with communications with current or potential customers or vendors that the Executive reasonably expects to have a direct benefit to the Company. Executive will abide by all rules, guidelines, policies and procedures relating to Confidential Information and Trade Secrets implemented and/or amended from time to time by Company.

E. Executive acknowledges that any actual or threatened breach of the covenants contained herein will cause Company irreparable harm and that money damages would not provide an adequate remedy to Company for any such breach. For these reasons, and because of the unique nature of the Confidential Information and Trade Secrets and the necessity to preserve such Confidential Information and Trade Secrets in order to protect Company's property rights in the event of a breach or threatened breach of any of the provisions herein, Company, in addition to any other remedies available to it at law or in equity, shall be entitled to immediate injunctive relief against Executive to enforce the provisions of this Agreement and shall be entitled to recover from Executive its reasonable attorneys' fees and other expenses incurred in connection with such proceedings.

6. Covenant Not to Compete

A. Throughout Executive's employment with the Company, Company agrees to give Executive access to certain of its Confidential Information and Trade Secrets concerning Company's Business and its employees, customers and customer representatives, suppliers and supplier representatives, and Company's transactional histories as well as information about the logistics, details and expenses of Company in connection with any goods, products or services which form any part of Company's Business. Company agrees to provide this information to Executive in order to allow Executive to perform Executive's duties under this Agreement, and to develop relationships with customers, customer representatives, suppliers and supplier representatives of the Company.

B. Company agrees to provide, and to continue to provide, Executive with both specialized knowledge and education in Company's Business, in order to allow Executive to perform Executive's duties in an efficient, proper and effective manner. Such knowledge and education may consist of verbal instructions and information, the furnishing of written materials, consultation and counseling, sales, staff and employee meetings, training sessions and seminars, in addition to formal or informal information and orientation methodologies and procedures. Executive will have access to certain of Company's transactional histories, and the details of prior purchases, sales, trades or exchanges, in order that Executive can learn Company's Business and/or improve Executive's skills, experience and knowledge.

C. In consideration of Company's employment of Executive as a highly valued employee, the Company's agreement to provide Executive with access to certain Confidential Information and Trade Secrets, and the Company's agreement to provide specialized knowledge and education, Executive agrees to refrain from competing with Company or otherwise engaging in Restricted Activities, as defined below, during the Restricted Period.

D. Executive agrees that during the term of his employment with Company and for a period of one (1) year after the Executive's employment with the Company terminates (the "Restricted Period"), regardless of whether the termination occurs with or without cause and regardless of who terminates this Agreement, Executive will not directly or indirectly, as an employee, officer, director, shareholder, proprietor, agent, partner, recruiter, consultant, independent contractor or in any other individual or representative capacity engage in any of the Restricted Activities.

E. "Restricted Activities" means and includes the following:

(i) Conducting, engaging or participating, directly or indirectly, as the marketing or sales representative, agent, independent contractor, consultant, partner, shareholder, investor, lender, underwriter, supplier, customer or in any other similar capacity, in any business that competes with any marketing or sales areas of the Company's Business;

(ii) Recruiting, hiring, and/or attempting to recruit or hire, directly or by assisting others, any other employee, temporary or permanent, contract, part time or full time of the Company. For purposes of this covenant "any other employee" shall refer to employees, consultants or others who are under contract to provide services to the Company and who are still actively employed by, or doing business with, the Company at the time of the attempted recruiting or hiring, or were so employed or doing business at any time within six (6) months prior to the time of such attempted recruiting or hiring; and

(iii) Using, disclosing, publishing, copying, distributing or communicating any Confidential Information and Trade Secrets to, or for the use or benefit of Executive or any other person or entity other than Company.

F. "Restricted Area" shall mean and include each of the following:

(i) Fort Bend County, Texas and Harris County, Texas;

(ii) Within a twenty-five (25) mile radius of the location of any office, facility or other business location of any customer, customer representative, supplier or supplier representative; and

(iii) Within a sixty (60) miles radius of any office, facility or other business location of Company.

G. Executive acknowledges that this Agreement prohibits the performance of Restricted Activities from outside the Restricted Area into the Restricted Area.

H. The Company and Executive acknowledge that the provisions contained in this Article 6 shall not prevent Executive or Executive's Affiliates from owning solely as an investment, directly or indirectly, securities of any publicly traded corporation engaged in the Company's Business if Executive and Executive's Affiliates do not, directly or indirectly, beneficially own in the aggregate more than 5% of all classes of outstanding equity securities of such entity.

I. Executive and the Company agree that this Covenant Not to Compete is ancillary to the Company's agreement to employ the Executive as described by this Agreement, this Agreement's provisions regarding severance benefits, and this Agreement's provisions regarding non-disclosure of confidential information and trade secrets.

J. Executive and the Company agree that the limitations as to time and scope of activity to be restrained are reasonable and do not impose a greater restraint on Executive than is necessary to protect the property rights and other business interests of Company.

K. If Executive fails to comply with, or breaches, or threatens to breach, any of the provisions herein, Company in addition to any other remedies available to it at law or in equity, shall be entitled to immediate injunctive relief to enforce the provisions of this Section 6 and shall be entitled to recover from Executive reasonable attorneys' fees and other expenses incurred by Company in connection with such proceedings.

7. General Provisions

A. This Agreement may not be assigned by Executive. This Agreement may be assigned in whole or in part by the Company to a successor in interest. Executive expressly agrees to honor and accept such assignment or other transfer and, on the consummation thereof, to attorn to the Company's assignee and to perform Executive's duties and obligations under this Agreement for the benefit of the Company's assignee as if the Company's assignee were the

Company. Executive further agrees that, on the consummation of such assignment or other transfer, all references in this Agreement to the Company shall become and shall be deemed to be references to the Company's assignee and the Company shall be relieved of all obligations under this Agreement.

B. This Agreement shall be governed by, construed, and enforced in accordance with the internal, local laws, of the State of Texas (without regard to conflicts of law rules) and the obligations of the Company and Executive shall be performable in the State of Texas. The Parties agree that proper jurisdiction and venue for any dispute arising under this Agreement are in state or federal court in Harris County, Texas.

C. This Agreement contains the entire agreement between the Parties regarding any benefit Executive may receive from any type of change of control or separation benefits (as defined in this Agreement or otherwise) at AOI and supersedes and replaces all prior communications and agreements (oral or written) between Executive and the Company regarding any benefit Executive may receive from any type of change of control or separation benefits (as

defined in this Agreement or otherwise) at AOI. This Agreement does not extinguish any previous written stock option agreements between Executive and the Company; however, it modifies any previous written stock option agreements as provided in Paragraph 4 of this Agreement. Except as provided in this paragraph C, this Agreement does not extinguish any other agreements between Executive and the Company. Except as expressly provided in this Agreement, no variation, modification, or change of this Agreement shall be binding upon either Party hereto unless set forth in a document duly executed by both Parties.

D. This Agreement is intended to express the Parties' mutual intent, and irrespective of the Party preparing this document, no rule of construction shall be applied against such Party, as both Parties have actively participated in the preparation and negotiation of this Agreement.

E. No Party's waiver of the other Party's breach of any condition or provision of this Agreement shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. Failure on either Party's part to complain of any act or failure to act of the other Party or to declare the other Party in default, irrespective of how long such failure or default continues, shall not constitute a waiver by such Party of such Party's rights under this Agreement.

F. If any provision of this Agreement or the application thereof to any person or circumstance shall be invalid or unenforceable to any extent, the remainder of this Agreement and the application of such provision to other persons or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by law.

G. This Agreement shall inure to the benefit of and be binding on the undersigned Parties and their respective permitted successors and permitted assigns. Whenever, in this Agreement, a reference to any Party is made, such reference shall be deemed to include a reference to such Party's permitted successors and permitted assigns; however, neither this Paragraph 7.G. nor any other portion of this Agreement shall be interpreted to constitute a consent to any assignment or other transfer of this Agreement or any part hereof other than pursuant to and in accordance with this Agreement's other provisions.

H. The prevailing Party in any dispute between the Parties to this Agreement, arising out of the interpretation, application, or enforcement of any provision of this Agreement, shall be entitled to recover all of its reasonable attorneys' fees and costs, whether suit be filed or not, including, without limitation, costs and attorneys' fees related to or arising out of any arbitration, administrative proceedings, trial, or appellate proceedings, or petition for review before any other court or administrative body.

I. Notwithstanding any other provision of this Agreement to the contrary, Executive and the Company shall in good faith amend this Agreement to the limited extent necessary to comply with the requirements under Section 409A of the Code, and any regulations or other guidance issued thereunder, in order to ensure that any amounts paid or payable hereunder are not subject to the additional 20% income tax thereunder while maintaining to the maximum extent practicable the original intent of this Agreement.

EXECUTED, in multiple counterparts, each of which shall have the force and effect of an original, on the Effective Date.

APPLIED OPTOELECTRONICS, INC.

By: /s/ William H. Yeh
Printed Name: William H. Yeh
Title: Director

Date: Jan. 28, 2007

EXECUTIVE
STEFAN J. MURRY

/s/ Stefan J. Murry
signature

Date: Jan. 28, 2007

APPLIED OPTOELECTRONICS, INC.

By: /s/ Chih-Hsiang (Thompson) Lin
Printed Name: Chih-Hsiang (Thompson) Lin
Title: President

Date: Jan. 28, 2007

EMPLOYMENT AGREEMENT REGARDING
CHANGE OF CONTROL OR SEPARATION OF SERVICE

This employment agreement ("Agreement") is made and entered into effective as of June 1, 2012 ("Effective Date"), by and between Applied Optoelectronics, Inc. ("AOI" or the "Company"), whose address is 13115 Jess Pirtle Boulevard, Sugar Land, Texas 77478, and Shu-Hua (Joshua) Yeh ("Executive"), whose address is 4F., No.111, Ln.20, Sec.2, Zhiyu Rd., Shilin Dist., Taipei City 11154, Taiwan (R.O.C.) This Agreement may sometimes refer to AOI and Executive singularly as a "Party" or collectively as the "Parties."

1. Confirmation of Employment At-Will

Executive's employment with AOI has been, is, and shall continue to be on an at-will basis. This means that either Executive or AOI may terminate Executive's employment with the Company at any time and for any reason or no reason at all, except that if (i) a Change of Control of the Company shall have occurred and the Executive's employment by the Company is thereafter terminated (whether by the Executive with Good Reason or the Company without Cause as provided in Paragraph 3), or (ii) Executive's employment is terminated in certain other circumstances delineated in this Agreement, then the Executive shall be entitled to receive certain benefits as provided in this Agreement.

2. Change of Control

A. "Change of Control" shall be deemed to have occurred on the date that one or more of the following occurs:

(i) Individuals who, on the date hereof, constitute the entire Board of Directors of the Company ("Incumbent Directors") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the then Incumbent Directors shall be considered as though such individual was an Incumbent Director, but excluding, for this purpose any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest, as such terms are used in Rule 14a-11 under the Securities Exchange Act of 1934, as amended ("Exchange Act") or other actual or threatened solicitation of proxies or consents by or on behalf of any Person (as defined below) other than the Board; or

(ii) (a) The consummation of any merger, consolidation or recapitalization of the Company (or, if the capital stock of the Company is affected, any subsidiary of the Company), or any sale, lease, or other transfer (in one transaction or a series of transactions contemplated or arranged by any party as a single plan) of all or substantially all of the assets of the Company (each of the foregoing being an "Acquisition Transaction") where (1) the shareholders of the Company immediately prior to such Acquisition Transaction would not immediately after such Acquisition Transaction beneficially own, directly or

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indirectly, shares or other ownership interests representing in the aggregate fifty-one percent (51%) or more of (a) the then outstanding common stock or other equity interests of the corporation or other entity surviving or resulting from such merger, consolidation or recapitalization or acquiring such assets of the Company, as the case may be (the "Surviving Entity") (or of its ultimate parent corporation or other entity, if any), and (b) the Combined Voting Power of the then outstanding Voting Securities of the Surviving Entity (or of its ultimate parent corporation or other entity, if any) or (2) the Incumbent Directors at the time of the initial approval of such Acquisition Transaction would not immediately after such Acquisition Transaction constitute a majority of the Board of Directors, or similar managing group, of the Surviving Entity (or of its ultimate parent corporation or other entity, if any), or (b) the filing of any plan for the liquidation or dissolution of the Company.

B. For purposes of the definition of "Change of Control":

(i) "Affiliate" shall mean, as to a specified Person, another Person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the specified Person, within the meaning of such terms as used in Rule 405 under the Securities Act of 1933, as amended ("Securities Act"), or any successor rule.

(ii) "Combined Voting Power" shall mean the aggregate votes entitled to be cast generally in the election of the Board of Directors, or similar managing group, of a corporation or other entity by holders of then outstanding Voting Securities of such corporation or other entity.

(iii) "Person" shall mean any individual, entity (including, without limitation, any corporation, partnership, trust, joint venture, association or governmental body) or group (as defined in Sections 14(d)(3) or 15(d)(2) of the Exchange Act and the rules and regulations thereunder); provided, however, that Person shall not include the Company, any of its subsidiaries, any employee benefit plan of the Company or any of its majority-owned subsidiaries or any entity organized, appointed or established by the Company or such subsidiaries for or pursuant to the terms of any such plan.

(iv) "Voting Securities" shall mean all securities of a corporation or other entity having the right under ordinary circumstances to vote in an election of the Board of Directors, or similar managing group, of such corporation or other entity.

3. Termination Following a Change of Control

A. If a Change of Control of the Company shall have occurred, any subsequent termination of Executive's employment (i) by the Executive upon an Event of Termination for Good Reason (hereafter defined) or (ii) by the Company upon an Event of Termination for Cause (hereafter defined), shall be communicated by written notice to the other party. If the notice is

from the Company and states that the Executive's employment by the Company is terminated by the Company as a result of the occurrence of an Event of Termination for Cause, the notice shall specifically describe the action or inaction of the Executive that the Company believes constitutes an Event of Termination for Cause. If the notice is from the Executive and states that the Executive's employment by the Company is terminated by the Executive as a result of the occurrence of an Event of Termination for Good Reason, the notice shall specifically describe the action or inaction of the Company that the Executive believes constitutes an Event of Termination for Good Reason.

B. An "Event of Termination for Cause" shall have occurred: (i) if Executive should be convicted of or pleads *nolo contendre* to any felony offense or to a crime that the Board determines, in its sole discretion, is a crime of moral turpitude (whether or not a felony); (ii) if Executive should commit willful misconduct (that is, done in bad faith or without reasonable belief that such action is in the best interest of the Company) or violate any law in connection with the performance of any of Executive's duties, including, without limitation, (a) misappropriation of funds or property of the Company or any of its affiliates or customers, (b) securing or attempting to secure personally any profit in connection with any transaction entered into on behalf of the Company or any of its affiliates, or (c) making any material misrepresentation to the Board, the Company, or any of the Company's affiliates; (iii) if Executive materially violates or fails to comply with any written Company policy; (iv) if Executive materially breaches any term of this Agreement; or (v) the willful and continued failure or neglect of the Executive to substantially perform his/her duties with the Company (other than any such failure resulting from incapacity due to physical or mental illness). The Board shall not have Cause to terminate Executive's employment under Paragraph 3.B. (iii), (iv), or (v) of this Agreement unless and until the Board provides written notice to Executive identifying Executive's alleged violation of policy, breach of this Agreement, or failure to perform (or neglect of) any duty and Executive fails to cure such violation of policy, breach of this Agreement or failure to perform (or neglect of) any duty within 60 days.

C. An "Event of Termination for Good Reason" shall have occurred in the event of any of the following:

(i) Executive's assignment to any duties or the significant reduction of Executive's duties or a significant change of Executive's title, any of which is inconsistent with his or her position or title with the Company and responsibilities in effect immediately prior to such assignment, except in each case in connection with a promotion. For purposes of clarification, if Executive is not the General Manager or Vice President of the successor entity or its ultimate parent, if any, then Executive will have suffered a significant reduction of his/her duties which qualifies as an Event of Termination for Good Reason pursuant to this paragraph;

(ii) reduction by the Company in Executive's base compensation as in effect immediately prior to such reduction, provided that an Event of Termination for Good Reason shall not be deemed to have occurred where Executive's base compensation is reduced as part of an overall cost reduction program that affects all senior executives of the Company and does not disproportionately affect Executive;

(iii) any purported termination of Executive by the Company (other than a voluntary resignation initiated by Executive, except for a voluntary termination initiated by Executive for the reasons described in this paragraph) which is not effected for disability or for Cause;

(iv) the failure of any successor entity to the Company to expressly assume in writing the terms of this agreement; and

(v) any material breach by the Company of any material provision of this agreement which has not been cured within 30 days of written notice to the Company by Executive of such breach.

4. Severance Benefits

A. If a Change of Control occurs and, within one year thereafter, the Executive's employment by the Company is terminated by the Executive following an Event of Termination for Good Reason or by the Company otherwise than as a result of an Event of Termination for Cause, Executive will be entitled to receive benefits ("Change of Control Severance Benefits") consisting of: (a) a lump sum payment equal to one year of Executive's base salary as in effect immediately prior to the Change of Control (minus lawful withholdings); (b) a lump sum payment equal to the dollar amount of Executive's full target bonus percentage as in effect immediately prior to the Change of Control (minus lawful withholdings); (c) a lump sum payment of $10,000 (minus lawful withholdings) that Executive may use for benefit continuation under COBRA or for any other purpose; and (d) accelerated vesting of Executive's stock options under any stock option agreement(s) between Executive and AOI, meaning that all outstanding but unvested stock options shall be accelerated and fully vested, and all vested options shall be exercisable until the later of (i) the 15th day of the third month following the date at which the stock options would otherwise have expired in accordance with their original terms, (ii) December 31 of the calendar year in which the stock options would otherwise have expired in accordance with their original terms and (iii) such longer period (not to exceed twelve months following the Separation from Service (as defined in paragraph 4.0 below) as may be provided by the Treasury Department in the final regulations addressing Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"); provided, however, that the foregoing shall not be construed to cause an incentive stock option to fail to meet the statutory requirements of Section 422 of the Code.

B. If at any time prior to a Change of Control the Executive's employment is terminated by the Company for any reason other than an Event of Termination for Cause or if Executive resigns because of an Event of Termination for Good Reason, Executive shall be entitled to receive payment equal to (i) a lump sum payment equal to one year of Executive's base salary as in effect immediately prior to such termination (minus lawful withholdings); (ii) a lump sum payment equal to the dollar amount of Executive's full target bonus percentage as in effect immediately prior to such termination (minus lawful withholdings); (iii) a lump sum payment of $15,000 (minus lawful withholdings) that Executive may use for benefit continuation under COBRA or for any other purpose ("Separation Benefits").

C. If payable under paragraph 4.A, the Change of Control Severance Benefits shall be paid on the later of the 60 day after the effective date of Executive's "separation from service" (within the meaning of Section 409A and the regulations issued thereunder) ("Separation from Service"), or six months and one day after the Executive's Separation from Service if the Executive is a "specified employee" (as that term is defined under Section 409A of the Code and the regulations issued thereunder) ("Specified Employee") at the time the Executive becomes entitled to Change of Control Severance Benefits under this Paragraph. If payable under paragraph 4.B, the Separation Benefits shall be paid periodically in installments over the twelve months following the Executive's Separation from Service, in accordance with the Company's regular payroll practices, provided that no payment shall be made prior to the 60th day after the effective date of Executive's Separation from Service or six months and one day after the Executive's Separation from Service if the Executive is a Specified Employee at the time the Executive becomes entitled to the Separation Benefits under this Paragraph. Notwithstanding the foregoing, no Change of Control Severance Benefits or Separation Benefits shall be due under this Agreement unless (a) prior to the 60th day after the effective date of Executive's separation from service, Executive has signed a release agreement ("Release Agreement") that the Company will provide in which Executive releases any possible claims against the Company and all of

its parents, divisions, subsidiaries, affiliates, and related companies, and their present and former agents, employees, officers, directors, attorneys, stockholders, plan fiduciaries, successors, and assigns; and (b) prior to the 60th day after the effective date of Executive's separation from service, the seven day revocation period in the Release Agreement has expired without Executive's revocation. In the case of Separation Benefits, the Release Agreement shall also include a reasonable agreement to cooperate for a period of six months following the employment termination date and a mutual non-disparagement clause.

5. Confidential Information and Trade Secrets

A. AOI is engaged in the highly competitive business of the design, development, manufacture and sale of advanced optical components, including modules and circuitry, systems and processes ("Company's Business"). In this business, Company generates a significant amount of Confidential Information and Trade Secrets, certain of which it hereby agrees to share with Executive, and which Executive will have access to and knowledge of through or as a result of Executive's employment with the Company. As used in this Agreement, "Confidential Information and Trade Secrets" includes any information, data or compilation of information or data developed, acquired or generated by Company, or its employees (including information and materials conceived, originating, discovered, or developed in whole or in part by Executive at the request of or for the benefit of Company or while employed by Company), which is not generally known to persons who are not employees of Company, and which Company generally does not share other than with its employees, or with its customers and suppliers on an individual transactional basis. "Confidential Information and Trade Secrets" may be written, verbal or recorded by electronic, magnetic or other methods, whether or not expressly identified as "Confidential" by Company.

B. "Confidential Information and Trade Secrets" includes, but is not limited to, the following information and materials:

(i) Financial information of any kind pertaining to Company, including, without limitation, information about the profit margins, profitability, pricing, income and expenses of Company or any of its products or lines of business;

(ii) All information about and all communications received from, sent to or exchanged between Company and any person or entity which has purchased, licensed, exchanged or otherwise entered into a transaction with Company, or to which Company has made a proposal with respect to the purchase, sale, license, exchange or other transaction involving any component, products or services which form any part of Company's Business (such person or entity being hereinafter referred to as customer or customers);

(iii) Any and all information and records relating to Company's contracts or transactions with, or charges, prices or sales to, its customers, including invoices, proposals, confirmations, bills of ladings, statements, accounting records, bids, payment records or any other information or documents regarding amounts charged to or paid by customers, for any software, products or services which form any part of Company's Business;

(iv) All information regarding Company's scientific, technical or technological information, designs, processes, procedures, formulas, equipment or systems, including without limitation, any components, modules, circuits, software, programs, codes, algorithms, calculations, drawings, plans, or specifications related to the development, design, construction, fabrication, manufacture, operation or furnishing of any software, products, services, or equipment which constitute any part of the Company's Business, including Company Products. As used in this Agreement, "Company Products" shall mean any and all computer software, optical component, module, circuitry, equipment, products, services, together with any updates, substitutions, enhancements or modifications thereof, and any user manuals, programming manuals and other documentation of any kind.

C. Executive acknowledges that all notes, data, forms, reference and training materials, leads, memoranda, computer programs, computer print-outs, disks and the information contained in any computer, and any other records which contain, reflect or describe any Confidential Information and Trade Secrets, belong exclusively to Company. Upon the termination of Executive's employment with the Company, Executive shall promptly return such materials and all copies thereof in Executive's possession to Company, regardless of whether such termination is the result of an Event of Termination for Good Reason or an Event of Termination for Cause (the "Termination Date").

D. During Executive's employment with Company and thereafter, Executive will not copy, publish, convey, transfer, disclose nor use, directly or indirectly, for Executive's own benefit or for the benefit of any other person or entity (except Company) any Confidential Information and Trade Secrets; provided, that any copying or other prohibited use of Confidential Information and Trade Secrets shall not include copying or otherwise using

Confidential Information and Trade Secrets in connection with communications with current or potential customers or vendors that the Executive reasonably expects to have a direct benefit to the Company. Executive will abide by all rules, guidelines, policies and procedures relating to Confidential Information and Trade Secrets implemented and/or amended from time to time by Company.

E. Executive acknowledges that any actual or threatened breach of the covenants contained herein will cause Company irreparable harm and that money damages would not provide an adequate remedy to Company for any such breach. For these reasons, and because of the unique nature of the Confidential Information and Trade Secrets and the necessity to preserve such Confidential Information and Trade Secrets in order to protect Company's property rights in the event of a breach or threatened breach of any of the provisions herein, Company, in addition to any other remedies available to it at law or in equity, shall be entitled to immediate injunctive relief against Executive to enforce the provisions of this Agreement and shall be entitled to recover from Executive its reasonable attorneys' fees and other expenses incurred in connection with such proceedings.

6. Covenant Not to Compete

A. Throughout Executive's employment with the Company, Company agrees to give Executive access to certain of its Confidential Information and Trade Secrets concerning Company's Business and its employees, customers and customer representatives, suppliers and supplier representatives, and Company's transactional histories as well as information about the logistics, details and expenses of Company in connection with any goods, products or services which form any part of Company's Business. Company agrees to provide this information to Executive in order to allow Executive to perform Executive's duties under this Agreement, and to develop relationships with customers, customer representatives, suppliers and supplier representatives of the Company.

B. Company agrees to provide, and to continue to provide, Executive with both specialized knowledge and education in Company's Business, in order to allow Executive to perform Executive's duties in an efficient, proper and effective manner. Such knowledge and education may consist of verbal

instructions and information, the furnishing of written materials, consultation and counseling, sales, staff and employee meetings, training sessions and seminars, in addition to formal or informal information and orientation methodologies and procedures. Executive will have access to certain of Company's transactional histories, and the details of prior purchases, sales, trades or exchanges, in order that Executive can learn Company's Business and/or improve Executive's skills, experience and knowledge.

C. In consideration of Company's employment of Executive as a highly valued employee, the Company's agreement to provide Executive with access to certain Confidential Information and Trade Secrets, and the Company's agreement to provide specialized knowledge and education, Executive agrees to refrain from competing with Company or otherwise engaging in Restricted Activities, as defined below, during the Restricted Period.

D. Executive agrees that during the term of his employment with Company and for a period of one (1) year after the Executive's employment with the Company terminates (the

"Restricted Period"), regardless of whether the termination occurs with or without cause and regardless of who terminates this Agreement, Executive will not directly or indirectly, as an employee, officer, director, shareholder, proprietor, agent, partner, recruiter, consultant, independent contractor or in any other individual or representative capacity engage in any of the Restricted Activities.

E. "Restricted Activities" means and includes the following:

(i) Conducting, engaging or participating, directly or indirectly, as the general manager or division head, agent, independent contractor, consultant, partner, shareholder, investor, lender, underwriter, supplier, customer or in any other similar capacity, in any business that competes with any part of the Company's Business;

(ii) Recruiting, hiring, and/or attempting to recruit or hire, directly or by assisting others, any other employee, temporary or permanent, contract, part time or full time of the Company. For purposes of this covenant "any other employee" shall refer to employees, consultants or others who are under contract to provide services to the Company and who are still actively employed by, or doing business with, the Company at the time of the attempted recruiting or hiring, or were so employed or doing business at any time within six (6) months prior to the time of such attempted recruiting or hiring; and

(iii) Using, disclosing, publishing, copying, distributing or communicating any Confidential Information and Trade Secrets to, or for the use or benefit of Executive or any other person or entity other than Company.

F. "Restricted Area" shall mean and include each of the following:

(i) Fort Bend County, Texas and Harris County, Texas;

(ii) Within a twenty-five (25) mile radius of the location of any office, facility or other business location of any customer, customer representative, supplier or supplier representative; and

(iii) Within a sixty (60) miles radius of any office, facility or other business location of Company.

G. Executive acknowledges that this Agreement prohibits the performance of Restricted Activities from outside the Restricted Area into the Restricted Area.

H. The Company and Executive acknowledge that the provisions contained in this Article 6 shall not prevent Executive or Executive's Affiliates from owning solely as an investment, directly or indirectly, securities of any publicly traded corporation engaged in the Company's Business if Executive and Executive's Affiliates do not, directly or indirectly, beneficially own in the aggregate more than 5% of all classes of outstanding equity securities of such entity.

I. Executive and the Company agree that this Covenant Not to Compete is ancillary to the Company's agreement to employ the Executive as described by this Agreement, this Agreement's provisions regarding severance benefits, and this Agreement's provisions regarding non-disclosure of confidential information and trade secrets.

J. Executive and the Company agree that the limitations as to time and scope of activity to be restrained are reasonable and do not impose a greater restraint on Executive than is necessary to protect the property rights and other business interests of Company.

K. If Executive fails to comply with, or breaches, or threatens to breach, any of the provisions herein, Company in addition to any other remedies available to it at law or in equity, shall be entitled to immediate injunctive relief to enforce the provisions of this Section 6 and shall be entitled to recover from Executive reasonable attorneys' fees and other expenses incurred by Company in connection with such proceedings.

7. General Provisions

A. This Agreement may not be assigned by Executive. This Agreement may be assigned in whole or in part by the Company to a successor in interest. Executive expressly agrees to honor and accept such assignment or other transfer and, on the consummation thereof, to attorn to the Company's assignee and to perform Executive's duties and obligations under this Agreement for the benefit of the Company's assignee as if the Company's assignee were the Company. Executive further agrees that, on the consummation of such assignment or other transfer, all references in this Agreement to the Company shall become and shall be deemed to be references to the Company's assignee and the Company shall be relieved of all obligations under this Agreement.

B. This Agreement shall be governed by, construed, and enforced in accordance with the internal, local laws, of the State of Texas (without regard to conflicts of law rules) and the obligations of the Company and Executive shall be performable in the State of Texas. The Parties agree that proper jurisdiction and venue for any dispute arising under this Agreement are in state or federal court in Harris County, Texas.

C. This Agreement contains the entire agreement between the Parties regarding any benefit Executive may receive from any type of change of control or separation benefits (as defined in this Agreement or otherwise) at AOI and supersedes and replaces all prior communications and agreements (oral or written) between Executive and the Company regarding any benefit Executive may receive from any type of change of control or separation benefits (as defined in this Agreement or otherwise) at AOI. This Agreement does not extinguish any previous written stock option agreements between Executive and the Company; however, it modifies any previous written stock option agreements as provided in Paragraph 4 of this Agreement. Except as provided in this paragraph C, this Agreement does not extinguish any other agreements between Executive and the Company. Except as expressly provided in this Agreement, no variation, modification, or change of this Agreement shall be binding upon either Party hereto unless set forth in a document duly executed by both Parties.

D. This Agreement is intended to express the Parties' mutual intent, and irrespective of the Party preparing this document, no rule of construction shall be applied against such Party, as both Parties have actively participated in the preparation and negotiation of this Agreement.

E. No Party's waiver of the other Party's breach of any condition or provision of this Agreement shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. Failure on either Party's part to complain of any act or failure to act of the other Party or to declare the other Party in default, irrespective of how long such failure or default continues, shall not constitute a waiver by such Party of such Party's rights under this Agreement.

F. If any provision of this Agreement or the application thereof to any person or circumstance shall be invalid or unenforceable to any extent, the remainder of this Agreement and the application of such provision to other persons or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by law.

G. This Agreement shall inure to the benefit of and be binding on the undersigned Parties and their respective permitted successors and permitted assigns. Whenever, in this Agreement, a reference to any Party is made, such reference shall be deemed to include a reference to such Party's permitted successors and permitted assigns; however, neither this Paragraph 7.G. nor any other portion of this Agreement shall be interpreted to constitute a consent to any assignment or other transfer of this Agreement or any part hereof other than pursuant to and in accordance with this Agreement's other provisions.

H. The prevailing Party in any dispute between the Parties to this Agreement, arising out of the interpretation, application, or enforcement of any provision of this Agreement, shall be entitled to recover all of its reasonable attorneys' fees and costs, whether suit be filed or not, including, without limitation, costs and attorneys' fees related to or arising out of any arbitration, administrative proceedings, trial, or appellate proceedings, or petition for review before any other court or administrative body.

I. Notwithstanding any other provision of this Agreement to the contrary, Executive and the Company shall in good faith amend this Agreement to the limited extent necessary to comply with the requirements under Section 409A of the Code, and any regulations or other guidance issued thereunder, in order to ensure that any amounts paid or payable hereunder are not subject to the additional 20% income tax thereunder while maintaining to the maximum extent practicable the original intent of this Agreement.

EXECUTED, in multiple counterparts, each of which shall have the force and effect of an original, on the Effective Date.

APPLIED OPTOELECTRONICS, INC.	***EXECUTIVE***
	Shu-Hua (Joshua) Yeh
By: /s/Chih-Hsiang (Thompson) Lin	/s/ Shu-Hua (Joshua) Yeh
Chih-Hsiang (Thompson) Lin	signature
President	
Date: January 25, 2013	Date: January 25, 2013

Exhibit 21.1

Jurisdiction of Formation	Subsidiary and address
British Virgin Islands	Prime World International Holdings, Ltd. P.O. Box 438, Road Town Tortola, British Virgin Islands

Jurisdiction of Formation	Subsidiary and address
China	Global Technology, Inc. No.88, Qiushi Rd, Wangchun Industrial Park Ningbo, China 315176