

APPLIED OPTOELECTRONICS, INC.
Form 10-Q/A
December 21, 2015
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Mark One)

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

For the quarterly period ended June 30, 2015

OR

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

For the transition period from _____ to _____

Commission File Number: 001-36083

Applied Optoelectronics, Inc.

(Exact name of registrant as specified in its charter)

Delaware **76-0533927**
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

13115 Jess Pirtle Blvd.

Sugar Land, TX 77478

(Address of principal executive offices)

(281) 295-1800

(Registrant's telephone number)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: as of August 3, 2015 there were 15,122,710 shares of the registrant's Common Stock outstanding.

EXPLANATORY NOTE

This Amendment No. 1 to Form 10-Q (this “Amendment”) amends the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015, originally filed on August 7, 2015 (the “Original 10-Q”), of Applied Optoelectronics, Inc., a Delaware corporation (the “Company” or “we”). The purpose of this Amendment is to clarify certain prior disclosures. This Amendment contains changes to Part I—Item 4 (Controls and Procedures), Part II—Item 1A (Risk Factors) and Part II--Item 6 (Exhibits).

In accordance with Sections 302 and 906 of the Sarbanes-Oxley Act of 2002, currently dated certifications of the Company’s principal executive officer and principal financial officer are attached to this Form 10-Q as Exhibits 31.1 and 31.2.

This Amendment should be read in conjunction with the Original 10-Q and the Company’s other filings made with the SEC subsequent to the filing of the Original 10-Q on August 7, 2015. The Original 10-Q has not been amended or updated to reflect events occurring after August 7, 2015, except as specifically set forth in this Amendment.

Applied Optoelectronics, Inc.

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Part I. Financial Information**Item 1. Condensed Consolidated Financial Statements****Applied Optoelectronics, Inc. and Subsidiaries****CONDENSED CONSOLIDATED BALANCE SHEETS****(in thousands, except per share data)**

	June 30, 2015	December 31, 2014
	(Unaudited)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 28,412	\$ 32,175
Restricted cash	2,495	509
Short-term investments	8,324	8,189
Accounts receivable - trade, net	32,907	31,589
Inventories	52,451	33,780
Notes receivable	-	980
Prepaid expenses and other current assets	8,031	6,017
Total current assets	132,620	113,239
Cash restricted for construction in progress	5,089	-
Property, plant and equipment, net	78,979	64,808
Land use rights, net	919	930
Intangible assets, net	3,837	3,833
Other assets, net	1,303	860
TOTAL ASSETS	\$ 222,747	\$ 183,670
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of long-term debt	\$ 30,990	\$ 9,591
Accounts payable	29,755	30,799
Bank acceptance payable	2,660	1,271
Accrued liabilities	7,348	6,940
Total current liabilities	70,753	48,601
Long-term debt, less current portion	29,596	19,057
Other long term liabilities	500	1,000
TOTAL LIABILITIES	100,849	68,658
Stockholders' equity (deficit):		
Preferred Stock: 5,000 shares authorized; no shares issued and outstanding at June 30, 2015 and December 31, 2014, \$0.001 par value	-	-

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Common Stock: 45,000 shares authorized; 14,949 shares issued and outstanding at June 30, 2015, \$0.001 par value; 14,824 shares issued and outstanding at December 31, 2014, \$0.001 par value	15	15
Additional paid-in capital	193,488	192,112
Accumulated other comprehensive gain	2,021	1,925
Accumulated deficit	(73,626)	(79,040)
TOTAL STOCKHOLDERS' EQUITY	121,898	115,012
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 222,747	\$ 183,670

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

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Revenue, net	\$49,632	\$32,650	\$79,866	\$57,509
Cost of goods sold	32,901	21,462	53,084	37,668
Gross profit	16,731	11,188	26,782	19,841
Operating expenses				
Research and development	4,701	4,009	9,506	7,555
Sales and marketing	1,607	1,497	3,166	2,830
General and administrative	4,534	3,952	9,537	7,506
Total operating expenses	10,842	9,458	22,209	17,891
Income from operations	5,889	1,730	4,573	1,950
Other income (expense)				
Interest income	80	106	154	185
Interest expense	(300)	(60)	(425)	(222)
Other income, net	555	228	1,247	201
Total other income	335	274	976	164
Income before income taxes	6,224	2,004	5,549	2,114
Income taxes	(135)	(85)	(135)	(110)
Net income	\$6,089	\$1,919	\$5,414	\$2,004
Net income per share				
Basic	\$0.41	\$0.13	\$0.36	\$0.15
Diluted	\$0.38	\$0.12	\$0.34	\$0.14
Weighted average shares used to compute net income per share				
Basic	14,936,442	14,785,437	14,890,581	13,794,384
Diluted	15,871,745	15,641,694	16,015,158	14,620,570

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

Applied Optoelectronics, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited, in thousands)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Net income	\$6,089	\$1,919	\$5,414	\$2,004
Foreign currency translation adjustment, net of tax	119	139	96	(140)
Comprehensive income	\$6,208	\$2,058	\$5,510	\$1,864

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

Applied Optoelectronics, Inc. and Subsidiaries**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)****Six months ended June 30, 2015****(Unaudited, in thousands)**

	Common Stock			Accumulated other comprehensive gain	Accumulated deficit	Total stockholders' equity
	Number of shares	Amount	Additional paid-in capital			
December 31, 2014	14,824	\$ 15	\$ 192,112	\$ 1,925	\$ (79,040)) \$ 115,012
Issuance of shares under equity plans	125	—	327	—	—	\$ 327
Stock based compensation	—	—	1,049	—	—	\$ 1,049
Net income	—	—	—	—	5,414	\$ 5,414
Foreign currency translation adjustment	—	—	—	96	—	\$ 96
June 30, 2015	14,949	\$ 15	\$ 193,488	\$ 2,021	\$ (73,626)) \$ 121,898

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

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

	Six months ended June 30, 2015	2014
Operating activities:		
Net income	\$ 5,414	\$ 2,004
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for obsolete inventory	1,251	768
Depreciation and amortization	4,313	2,670
Loss (gain) on disposal of assets	10	(1)
Share-based compensation and warrant expense	1,049	1,007
Changes in operating assets and liabilities:		
Accounts receivable	(1,234)	(2,829)
Notes receivable	980	(463)
Inventory	(19,683)	(12,360)
Other current assets	(1,908)	(1,012)
Accounts payable	(1,118)	9,337
Accrued liabilities	340	1,097
Net cash provided by (used in) operating activities	(10,586)	218
Investing activities:		
Purchase of short-term investments	(124)	(53)
Change in restricted cash for construction in progress	(5,089)	-
Purchase of property, plant and equipment	(17,379)	(13,101)
Proceeds from disposal of equipment	45	12
	(418)	(813)

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Deposits and deferred charges				
Purchase of intangible assets	(205)	(3,153)
Net cash used in investing activities	(23,170)	(17,108)
Financing activities:				
Proceeds from issuance of long-term debt	8,357		3,150	
Principal payments of long-term debt	(870)	(8,076)
Proceeds from line of credit borrowings	72,006		10,763	
Repayments of line of credit borrowings	(47,855)	(22,304)
Proceeds from bank acceptance payable	3,405		3,826	
Repayments of bank acceptance payable	(2,016)	(3,773)
Repayments of notes payable	(500)	(250)
Increase in restricted cash	(1,975)	(164)
Exercise of stock options	327		219	
Proceeds from common stock offering, net	–		45,630	
Net cash provided by financing activities	30,879		29,021	
Effect of exchange rate changes on cash	(886)	(58)
Net increase (decrease) in cash	(3,763)	12,073	
Cash and cash equivalents at beginning of period	32,175		22,006	
Cash and cash equivalents at end of period	\$	28,412	\$	34,079
Supplemental disclosure of cash flow information:				
Cash paid for:				
Interest	\$	462	\$	254
Income taxes	\$	117	\$	71
Non-cash investing and financing activities:	\$	–	\$	3,000

Purchase of intangible
assets with notes
payable

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

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Applied Optoelectronics, Inc. and Subsidiaries

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Description of Business

Business Overview

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

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

Interim Financial Statements

The condensed consolidated financial statements of the Company, as of June 30, 2015 and December 31, 2014 and for the three and six months ended June 30, 2015 and June 30, 2014, have been prepared in accordance with the instructions on Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). In accordance with those rules and regulations, the Company has omitted certain information and notes normally provided in the Company’s annual consolidated financial statements. In the opinion of management, the condensed consolidated financial statements contain all adjustments, except as otherwise noted, necessary for the fair presentation of the Company’s financial position and results of operations for the periods presented. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures

required by U.S. generally accepted accounting principles ("GAAP"). These condensed consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in the Company's Annual Report on Form 10-K ("Annual Report") for the fiscal year ended December 31, 2014. The results of operations for the three and six months ended June 30, 2015 are not necessarily indicative of the results expected for the entire fiscal year. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

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

Note 2. Significant Accounting Policies

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

Recent accounting pronouncements

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

In July 2015, the FASB issued ASU No. 2015-11, *Inventory* ("ASU 2015-11"). The amendments in ASU 2015-11 clarify the subsequent measurement of inventory requiring an entity to subsequently measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This ASU applies only to inventory that is

measured using the first-in, first-out (FIFO) or average cost method. Subsequent measurement is unchanged for inventory measured using last-in, first-out (LIFO) or the retail inventory method. The amendments in ASU 2015-11 should be applied prospectively and are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. The company is currently assessing the impact that this standard will have on its consolidated financial statements.

Note 3. Fair Value of Financial Instruments

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

As of June 30, 2015	As of December 31, 2014	
(Level 1)2)	(Level 3)	Total