APPLIED OPTOELECTRONICS, INC.
Form 10-Q
May 08, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

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.)

13139 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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
		Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 May 3, 2018 there were 19,579,013 shares of the registrant's Common Stock outstanding.

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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)

	March 31, 2018	December 31, 2017
ASSETS		
Current Assets		
Cash and cash equivalents	$ 82,251	$ 82,936
Restricted cash	1,048	1,012
Short-term investments	—	36
Accounts receivable - trade, net of allowance of $31 and $33, respectively	53,655	59,850
Inventories	92,624	75,768
Prepaid income tax	1,326	1,394
Prepaid expenses and other current assets	10,921	8,701
Total current assets	241,825	229,697
Property, plant and equipment, net	204,644	197,943
Land use rights, net	6,448	804
Intangible assets, net	4,015	4,007
Deferred income tax assets	13,935	12,801
Other assets, net	4,750	7,732
TOTAL ASSETS	$ 475,617	$ 452,984
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Current portion of notes payable and long-term debt	$ 2,690	$ 559
Accounts payable	46,223	43,624
Accrued income taxes	7,588	7,422
Accrued liabilities	13,358	19,103
Total current liabilities	69,859	70,708
Notes payable and long-term debt, less current portion	62,464	49,000
TOTAL LIABILITIES	132,323	119,708
Stockholders' equity:		
Preferred Stock; 5,000 shares authorized at $0.001 par value; no shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	—	—
Common Stock; 45,000 shares authorized at $0.001 par value; 19,538 and 19,451 shares issued and outstanding at March 31, 2018 and December 31, 2017,	20	19

respectively		
Additional paid-in capital	286,938	285,376
Accumulated other comprehensive income	16,078	9,743
Retained earnings	40,258	38,138
TOTAL STOCKHOLDERS' EQUITY	343,294	333,276
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 475,617	$ 452,984

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

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Applied Optoelectronics, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except share and per share data)

	Three months ended March 31,	
	2018	2017
Revenue, net	$ 65,239	$ 96,224
Cost of goods sold	39,403	54,752
Gross profit	25,836	41,472
Operating expenses		
Research and development	11,736	7,432
Sales and marketing	2,474	1,903
General and administrative	9,456	7,822
Total operating expenses	23,666	17,157
Income from operations	2,170	24,315
Other income (expense)		
Interest income	52	35
Interest expense	(71)	(299)
Other expense, net	(1,027)	(608)
Total other expense	(1,046)	(872)
Income before income taxes	1,124	23,443
Income tax (expense) benefit	996	(3,654)
Net income	$ 2,120	$ 19,789
Net income per share		
Basic	$ 0.11	$ 1.06
Diluted	$ 0.11	$ 1.00
Weighted average shares used to compute net income per share:		
Basic	19,492,251	18,597,607
Diluted	19,988,575	19,702,047

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

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Applied Optoelectronics, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited, in thousands)

	Three months ended March 31,	
	2018	2017
Net income	$ 2,120	$ 19,789
Gain on foreign currency translation adjustment	6,335	4,457
Comprehensive income	$ 8,455	$ 24,246

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

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Applied Optoelectronics, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Three months ended March 31, 2018

(Unaudited, in thousands)

	Preferred Stock Number of shares	Amount	Common Stock Number of shares	Amount	Additional paid-in capital	Accumulated other comprehensive gain (loss)	Retained earnings	Stockholders' equity
January 1, 2018	—	$ —	19,451	$ 19	$ 285,376	$ 9,743	$ 38,138	$ 333,276
Stock options exercised, net of shares withheld for employee tax	—	—	38	—	(609)	—	—	(609)
Issuance of restricted stock, net of shares withheld for employee tax	—	—	49	1	(398)	—	—	(397)
Share-based compensation	—	—	—	—	2,569	—	—	2,569
Foreign currency translation adjustment	—	—	—	—	—	6,335	—	6,335
Net income	—	—	—	—	—	—	2,120	2,120
March 31, 2018	—	$ —	19,538	$ 20	$ 286,938	$ 16,078	$ 40,258	$ 343,294

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

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Applied Optoelectronics, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Three months ended March 31,	
	2018	2017
Operating activities:		
Net income	$ 2,120	$ 19,789
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Lower of cost or market reserve adjustment to inventory	877	476
Depreciation and amortization	6,964	4,302
Deferred income taxes, net	(1,103)	612
Loss (gain) on disposal of assets	(1)	49
Share-based compensation	2,569	1,507
Unrealized foreign exchange gain	(710)	(110)
Changes in operating assets and liabilities:		
Accounts receivable, trade	6,195	(16,599)
Prepaid income tax	109	—
Inventories	(15,761)	(4,294)
Other current assets	(1,870)	(5,118)
Accounts payable	2,599	10,241
Accrued income taxes	—	3,042
Accrued liabilities	(6,052)	(4,221)
Net cash provided by (used in) operating activities	(4,064)	9,676
Investing activities:		
Maturities of short-term investments	36	2
Purchase of property, plant and equipment	(9,659)	(7,554)
Purchase of land use rights	(5,591)	—
Proceeds from disposal of equipment	—	165
Deposits and prepaid for equipment	3,128	(1,434)
Purchase of intangible assets	(134)	(108)
Net cash used in investing activities	(12,220)	(8,929)
Financing activities:		
Proceeds from issuance of notes payable and long-term debt	26,556	—
Principal payments of long-term debt and notes payable	(341)	(14,743)
Proceeds from line of credit borrowings	44,953	—
Repayments of line of credit borrowings	(55,583)	—
Repayments of bank acceptance payable	—	(307)
Exercise of stock options	52	623
Payments of tax withholding on behalf of employees related to share-based compensation	(1,061)	(366)
Proceeds from common stock offering, net	—	21,572

Net cash provided by financing activities	14,576	6,779
Effect of exchange rate changes on cash	1,059	1,043
Net increase (decrease) in cash, cash equivalents and restricted cash	(649)	8,569
Cash, cash equivalents and restricted cash at beginning of period	83,948	51,964
Cash, cash equivalents and restricted cash at end of period	$ 83,299	$ 60,533
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	$ 58	$ 225
Income taxes	—	—

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. ("AOI" or the "Company") is a Delaware corporation. The Company is a leading, vertically integrated provider of fiber-optic networking products, primarily for four networking end-markets: internet data center, cable television, telecommunications 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 located in the U.S., Taiwan and China. In the U.S., 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 and optical module products. In addition, the Company also has a research and development facility in Duluth, Georgia. The Company operates in Taipei, Taiwan and Ningbo, China through its wholly-owned subsidiary Prime World International Holdings, Ltd. ("Prime World", incorporated in the British Virgin Islands). Prime World is the parent of Global Technology, Inc. ("Global", incorporated in the People's Republic of China). Through Global, the Company primarily manufactures certain of our data center transceiver products, including subassemblies, as well as Cable TV Broadband ("CATV") systems and equipment, and performs research and development activities for the CATV products. Prime World also operates a branch in Taiwan, which primarily manufactures transceivers.

Interim Financial Statements

The unaudited condensed consolidated financial statements of the Company as of March 31, 2018 and December 31, 2017 and for the three months ended March 31, 2018 and March 31, 2017, have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim information and with the instructions on Form 10-Q and Rule 10-01 of Regulation S-X 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 required by GAAP for 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. 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, 2017. The results of operations for the three months ended March 31, 2018 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, inventory reserve, product warranty costs, 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 months ended March 31, 2018, as compared to the significant accounting policies described in its 2017 Annual Report, except as described below.

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Recent Accounting Pronouncements

Recent Accounting Pronouncements Adopted in 2018

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). The new revenue recognition guidance establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. The Company evaluated its revenues and the new guidance had immaterial impacts to recognition practices upon adoption on January 1, 2018. As part of the adoption, the Company elected to apply the new guidance on a modified retrospective basis. The Company did not record a cumulative effect adjustment to retained earnings for initially applying the new guidance as no revenue recognition differences were identified in the timing or amount of revenue. See Note 3, " Revenue Recognition" for additional information on the required disclosures related to the impact of adopting this standard.

The FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities with further clarifications made in February 2018 with the issuance of ASU 2018-03. The amended guidance requires certain equity investments that are not consolidated and not accounted for under the equity method to be measured at fair value with changes in fair value recognized in net income rather than as a component of accumulated other comprehensive income (loss). It further states that an entity may choose to measure equity investments that do not have readily determinable fair values using a quantitative approach, or measurement alternative, which is equal to its cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The Company adopted this amended guidance on January 1, 2018, with no impact on the financial statements.

In March 2018, the FASB issued ASU 2018-05, "Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118." ASU 2018-05, effective 2018, expands income tax accounting and disclosure guidance to include SAB 118 issued by the SEC in December 2017. SAB 118 provides guidance on accounting for the income tax effects of the U.S. Tax Cuts and Jobs Act of 2017 (the “Tax Act”) and among other things allows for a measurement period not to exceed one year for companies to finalize the provisional amounts recorded as of December 31, 2017. See Note 13. “Income Taxes” for additional information on the Company’s accounting for the Tax Act.

Recent Accounting Pronouncements Yet to be Adopted

On February 25, 2016, the FASB released ASU No. 2016-02, Leases, to complete its project to overhaul lease accounting. The ASU codifies ASC 842, Leases, which will replace the guidance in ASC 840. The guidance will require lessees to recognize most leases on the balance sheet for capital and operating leases. The guidance is effective for public business entities in fiscal years beginning after December 15, 2018. The Company is evaluating the impact of the accounting standard on its financial statements by reviewing the standard itself, as well as reviewing literature about the new standard produced by nationally-recognized accounting firms and other third parties.

Note 3. Revenue Recognition

Revenue from Contracts with Customers

On January 1, 2018, the Company adopted Topic 606 using the modified retrospective method. Under the modified retrospective method, the Company did not record a cumulative effect adjustment to retained earnings for initially applying the new guidance as no revenue recognition differences were identified in the timing or amount of revenue. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Revenue Recognition ("Topic 605").

The adoption of Topic 606 represents a change in accounting principle that will provide financial statement readers with enhanced revenue recognition disclosures. In accordance with Topic 606, revenue is recognized when obligations under the terms of a contract with our customer are satisfied; generally this occurs with the transfer of control of products or services. Revenue is measured as the amount of consideration the Company expects to receive in exchange for transferring products or providing services. Certain customers may receive cash and/or non-cash incentives, which are accounted for as variable consideration. To achieve this core principle, the Company applies the following five steps:

1. Identify the contract with a customer

A contract with a customer exists when (i) the Company enters into an agreement with a customer that defines each party's rights regarding the products or services to be transferred and identifies the payment terms related to these products or services, (ii) both parties to the contract are committed to perform their respective obligations, (iii) the contract has commercial substance, and (iv) the Company determines that collection of substantially all consideration for products or services that are transferred is probable based on the customer's intent and ability to pay the promised consideration. The Company applies judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's payment history or, in the case of a new customer, published credit and financial information pertaining to the customer.

2. Identify the performance obligations in the contract

Performance obligations promised in a contract are identified based on the products or services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the product or service either on its own or together with other resources that are readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the products or services is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised products or services, the Company must apply judgment to determine whether promised products or services are capable of being distinct and distinct in the context of the contract. If these criteria are not met, the promised products or services are accounted for as a combined performance obligation. The Company has elected to account for shipping and handling activities as a fulfillment cost as permitted by the standard.

3. Determine the transaction price

The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring products or services to the customer. To the extent the transaction price is variable, revenue is recognized at an amount equal the consideration to which the Company expects to be entitled. This estimate includes customer sales incentives which are accounted for as a reduction to revenue and estimated using either the expected value method or the most likely amount method, depending on the nature of the program. The Company will adjust its consideration for any rebates and commissions if it is more likely than not that these conditions will be met.

4. Allocate the transaction price to performance obligations in the contract

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price basis unless a portion of the variable consideration related to the contract is allocated entirely to a performance obligation. The Company determines standalone selling price based on the price at which the performance obligation is sold separately.

5. Recognize revenue when or as the Company satisfies a performance obligation

The Company generally satisfies performance obligations at a point in time. Revenue is recognized based on the transaction price at the time the related performance obligation is satisfied by transferring a promised product or service to a customer.

Disaggregation of Revenue

Revenue is classified based on the location of where the product is manufactured. For additional information on the disaggregated revenues by geographical region, see Note 14, " Geographic Information."

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Note 4. Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the statement of financial position that sum to the total of the same such amounts in the statement of cash flows (in thousands):

	March 31, 2018	December 31, 2017
Cash and cash equivalents	$ 82,251	$ 82,936
Restricted cash	1,048	1,012
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$ 83,299	$ 83,948

Restricted cash includes guarantee deposits for customs duties and compensating balances required for certain credit facilities.

Note 5. Earnings Per Share

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

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

	Three months ended March 31, 2018	2017
Numerator:		
Net income	$ 2,120	$ 19,789
Denominator:		

Weighted average shares used to compute net income per share		
Basic	19,492	18,598
Effect of dilutive options and restricted stock units	497	1,104
Diluted	19,989	19,702
Net income per share		
Basic	$ 0.11	$ 1.06
Diluted	$ 0.11	$ 1.00

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

Note 6. Inventories

Inventories, net of inventory writedowns, consist of the following for the periods indicated (in thousands):

	March 31, 2018	December 31, 2017
Raw materials	$ 32,454	$ 26,648
Work in process and sub-assemblies	42,353	31,060
Finished goods	17,817	18,060
	$ 92,624	$ 75,768

The lower of cost or market adjustment expensed for inventory for the three months ended March 31, 2018 and 2017 was $0.9 million and $0.5 million, respectively.

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Note 7. Property, Plant & Equipment

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

	March 31, 2018	December 31, 2017
Land improvements	$ 806	$ 806
Building and improvements	81,638	78,785
Machinery and equipment	179,801	168,993
Furniture and fixtures	4,932	4,663
Computer equipment and software	8,502	8,248
Transportation equipment	741	718
	276,420	262,213
Less accumulated depreciation and amortization	(78,034)	(70,194)
	198,386	192,019
Construction in progress	5,157	4,823
Land	1,101	1,101
Property, plant and equipment, net	$ 204,644	$ 197,943

For the three months ended March 31, 2018 and 2017, depreciation expense of property, plant and equipment was $6.8 million and $4.2 million, respectively.

Included in depreciation expense was $3.8 million and $2.6 million recorded as cost of sales for the three months ended March 31, 2018 and 2017, respectively.

Note 8. Intangible Assets, net

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

March 31, 2018		
Gross Amount	Accumulated amortization	Intangible assets, net

Patents	$ 6,670	$ (2,657)	$ 4,013
Trademarks	14	(12)	2
Total intangible assets	$ 6,684	$ (2,669)	$ 4,015

	December 31, 2017		
	Gross Amount	Accumulated amortization	Intangible assets, net
Patents	$ 6,524	$ (2,519)	$ 4,005
Trademarks	14	(12)	2
Total intangible assets	$ 6,538	$ (2,531)	$ 4,007

For the three months ended March 31, 2018 and 2017, amortization expense for intangible assets, included in general and administrative expenses on the income statement, was each $0.1 million.

The remaining weighted average amortization period for intangible assets is approximately 8 years.

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Note 9. Notes Payable and Long-Term Debt

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

	March 31, 2018	December 31, 2017
Revolving line of credit with a U.S. bank up to $60,000 with interest at LIBOR plus 1.4%, maturing September 28, 2020	$ 38,370	$ 49,000
Term loan with a U.S. bank with monthly payments of principal and interest at LIBOR plus 1.15%, maturing April 1, 2024	21,500	—
Term loan with a U.S. bank with monthly payments of principal and interest at LIBOR plus 1.3%, maturing April 1, 2023	5,056	—
Notes payable to a finance company due in monthly installments with 4.5% interest, maturing May 27, 2018	228	559
Total	65,154	49,559
Less current portion	(2,690)	(559)
Non-current portion	$ 62,464	$ 49,000

The current portion of long-term debt is the amount payable within one year of the balance sheet date of March 31, 2018. The one-month London Interbank Offered Rate (LIBOR) was 1.88% on March 31, 2018.

Maturities of long-term debt are as follows for the future one-year periods ending March 31, (in thousands):

2019	$ 2,690
2020	40,832
2021	2,462
2022	2,462
2023	2,376
2024 and thereafter	14,332
Total outstanding	$ 65,154

On June 14, 2016, the Company executed a Change in Terms Agreement, Notice of Final Agreement and Modification of the Construction Loan Agreement (the “Modification Agreement”) in connection with the Construction Loan Agreement with East West Bank for up to $22.0 million dollars to finance the construction of the Company’s campus expansion plan in Sugar Land, Texas, originally dated January 26, 2015 (the “Construction Loan Agreement”). Under the Construction Loan Agreement, the loan bore interest at an annual rate based on the one-month LIBOR Borrowing Rate plus 2.75%, and the interest rate was adjusted to LIBOR Borrowing Rate plus 2.0% under the

Modification Agreement.

On October 5, 2016, the Company executed a Change in Terms Agreement, Notice of Final Agreement and Second Modification to the Construction Loan Agreement (the “Second Modifications”) to the Construction Loan Agreement with East West Bank. The Second Modifications amended and restated in part the Company’s Promissory Note and Construction Loan Agreement, which was originally executed on January 26, 2015, and the Modification Agreement. The draw down period end date, under the Second Modifications, was amended from July 31, 2016 to September 30, 2016. On September 28, 2017, the Company repaid the outstanding balance of $11.2 million and terminated the loan.

On June 24, 2016, the Company entered into a First Amendment to the Credit Agreement with East West Bank and Comerica Bank (“First Amendment”), a second lien deed of trust, multiple security agreements and promissory notes evidencing two credit facilities and a term loan originally entered into on June 30, 2015. The First Amendment increased the Company’s revolving lines of credit from $25 million to $40 million, which would have matured on June 30, 2018, and retained a $10.0 million term loan which would have matured on June 30, 2020. The First Amendment also provided for an additional $10.0 million equipment term loan with a one year drawdown period commencing on April 1, 2016 and maturing five years from the closing date of the First Amendment. The interest rate on these loans was adjusted by the First Amendment from the LIBOR Borrowing Rate plus 2.75% or 3.0% to LIBOR Borrowing Rate plus 2.0%. On

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September 28, 2017, the Company terminated the Credit Agreement and all outstanding balances of the loans had been repaid.

The Company also had a term loan with East West Bank of $5.0 million with monthly payments of principal and interest that was originally scheduled to mature on July 31, 2019. On February 27, 2017, the Company repaid the outstanding balance of $2.8 million and terminated the loan.

On September 28, 2017, the Company entered into a Loan Agreement, a Promissory Note, an Addendum to the Promissory Note, a BB&T Security Agreement, a Trademark Security Agreement, and a Patent Security Agreement (together the “Credit Facility”) with Branch Banking and Trust Company (“BB&T”). The Credit Facility provides the Company with a three year, $50 million, revolving line of credit. Borrowings under the Credit Facility will be used for general corporate purposes. The Company will make monthly payments of accrued interest with the final monthly payment being for all principal and all accrued interest not yet paid. The Company’s obligations under the Credit Facility will be secured by the Company’s accounts receivable, inventory, intellectual property, all business assets with the exception of real estate and equipment. Borrowings under the Credit Facility will bear interest at a rate equal to the one-month LIBOR plus 1.50%. The Credit Facility requires the Company to maintain certain financial covenants and also contains representations and warranties, and events of default applicable to the Company that are customary for agreements of this type.

On March 30, 2018, the Company executed a First Amendment to Loan Agreement, a Note Modification Agreement and Addendum to Promissory Note for $60 million, a Promissory Note and Addendum to Promissory Note for $26 million, a Promissory Note and Addendum to Promissory Note for $21.5 million, a Texas Deed of Trust and Security Agreement, an Assignment of Lease and Rent, and an Environmental Certification and Indemnity Agreement, (collectively, the “Amended Credit Facility”), with BB&T. The Amended Credit Facility amends the Company’s three-year $50 million line of credit with BB&T, originally executed on September 28, 2017 (the “Existing Loan”). The Amended Credit Facility (1) increases the principal amount of the three-year line of credit from $50 million to $60 million (the “Line of Credit”); (2) allows the Company to borrow an additional $26 million from BB&T in the form of a five-year capital expenditure loan (the “CapEx Loan”) and (3) allows the Company to borrow an additional $21.5 million in the form of a seventy-month real estate term loan (the “Term Loan”) to refinance the Company’s plant and facilities in Sugar Land, Texas. Borrowings under the Line of Credit will bear interest at a rate equal to the one-month LIBOR plus a Line of Credit margin ranging between 1.40% and 2.0%. Borrowings under the CapEx Loan will bear interest at a rate equal to the one-month LIBOR plus a CapEx Loan margin ranging between 1.30% and 2.0%. Borrowings under the Term Loan will bear interest at a rate equal to the one-month LIBOR plus a Term Loan margin ranging between 1.15% and 2.0%. The Company will make monthly payments of principal and accrued interest with the final monthly payments being for all principal and accrued interest not yet paid. The Company’s obligations under the Amended Credit Facility will be secured by the Company’s accounts receivable, inventory, equipment, intellectual property, real property, and virtually all business assets. As of March 31, 2018, the Company was in compliance with all covenants under the Amended Credit Facility. As of March 31, 2018, $38.4 million was outstanding under the Line of Credit, $21.5 million was outstanding under the Term Loan and $5.1 million was outstanding under the CapEx Loan.

On May 27, 2015, the Company's Taiwan branch entered into a Purchase and Sale Contract and a Finance Lease Agreement with Chailease Finance Co, Ltd. ("Chailease") in connection with certain equipment, structured as a sale lease-back transaction. Pursuant to the Purchase and Sale contract, the Company's Taiwan branch sold certain equipment to Chailease for a purchase price of 180,148,532 New Taiwan dollars, approximately $6 million, and simultaneously leased the equipment back from Chailease pursuant to the Finance Lease Agreement. The monthly lease payments ranging from 3,784,000 New Taiwan dollars, approximately $0.1 million, to 3,322,413 New Taiwan dollars, approximately $0.1 million, during the term of the Finance Lease Agreement, including an initial payment in an amount of 60,148,532 New Taiwan dollars, approximately $2.0 million. The Finance Lease Agreement has a three-year term, with monthly payments, maturing on May 27, 2018. The title to the equipment will be transferred to the Company's Taiwan branch upon the expiration of the Finance Lease Agreement. As of March 31, 2018, $0.2 million was outstanding under this Finance Lease Agreement.

On March 31, 2016, the Company's Taiwan branch entered into a Purchase and Sale Contract and a Finance Lease Agreement with Chailease in connection with certain equipment, structured as a sale lease-back transaction. Pursuant to the Purchase and Sale Contract, the Company's Taiwan branch sold certain equipment to Chailease for a purchase price of 312,927,180 New Taiwan dollars, approximately $10.1 million, and simultaneously leased the equipment back from Chailease pursuant to the Finance Lease Agreement. The Finance Lease Agreement had a three-

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year term with monthly lease payments ranging from 6,772,500 New Taiwan dollars, approximately $0.2 million, to 7,788,333 New Taiwan dollars, approximately $0.3 million, during the term of the Finance Lease Agreement, including an initial payment in an amount of 62,927,180 New Taiwan dollars, approximately $2.0 million. Based on the payments made under the Finance Lease Agreement, the annual interest rate was calculated to be 4.0%. The title to the equipment was to be transferred to the Company's Taiwan branch upon the expiration of the Finance Lease Agreement. On October 6, 2017, the Company repaid the outstanding balance and terminated the loan, and title to the equipment was transferred to its Taiwan branch.

The Company's Chinese subsidiary had credit facilities with China Construction Bank totaling $13.2 million, which could be drawn in U.S. currency, RMB currency, issuing bank acceptance notes to vendors with different interest rates or issuing standby letters of credit. The Company pledged the land use rights and buildings of its Chinese subsidiary as collateral for the credit facility. The Company's Chinese subsidiary used $10.0 million of its credit facility to issue standby letters of credit as collateral for the Company's Taiwan branch line of credit with China Construction Bank. On March 29, 2017, the Company repaid the outstanding balance and terminated the loan.

As of March 31, 2018 and December 31, 2017, the Company had $42.6 million and $1.0 million of unused borrowing capacity, respectively.

As of March 31, 2018 and December 31, 2017, there were no restricted cash, investments or security deposit associated with the loan facilities, respectively.

Note 10. Accrued Liabilities

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

	March 31, 2018	December 31, 2017
Accrued payroll	$ 7,921	$ 11,693
Accrued rent	1,234	1,180
Accrued employee benefits	919	2,035
Accrued state and local taxes	218	951
Advance payments	371	441
Accrued product warranty	1,237	1,118
Accrued commission expenses	246	425
Accrued professional fees	174	181
Accrued other	1,038	1,079

	$ 13,358	$ 19,103

Note 11. Other Income and Expense

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

	Three months ended March 31,	
	2018	2017
Foreign exchange transaction loss	(1,040)	(572)
Other non-operating gain	12	13
Gain (loss) on disposal of assets	1	(49)
	$ (1,027)	$ (608)

Note 12. Share-Based Compensation

Equity Plans

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

· the 1998 Share Incentive Plan
· the 2000 Share Incentive Plan

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

The Company issued stock options, restricted stock awards ("RSAs") and restricted stock units ("RSUs") to employees, consultants and non-employee directors. Stock option awards generally vest over a four year period and have a maximum term of ten years. Stock options under these plans have been granted with an exercise price equal to the fair market value on the date of the grant. Nonqualified and Incentive Stock Options, RSAs and RSUs may be granted from these plans. Prior to the Company's initial public offering in September 2013, the fair market value of the Company's stock had been historically determined by the board of directors and from time to time with the assistance of third party valuation specialists.

Stock Options

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

The following is a summary of option activity (in thousands, except per share data):

	Number of	Weighted Average Exercise	Weighted Average Share Price on	Weighted	Weighted Average Remaining	Aggregate