

EMCORE CORP
Form 10-Q
February 07, 2011

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 December 31, 2010

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 0-22175

EMCORE Corporation
(Exact name of registrant as specified in its charter)

New Jersey
(State or other jurisdiction of incorporation or organization)

22-2746503
(I.R.S. Employer Identification No.)

10420 Research Road, SE, Albuquerque, New Mexico
(Address of principal executive offices)

87123
(Zip Code)

Registrant's telephone number, including area code: (505) 332-5000

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 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 website, 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 definition of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Edgar Filing: EMCORE CORP - Form 10-Q

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

The number of shares outstanding of the registrant's no par value common stock as of February 2, 2011 was 86,201,720.

CAUTIONARY STATEMENT
REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Exchange Act of 1934. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are largely based on our current expectations and projections about future events and financial trends affecting the financial condition of our business. Such forward-looking statements include, in particular, projections about our future results included in our Exchange Act reports, statements about our plans, strategies, business prospects, changes and trends in our business and the markets in which we operate. These forward-looking statements may be identified by the use of terms and phrases such as “anticipates”, “believes”, “can”, “could”, “estimates”, “expects”, “forecasts”, “intends”, “may”, “plans”, “projects”, “targets”, “will”, and similar expressions or variations of these terms and similar phrases. Additionally, statements concerning future matters such as the development of new products, enhancements or technologies, sales levels, expense levels, and other statements regarding matters that are not historical are forward-looking statements. Management cautions that these forward-looking statements relate to future events or our future financial performance and are subject to business, economic, and other risks and uncertainties, both known and unknown, that may cause actual results, levels of activity, performance, or achievements of our business or our industry to be materially different from those expressed or implied by any forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include without limitation those discussed under Item 1A - Risk Factors in our Annual Report on Form 10-K for the fiscal year ended September 30, 2010, as updated by our subsequent periodic reports. These cautionary statements apply to all forward-looking statements wherever they appear in this Quarterly Report.

Neither management nor any other person assumes responsibility for the accuracy and completeness of any forward-looking statement. All forward-looking statements in this Quarterly Report are made as of the date hereof, based on information available to us as of the date hereof, and subsequent facts or circumstances may contradict, obviate, undermine, or otherwise fail to support or substantiate such statements. We caution you not to rely on these statements without also considering the risks and uncertainties associated with these statements and our business that are addressed in this Quarterly Report and our Annual Report. Certain information included in this Quarterly Report may supersede or supplement forward-looking statements in our other reports filed with the Securities and Exchange Commission. We assume no obligation to update any forward-looking statement to conform such statements to actual results or to changes in our expectations, except as required by applicable law or regulation.

EMCORE Corporation
FORM 10-Q
For The Quarterly Period Ended December 31, 2010

TABLE OF CONTENTS

| | | PAGE |
|----------|--|------|
| Part I | Financial Information | |
| Item 1. | <u>Financial Statements</u> | 4 |
| Item 2. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 24 |
| Item 3. | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 30 |
| Item 4. | <u>Controls and Procedures</u> | 30 |
| Part II | Other Information | |
| Item 1. | <u>Legal Proceedings</u> | 33 |
| Item 1A. | <u>Risk Factors</u> | 33 |
| Item 2. | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 33 |
| Item 3. | <u>Defaults Upon Senior Securities</u> | 33 |
| Item 5. | <u>Other Information</u> | 33 |
| Item 6. | <u>Exhibits</u> | 33 |
| | <u>SIGNATURES</u> | 34 |

Table of Contents

PART I. FINANCIAL INFORMATION
 ITEM I. Financial Statements

EMCORE CORPORATION
 Condensed Consolidated Statements of Operations and Comprehensive Loss
 For the three months ended December 31, 2010 and 2009
 (in thousands, except loss per share)
 (unaudited)

| | Three Months Ended December 31, | |
|---|------------------------------------|-------------|
| | 2010 | 2009 |
| Revenue | \$52,107 | \$42,402 |
| Cost of revenue | 39,427 | 33,089 |
| Gross profit | 12,680 | 9,313 |
| Operating expenses: | | |
| Selling, general, and administrative | 8,264 | 12,227 |
| Research and development | 7,191 | 7,513 |
| Total operating expenses | 15,455 | 19,740 |
| Operating loss | (2,775) | (10,427) |
| Other (income) expense: | | |
| Interest income | - | (2) |
| Interest expense | 258 | 116 |
| Foreign exchange loss | 335 | 232 |
| Change in fair value of financial instruments | 272 | 1,132 |
| Cost of financing instruments | 5 | 228 |
| Total other expense | 870 | 1,706 |
| Net loss | \$(3,645) | \$(12,133) |
| Foreign exchange translation adjustment | 106 | 79 |
| Comprehensive loss | \$(3,539) | \$(12,054) |
| Per share data: | | |
| Net loss per basic and diluted share | \$(0.04) | \$(0.15) |
| Weighted-average number of basic and diluted shares outstanding | 85,250 | 81,113 |

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

Table of Contents

EMCORE CORPORATION
Condensed Consolidated Balance Sheets
As of December 31, 2010 and September 30, 2010
(in thousands)
(unaudited)

| | As of December 31, 2010 | As of September 30, 2010 |
|--|-------------------------------|--------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 23,047 | \$ 19,944 |
| Restricted cash | 2,346 | 1,298 |
| Accounts receivable, net of allowance of \$8,327 and \$8,399, respectively | 34,633 | 40,125 |
| Inventory | 31,756 | 32,056 |
| Prepaid expenses and other current assets | 5,131 | 5,312 |
| Total current assets | 96,913 | 98,735 |
| Property, plant, and equipment, net | 45,676 | 46,990 |
| Goodwill | 20,384 | 20,384 |
| Other intangible assets, net | 10,242 | 10,738 |
| Other non-current assets, net | 1,827 | 991 |
| Total assets | \$ 175,042 | \$ 177,838 |
| LIABILITIES and SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Borrowings from credit facility | \$ 11,756 | \$ 10,573 |
| Accounts payable | 26,688 | 26,156 |
| Accrued expenses and other current liabilities | 24,823 | 27,115 |
| Total current liabilities | 63,267 | 63,844 |
| Warrant liability | 747 | 475 |
| Other long-term liabilities | 41 | 87 |
| Total liabilities | 64,055 | 64,406 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Preferred stock, \$0.0001 par, 5,882 shares authorized; no shares outstanding | - | - |
| Common stock, no par value, 200,000 shares authorized; 85,576 shares issued and 85,417 shares outstanding as of December 31, 2010; 85,346 shares issued and 85,187 shares outstanding as of September 30, 2010 | 703,091 | 701,997 |

Edgar Filing: EMCORE CORP - Form 10-Q

| | | |
|--|------------|------------|
| Accumulated deficit | (590,904) | (587,259) |
| Accumulated other comprehensive income | 883 | 777 |
| Treasury stock, at cost; 159 shares as of December 31, 2010 and September 30, 2010 | (2,083) | (2,083) |
| Total shareholders' equity | 110,987 | 113,432 |
| Total liabilities and shareholders' equity | \$ 175,042 | \$ 177,838 |

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

Table of Contents

EMCORE CORPORATION
Condensed Consolidated Statements of Cash Flows
For the three months ended December 31, 2010 and 2009
(in thousands)
(unaudited)

| | Three Months Ended December 31, | |
|---|------------------------------------|-------------|
| | 2010 | 2009 |
| Cash flows from operating activities: | | |
| Net loss | \$ (3,645) | \$ (12,133) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization expense | 3,007 | 3,117 |
| Stock-based compensation expense | 817 | 3,186 |
| Provision for doubtful accounts | 64 | (434) |
| Provision for product warranty | 211 | 440 |
| Compensatory stock issuances | 305 | 244 |
| Change in fair value of financial instruments | 272 | 1,132 |
| Cost of financing instruments | - | 228 |
| Total non-cash adjustments | 4,676 | 7,913 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 5,343 | (1,004) |
| Inventory | 314 | 1,456 |
| Other assets | (138) | 174 |
| Accounts payable | 531 | 3,682 |
| Accrued expenses and other current liabilities | (2,652) | (1,327) |
| Total change in operating assets and liabilities | 3,398 | 2,981 |
| Net cash provided by (used in) operating activities | 4,429 | (1,239) |
| Cash flows from investing activities: | | |
| (Increase) release of restricted cash | (1,049) | 1,517 |
| Purchase of plant and equipment | (984) | (87) |
| Investment in patents | (188) | (158) |
| Net cash (used in) provided by investing activities | (2,221) | 1,272 |
| Cash flows from financing activities: | | |
| Net proceeds from borrowings from credit facilities | 1,183 | 346 |
| Payments on issuance of credit facility agreement | (534) | - |
| Proceeds from exercise of employee stock options | 28 | - |
| Proceeds from employee stock purchase plan | - | 505 |
| Net proceeds from borrowings on short-term debt | - | 1 |
| Payments on capital lease obligations | (1) | (2) |
| Proceeds related to common stock | 2 | - |
| Net cash provided by financing activities | 678 | 850 |
| Effect of foreign currency | 217 | 227 |
| Net increase in cash and cash equivalents | 3,103 | 1,110 |

| | | |
|---|-----------|-----------|
| Cash and cash equivalents at beginning of period | 19,944 | 14,028 |
| Cash and cash equivalents at end of period | \$ 23,047 | \$ 15,138 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid during the period for interest | \$ 78 | \$ 76 |
| Cash paid during the period for income taxes | \$ - | \$ - |
| NON-CASH INVESTING AND FINANCING ACTIVITIES | | |
| Issuance of common stock under equity line of credit | \$ - | \$ 228 |

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

Table of Contents

EMCORE Corporation

Notes to Condensed Consolidated Financial Statements

NOTE 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of EMCORE Corporation and its subsidiaries (the “Company” or “EMCORE”). All intercompany accounts and transactions have been eliminated in consolidation.

These statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim information, and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for annual financial statements. In the opinion of management, the interim financial statements reflect all normal adjustments that are necessary to provide a fair presentation of the financial results for the interim periods presented. Operating results for interim periods are not necessarily indicative of results that may be expected for an entire fiscal year. The condensed consolidated balance sheet as of September 30, 2010 has been derived from the audited consolidated financial statements as of such date. For a more complete understanding of the Company’s financial position, operating results, risk factors, and other matters, please refer to the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2010.

Certain prior period information has been reclassified to conform to this current period’s presentations.

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with U.S. GAAP for interim information requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as of the date of the financial statements, and the reported amounts of revenue and expenses during the reported period.

The accounting estimates that require our most significant, difficult, and subjective judgments include:

- the valuation of inventory, goodwill, intangible assets, warrants, and stock based compensation;
- assessment of recovery of long-lived assets;
- revenue recognition associated with the percentage of completion method; and,
- the allowance for doubtful accounts and warranty accruals.

Management develops estimates based on historical experience and on various assumptions about the future that are believed to be reasonable based on the best information available. The Company’s reported financial position or results of operations may be materially different under changed conditions or when using different estimates and assumptions, particularly with respect to significant accounting policies. In the event that estimates or assumptions prove to differ from actual results, adjustments are made in subsequent periods to reflect more current information.

Liquidity and Capital Resources

As of December 31, 2010, cash and cash equivalents was approximately \$23.0 million and working capital totaled \$33.6 million. For the three months ended December 31, 2010, the Company generated \$3.9 million in cash from operations compared with a consumption of \$1.2 million of cash in the prior year. The improvement in cash flow was due primarily to improved operating performance when compared to the prior year.

With respect to measures taken to improve liquidity, in November 2010, the Company entered into a three-year \$35 million asset-backed revolving credit facility with Wells Fargo Bank, which can be used for working capital, letters of credit, and other general corporate purposes. The credit facility is secured by substantially all of the Company's assets and is subject to a borrowing base formula based on the Company's eligible accounts receivable and inventory accounts, which is in the process of being finalized. The Company expects at least 40% of the total amount of credit under the credit facility to be available for use based on the borrowing base formula during fiscal year 2011.

The credit facility contains customary representations and warranties, affirmative, and negative covenants and certain events of default, including a subjective acceleration clause. Under this clause, Wells Fargo may declare an event of default if it believes in good faith that the Company's ability to pay all or any portion of its indebtedness with Wells Fargo or to perform any of its material obligations under the credit facility has been impaired, or if it believes in good faith that there has been a material adverse change in the business or financial condition of the Company. If an event of default is not cured within the grace period (if applicable), then Wells Fargo may, among other things, accelerate repayment of amounts borrowed under the credit facility, cease making advances under the credit facility, or take possession of the Company's assets that secure its obligations under the credit facility. The Company does not anticipate at this time any change in the business or financial condition of the Company that could be deemed a material adverse change by Wells Fargo.

Table of Contents

We believe that our existing balances of cash and cash equivalents, together with the cash expected to be generated from operations and amounts expected to be available under our credit facility with Wells Fargo Bank will provide us with sufficient financial resources to meet our cash requirements for operations, working capital, and capital expenditures for the next 12 months.

However, in the event of unforeseen circumstances, unfavorable market or economic developments, unfavorable results from operations, or if Wells Fargo declares an event of default on the credit facility, the Company may have to raise additional funds by any one or a combination of the following: issuing equity, debt or convertible debt, or selling certain product lines and/or portions of our business. There can be no guarantee that the Company will be able to raise additional funds on terms acceptable to us, or at all. A significant contraction in the capital markets, particularly in the technology sector, may make it difficult for us to raise additional capital if or when it is required, especially if the Company experiences negative operating results. As a result of the delays in filing our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 and our Annual Report on Form 10-K for the fiscal year ended September 30, 2010, we are currently ineligible to register our securities on Form S-3. As a result it may be more difficult and costly for us to access the capital markets until we regain Form S-3 eligibility. If adequate capital is not available to us as required, or is not available on favorable terms, our business, financial condition, and results of operations may be adversely affected.

Correction of Prior Period Financial Statements.

During the third fiscal quarter ended June 30, 2010, management determined that approximately \$2.5 million of excess and obsolete inventory reserves related to the Company's Fiber Optics segment and \$0.2 million of compensation expense should have been recorded in the quarter ended September 30, 2009. The impact from correcting prior period financial statements resulted in the reduction of cost of revenue of approximately \$1.3 million and \$0.3 million from amounts previously reported in the quarters ended December 31, 2009 and March 31, 2010, respectively which improved profitability in these reporting periods. These corrections had no impact to net cash provided by (used in) operating activities or other subtotals as reported on the condensed consolidated statements of cash flows for the three months ended December 31, 2009. These corrections will be made to applicable prior period financial information in future filings with the SEC.

NOTE 2. Recent Accounting Pronouncements

ASU 2009-13: Revenue Recognition - Multiple Deliverable Revenue Arrangements

In October 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2009-13: Revenue Recognition – Multiple Deliverable Revenue Arrangements. This accounting standard update establishes the accounting and reporting guidance on revenue recognition related to arrangements with multiple deliverables and it became effective for the Company on October 1, 2010. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. The adoption of this guidance did not have an impact on the Company's condensed consolidated financial statements.

ASU 2010-17: Revenue Recognition - Milestone Method

In April 2010, the FASB issued ASU No. 2010-17: Revenue Recognition - Milestone Method. This accounting standard update establishes the accounting and reporting guidance on applying the milestone method to milestone payments for achieving specified performance measures when those payments are related to uncertain future events. The scope of ASU 2010-17 is limited to transactions involving research or development. This update further states that the milestone method is not the only acceptable method of revenue recognition for milestone

payments. Accordingly, entities can make an accounting policy election to recognize arrangement consideration received for achieving specified performance measures during the period in which the milestones are achieved, provided certain criteria are met. An entity's policy for recognizing deliverable consideration or unit of accounting consideration contingent upon achievement of a milestone shall be applied consistently to similar deliverables or units of accounting. The Company adopted the provisions of this update on October 1, 2010. The adoption of this guidance did not have an impact on the Company's condensed consolidated financial statements.

ASU 2010-20: Receivables - Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses

In July 2010, the FASB issued ASU No. 2010-20: Receivables - Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. This standard requires companies to improve their disclosures about the credit quality of their financing receivables and the credit reserves held against them. The guidance covers trade accounts receivables, financing receivables, loans, loan syndications, factoring arrangements, and standby letters of credit. The Company adopted the provisions of this update on October 1, 2010. The adoption of this guidance did not have an impact on the Company's condensed consolidated financial statements.

Table of Contents

NOTE 3. Equity

Stock Options

The Company provides long-term incentives to eligible officers, directors, and employees in the form of stock options. Most of the Company's stock options vest and become exercisable over four to five years and have a contractual life of ten years. Certain stock options awarded by the Company are intended to qualify as incentive stock options pursuant to Section 422A of the Internal Revenue Code. The Company issues new shares of common stock to satisfy the issuance of shares under this stock-based compensation plan. The Company maintains two stock option plans: the 2000 Stock Option Plan (the "2000 Plan") and the 2010 Equity Incentive Plan (the "2010 Equity Plan" and, together with the 2000 Plan, the "Option Plans"). The following table summarizes the activity under the Company's Option Plans:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Contractual Life (in years) |
|---|---------------------|--|--|
| Outstanding as of September 30, 2010 | 8,722,125 | \$ 4.70 | 7.02 |
| Granted | 600,500 | | |
| Exercised | (22,300) | | |
| Forfeited | (37,150) | | |
| Cancelled | (109,093) | | |
| Outstanding as of December 31, 2010 | 9,154,082 | \$ 4.47 | 7.02 |
| Exercisable as of December 31, 2010 | 4,848,037 | \$ 5.39 | 5.93 |
| Vested and expected to vest as of December 31, 2010 | 6,141,837 | \$ 4.89 | 6.45 |

As of December 31, 2010, there was approximately \$2.7 million of total unrecognized compensation expense related to non-vested stock-based compensation arrangements granted under the Option Plans. This expense is expected to be recognized over an estimated weighted average life of 2.4 years.

Intrinsic value for stock options represents the "in-the-money" portion or the positive variance between a stock option's exercise price and the underlying stock price. The total intrinsic value related to stock options exercised during the three months ended December 31, 2010 was approximately \$5,000. No stock options were exercised during the three months ended December 31, 2009. The intrinsic value related to fully vested and expected to vest stock options as of December 31, 2010 was approximately \$33,000 and the intrinsic value related to exercisable stock options as of December 31, 2010 was approximately \$4,000. The intrinsic value related to fully vested and expected to vest stock options as of December 31, 2009 was approximately \$11,000 and there was no intrinsic value related to exercisable stock options as of December 31, 2009.

| Exercise Price of Stock Options | Number of Stock Options Outstanding | | | Options Exercisable | |
|---------------------------------------|-------------------------------------|-----------------------------------|----------------------------------|-----------------------|----------------------------------|
| | Number Outstanding | Weighted- Average Remaining | Weighted- Average Exercise | Number Exercisable | Weighted- Average Exercise |

Edgar Filing: EMCORE CORP - Form 10-Q

| | | Contractual Life (years) | Price | | Price |
|-------------------------|-----------|-----------------------------|---------|-----------|---------|
| \$<5.00 | 4,991,858 | 7.34 | \$ 1.83 | 2,104,875 | \$ 2.50 |
| >=\$5.00 to <\$10.00 | 4,131,524 | 6.64 | 7.61 | 2,726,362 | 7.59 |
| =>\$10.00 | 30,700 | 6.55 | 11.34 | 16,800 | 11.22 |
| Total | 9,154,082 | 7.02 | \$ 4.47 | 4,848,037 | \$ 5.39 |

Table of Contents

The effect of recording stock-based compensation expense was as follows:

| (in thousands, except per share data) | Three Months Ended | |
|--|--------------------|-----------|
| | December 31, | |
| | 2010 | 2009 |
| Stock-based compensation expense by award type: | | |
| Employee stock options | \$ 682 | \$ 3,006 |
| Employee stock purchase plan | 135 | 180 |
| Total stock-based compensation expense | \$ 817 | \$ 3,186 |
| Net effect on net loss per basic and diluted share | \$ (0.01) | \$ (0.04) |

Valuation Assumptions

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option valuation model and the straight-line attribution approach using the following weighted-average assumptions. The option-pricing model requires the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock. The weighted-average grant date fair value of stock options granted during the three months ended December 31, 2010 and 2009 was \$0.76 and \$1.02, respectively.

| Black-Scholes Weighted Average Assumptions | Three Months Ended | |
|--|--------------------|--------|
| | December 31, | |
| | 2010 | 2009 |
| Expected dividend yield | - % | - % |
| Expected stock price volatility | 98.1 % | 96.7 % |
| Risk-free interest rate | 1.3 % | 2.3 % |
| Expected term (in years) | 4.9 | 4.8 |
| Estimated pre-vesting forfeitures | 32.5 % | 32.6 % |

Expected Dividend Yield: The Black-Scholes valuation model calls for a single expected dividend yield as an input. The Company has not issued any dividends.

Expected Stock Price Volatility: The fair values of stock-based payments were valued using the Black-Scholes valuation method with a volatility factor based on the Company's historical stock price.

Risk-Free Interest Rate: The Company bases the risk-free interest rate used in the Black-Scholes valuation method on the implied yield that was currently available on U.S. Treasury zero-coupon notes with an equivalent remaining term. Where the expected term of stock-based awards do not correspond with the terms for which interest rates are quoted, the Company performed a straight-line interpolation to determine the rate from the available maturities.

Expected Term: Expected term represents the period that the Company's stock-based awards are expected to be outstanding and was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior as influenced by changes to the terms of its stock-based awards.

Estimated Pre-vesting Forfeitures: When estimating forfeitures, the Company considers voluntary termination behavior as well as workforce reduction programs.

Warrants

As of December 31, 2010 and September 30, 2010, the Company had 3,000,003 warrants outstanding.

Table of Contents

Employee Stock Purchase Plan

The Company maintains an Employee Stock Purchase Plan (“ESPP”) that provides employees of the Company an opportunity to purchase common stock through payroll deductions. The ESPP is a 6-month duration plan and the purchase price is set at 85% of the average high and low market price of the Company's common stock on either the first or last day of the participation period, whichever is lower, and contributions are limited to the lower of 10% of an employee's compensation or \$25,000. The Company issues new shares of common stock to satisfy the issuance of shares under this stock-based compensation plan.

The amounts of shares issued for the ESPP are as follows:

| | Number of Common Stock Shares | Purchase Price per Share of Common Stock |
|--|-------------------------------------|--|
| Amount of shares reserved for the ESPP | 4,500,000 | |
| Number of shares issued for calendar years 2000 through 2007 | (1,123,857) | \$ 1.87 - \$40.93 |
| Number of shares issued for calendar year 2008 | (592,589) | \$ 0.88 - \$ 5.62 |
| Number of shares issued for calendar year 2009 | (1,073,405) | \$ 0.92 |
| Number of shares issued for calendar year 2010 | (651,700) | \$ 0.74 |
| Remaining shares reserved for the ESPP | 1,058,449 | |

The ESPP shares associated with the six month period ended December 31, 2010 were not issued until January 2011 as a result of the delay in filing the Company's Annual Report on Form 10-K.

Future Issuances

As of December 31, 2010, the Company had reserved 16.6 million shares of its common stock for future issuances as follows:

| | Number of Common Stock Shares Available for Future Issuances |
|--|--|
| For exercise of outstanding common stock options | 9,154,082 |
| For future issuances to employees under the ESPP | 1,058,449 |
| For future common stock option or restricted stock awards under the 2010 Equity Incentive Plan | 3,399,500 |
| For future exercise of warrants | 3,000,003 |

| | |
|----------------|------------|
| Total reserved | 16,612,034 |
|----------------|------------|

On January 28, 2011, the Company granted 1,665,900 restricted stock awards to employees issued at the closing price of \$1.42 per share.

11

Table of Contents

NOTE 4. Receivables

The components of accounts receivable consisted of the following:

| (in thousands) | As of December 31, 2010 | As of September 30, 2010 |
|---------------------------------|-------------------------------|--------------------------------|
| Accounts receivable | \$ 34,672 | \$ 37,574 |
| Accounts receivable – unbilled | 8,288 | 10,950 |
| Accounts receivable, gross | 42,960 | 48,524 |
| Allowance for doubtful accounts | (8,327) | (8,399) |
| Accounts receivable, net | \$ 34,633 | \$ 40,125 |

The Company records revenue from certain solar panel and solar power systems contracts using the percentage-of-completion method. The term of the contracts associated with this type of receivable usually exceed a period of one year. As of December 31, 2010 and September 30, 2010, the Company had \$16.7 million and \$18.4 million, respectively, of accounts receivable recorded using the percentage of completion method. Of these amounts, \$9.5 million was invoiced and \$7.2 million was unbilled as of December 31, 2010 and \$8.8 million was invoiced and \$9.6 million was unbilled as of September 30, 2010. Unbilled accounts receivable represents revenue recognized but not yet billed or accounts billed after the period ended. Billings on contracts using the percentage-of-completion method usually occur upon completion of predetermined contract milestones or other contract terms, such as customer approval. The allowance for doubtful accounts specifically related to receivables recorded using the percentage-of-completion method totaled \$5.0 million and \$5.1 million as of December 31, 2010 and September 30, 2010, respectively. The allowance is based on the age of receivables and a specific identification of receivables considered at risk of collection.

The following table summarizes the changes in the allowance for doubtful accounts:

| (in thousands) | Three Months Ended December 31, | |
|--|------------------------------------|----------|
| | 2010 | 2009 |
| Balance at beginning of period | \$ 8,399 | \$ 7,125 |
| Expense - charge to provision, net of recoveries | 64 | (434) |
| Write-offs - deductions against receivables | (136) | (51) |
| Balance at end of period | \$ 8,327 | \$ 6,640 |

NOTE 5. Inventory

The components of inventory consisted of the following:

| (in thousands) | As of December 31, 2010 | As of September 30, 2010 |
|----------------|-------------------------------|--------------------------------|
|----------------|-------------------------------|--------------------------------|

Edgar Filing: EMCORE CORP - Form 10-Q

| | | | | |
|-----------------|----|--------|----|--------|
| Raw materials | \$ | 19,988 | \$ | 18,701 |
| Work in-process | | 7,619 | | 7,000 |
| Finished goods | | 4,149 | | 6,355 |
| Inventory, net | \$ | 31,756 | \$ | 32,056 |

Table of Contents

NOTE 6. Property, Plant, and Equipment

The components of property, plant, and equipment consisted of the following:

| (in thousands) | As of December 31, 2010 | As of September 30, 2010 |
|---|-------------------------------|--------------------------------|
| Land | \$ 1,502 | \$ 1,502 |
| Building and improvements | 34,854 | 34,854 |
| Equipment | 102,009 | 101,310 |
| Furniture and fixtures | 3,065 | 3,065 |
| Computer hardware and software | 3,641 | 3,616 |
| Leasehold improvements | 831 | 854 |
| Construction in progress | 1,310 | 992 |
| | | |
| Property, plant, and equipment, gross | 147,212 | 146,193 |
| | | |
| Accumulated depreciation and amortization | (101,536) | (99,203) |
| | | |
| Property, plant, and equipment, net | \$ 45,676 | \$ 46,990 |

As of December 31, 2010 and September 30, 2010, the Company did not have any significant capital lease agreements.

Depreciation expense was \$2.3 million and \$2.4 million for the three months ended December 31, 2010 and 2009, respectively.

NOTE 7. Goodwill

As of September 30, 2010, the Company performed an interim impairment test on its goodwill. The impairment test indicated that no impairment existed and that fair value exceeded carrying value by approximately 40%. As of December 31, 2010, the Company performed an annual impairment test on its goodwill and the impairment test indicated that no impairment existed.

The Company will, however, continue to monitor any changes in circumstances or triggering events that might indicate impairment of our goodwill. If there is erosion of the Company's market capitalization or the Photovoltaics reporting unit is unable to achieve its projected cash flows, management may be required to perform additional impairment tests. The outcome of these additional tests may result in the Company recording goodwill impairment charges.

NOTE 8. Intangible Assets

The following table sets forth changes in the carrying value of intangible assets by reporting segment:

| (in thousands) | As of December 31, 2010 | | | As of September 30, 2010 | | |
|----------------|-------------------------|-----------------------------|---------------|--------------------------|-----------------------------|---------------|
| | Gross Assets | Accumulated Amortization | Net Assets | Gross Assets | Accumulated Amortization | Net Assets |

Edgar Filing: EMCORE CORP - Form 10-Q

Fiber Optics:

| | | | | | | |
|--------------------|-----------|-------------|----------|-----------|-------------|----------|
| Core Technology | \$ 15,555 | \$ (9,701) | \$ 5,854 | \$ 15,555 | \$ (9,275) | \$ 6,280 |
| Customer Relations | 4,381 | (1,751) | 2,630 | 4,381 | (1,644) | 2,737 |
| Patents | 4,777 | (4,083) | 694 | 4,725 | (4,021) | 704 |
| | 24,713 | (15,535) | 9,178 | 24,661 | (14,940) | 9,721 |

Photovoltaics:

| | | | | | | |
|---------|-------|----------|-------|-------|--------|-------|
| Patents | 2,077 | (1,013) | 1,064 | 1,941 | (924) | 1,017 |
|---------|-------|----------|-------|-------|--------|-------|

| | | | | | | |
|-------|-----------|--------------|-----------|-----------|--------------|-----------|
| Total | \$ 26,790 | \$ (16,548) | \$ 10,242 | \$ 26,602 | \$ (15,864) | \$ 10,738 |
|-------|-----------|--------------|-----------|-----------|--------------|-----------|

As of September 30, 2010, the Company performed an impairment test on its long-lived assets related to the Fiber Optics segment. The impairment test indicated that the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the asset group exceeded the carrying amount of the asset group by over 150%. As of December 31, 2010, there have been no significant changes in the underlying assumptions used to prepare this test, nor have we identified any indications of impairment or triggering events through the three months ended December 31, 2010.

Table of Contents

The Company will, however, continue to monitor any changes in circumstances or triggering events that might indicate impairment of our long-lived assets. If the Company is unable to achieve its projected cash flows, the Company may be required to perform impairment tests of its remaining long-lived assets. The outcome of these tests may result in the Company recording impairment charges.

Amortization expense related to intangible assets is generally included in sales, general, and administrative expense on the condensed consolidated statements of operations. Amortization expense was \$0.7 million for both the three months ended December 31, 2010 and 2009.

Based on the carrying amount of the intangible assets as of December 31, 2010, the estimated future amortization expense is as follows:

| (in thousands) | Estimated Future Amortization Expense |
|--------------------------------------|---|
| Nine months ended September 30, 2011 | \$ 1,913 |
| Fiscal year ended September 30, 2012 | 2,275 |
| Fiscal year ended September 30, 2013 | 1,940 |
| Fiscal year ended September 30, 2014 | 1,405 |
| Fiscal year ended September 30, 2015 | 979 |
| Thereafter | 1,730 |
| Total future amortization expense | \$ 10,242 |

NOTE 9. Accrued Expenses and Other Current Liabilities

The components of accrued expenses and other current liabilities consisted of the following:

| (in thousands) | As of December 31, 2010 | As of September 30, 2010 |
|--|-------------------------------|--------------------------------|
| Compensation-related | \$ 5,536 | \$ 4,001 |
| Warranty | 5,002 | 4,851 |
| Advanced payments | 4,377 | 7,437 |
| Tangshan termination fee | 2,775 | 2,775 |
| Royalty | 1,740 | 1,772 |
| Self insurance | 1,387 | 957 |
| Professional fees | 1,302 | 2,530 |
| Income and other taxes | 633 | 747 |
| Restructuring accrual | 688 | 780 |
| Loss on sale commitments | 466 | 561 |
| Loss on purchase commitments | 78 | 86 |
| Other | 839 | 618 |
| Accrued expenses and other current liabilities | \$ 24,823 | \$ 27,115 |

Table of Contents

The following table summarizes the changes in the product warranty accrual accounts:

| (in thousands) | Three Months Ended December 31, | |
|---------------------------------|------------------------------------|----------|
| | 2010 | 2009 |
| Balance at beginning of period | \$ 4,851 | \$ 4,287 |
| Expense - charge to provision | 211 | 440 |
| Utilization of warranty accrual | (60) | (310) |
| Balance at end of period | \$ 5,002 | \$ 4,417 |

The following table summarizes the changes in the restructuring accrual accounts:

| | Severance-related accruals | Restructuring-related accruals | Total |
|----------------------------------|-------------------------------|-----------------------------------|--------|
| Balance as of September 30, 2010 | \$ 180 | \$ 600 | \$ 780 |
| Expense - charge to accrual | 7 | - | 7 |
| Payments on accrual | (50) | (49) | (99) |
| Balance as of December 31, 2010 | \$ 137 | \$ 551 | \$ 688 |

NOTE 10. Credit Facilities

On November 11, 2010, the Company entered into a Credit and Security Agreement (the "Loan Agreement") with Wells Fargo Bank National Association. The Loan Agreement provides the Company with a three-year revolving credit facility of up to \$35 million that can be used for working capital requirements, letters of credit, and other general corporate purposes. The credit facility is secured by substantially all of the Company's assets and is subject to a borrowing base formula based on the Company's eligible accounts receivable and inventory accounts, which is in the process of being finalized. The Company expects at least 40% of the total amount of credit under the Loan Agreement to be available for use based on the borrowing base formula during fiscal year 2011. The Company capitalized \$0.5 million as financing costs associated with the Loan Agreement which will be amortized over a three-year period.

The Loan Agreement contains customary representations and warranties, and affirmative and negative covenants, including among other things cash balance and excess availability requirements, minimum tangible net worth and EBITDA covenants and limitations on liens and certain additional indebtedness and guarantees. As of December 31, 2010, the Company was in compliance with the Loan Agreement since the Company's cash on deposit and excess availability exceeded the \$7.5 million financial covenant requirement.

The Loan Agreement also contains certain events of default, including a subjective acceleration clause. Under this clause, Wells Fargo may declare an event of default if it believes in good faith that the Company's ability to pay all or any portion of its indebtedness with Wells Fargo or to perform any of its material obligations under the Loan Agreement has been impaired, or if it believes in good faith that there has been a material adverse change in the business or financial condition of the Company. If an event of default is not cured within the grace period (if applicable), then Wells Fargo may, among other things, accelerate repayment of amounts borrowed under the Loan Agreement, cease making advances under the Loan Agreement or take possession of the Company's assets that secure

its obligations under the Loan Agreement. The Company does not anticipate at this time any change in the business or financial condition of the Company that could be deemed a material adverse change by Wells Fargo.

On November 12, 2010, the Company borrowed \$5.6 million under the Loan Agreement and used the proceeds to repay the entire \$5.2 million debt outstanding under the Company's Loan and Security Agreement, dated as of September 29, 2008, with Bank of America, N.A. (the "Prior Credit Agreement"). Afterwards, the Company terminated the Prior Credit Agreement. The Company wrote off \$120,000 related to unamortized financing costs associated with the Prior Credit Agreement. The guarantees provided by the Company and certain of its subsidiaries under the Prior Credit Agreement terminated simultaneously with the Prior Credit Agreement. The Company did not incur any penalties from Bank of America in connection with the termination of the Prior Credit Agreement.

Table of Contents

As of December 31, 2010, the Company had an \$11.8 million LIBOR rate loan outstanding, with an interest rate of 3.3%, and approximately \$0.3 million in an outstanding standby letter of credit under the Loan Agreement. The Company completely paid off the outstanding borrowings on January 28, 2011 using cash on hand.

NOTE 11. Commitments and Contingencies

The Company leases certain land, facilities, and equipment under non-cancelable operating leases. The leases typically provide for rental adjustments for increases in base rent (up to specific limits), property taxes, insurance and general property maintenance that would be recorded as rent expense. Net facility and equipment rent expense under such leases was approximately \$0.6 million and \$0.7 million for the three months ended December 31, 2010 and 2009, respectively.

Estimated future minimum rental payments under the Company's non-cancelable operating leases with an initial or remaining term of one year or more as of December 31, 2010 are as follows:

| (in thousands) | Estimated Future Minimum Lease Payments |
|--------------------------------------|---|
| Nine months ended September 30, 2011 | \$ 1,359 |
| Fiscal year ended September 30, 2012 | 1,091 |
| Fiscal year ended September 30, 2013 | 816 |
| Fiscal year ended September 30, 2014 | 76 |
| Fiscal year ended September 30, 2015 | 76 |
| Thereafter | 2,623 |
| Total minimum lease payments | \$ 6,041 |

Our U.S. government contracts are subject to audits by U.S. government agencies. Such audits could result in adjustments to our contract costs. We have recorded contract revenue based upon costs we expect to realize upon final audit. We have been audited in the past by the U.S. government and expect that we will be in the future. Management believes that the outcome of any ongoing government audits will not have a material adverse effect on the Company's results of operations, financial condition, or cash flow.

As of December 31, 2010, the Company had 8 standby letters totaling \$2.1 million which are collateralized by cash balances with another financial institution that are included in the Company's balance sheet as restricted cash.

Legal Proceedings

The Company is subject to various legal proceedings, claims, and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, we do not expect these matters will have a material adverse effect on our business, financial position, results of operations, or cash flows. However, the results of these matters cannot be predicted with certainty. Should the Company fail to prevail in any legal matter or should several legal matters be resolved against the Company in the same reporting period, then the financial results of that particular reporting period could be materially adversely affected.

a) Intellectual Property Lawsuits

We protect our proprietary technology by applying for patents where appropriate and, in other cases, by preserving the technology, related know-how and information as trade secrets. The success and competitive position of our product lines are significantly impacted by our ability to obtain intellectual property protection for our research and development efforts.

We have, from time to time, exchanged correspondence with third parties regarding the assertion of patent or other intellectual property rights in connection with certain of our products and processes. Additionally, on September 11, 2006, the Company filed a lawsuit against Optium Corporation, currently part of Finisar Corporation (Optium) in the U.S. District Court for the Western District of Pennsylvania for patent infringement of certain patents associated with our Fiber Optics segment. In the suit, the Company and JDS Uniphase Corporation (JDSU) allege that Optium is infringing U.S. Patents numbers 6,282,003 (the "003 patent") and 6,490,071 (the "071 patent") with its Prisma II 1550nm transmitters. On March 14, 2007, following denial of a motion to add additional claims to its existing lawsuit, the Company and JDSU filed a second patent suit in the same court against Optium alleging infringement of U.S. Patent No. 6,519,374 (the "374 patent"). On March 15, 2007, Optium filed a declaratory judgment action against the Company and JDSU. Optium sought in this litigation a declaration that certain products of Optium do not infringe the 374 patent and that the patent is invalid, but the District Court dismissed the action on January 3, 2008 without addressing the merits. The 003 patent, the 071 patent, and the 374 patent are assigned to JDSU and licensed to the Company.

Table of Contents

On December 20, 2007, the Company was served with a complaint in another declaratory relief action, which Optium had filed in the U.S. District Court for the Western District of Pennsylvania. This action sought to have the 003 patent and the 071 patent declared unenforceable because of certain conduct alleged to have occurred in connection with the prosecution of the applications for these patents. These allegations were substantially the same as those brought by Optium by motion in the Company's own case against Optium, which motion had been denied by the Court. On August 11, 2008, both actions pending in the U.S. Western District of Pennsylvania were consolidated before a single judge, and a trial date of October 19, 2009 was set. On February 18, 2009, the Company's motion for a summary judgment dismissing Optium's declaratory relief action was granted, and on March 11, 2009, the Company was notified that Optium intended to file an appeal of this order. On May 5, 2010, the Court of Appeals for the Federal Circuit rejected Optium's appeal and affirmed the summary judgment dismissing Optium's declaratory relief action.

On October 19, 2009, the U.S. District Court for the Western District of Pennsylvania granted the Company's motion for summary judgment that Optium infringed the 374 patent. In October 2009 the consolidated matters were tried before a jury, which found that all patents asserted against Optium were not invalid, that all claims asserted in the 003 patent and 071 patent were infringed, and that such infringement by Optium was willful where willfulness was asserted. The jury awarded the Company and JDSU monetary damages totaling approximately \$3.4 million. On June 18, 2010, Optium filed an appeal of this award with the Court of Appeals for the Federal Circuit. The Company filed its response brief in September 2010. Hearings on the matter before the Court of Appeals for the Federal Circuit occurred on January 10, 2011. On January 26, 2011, the Court of Appeals for the Federal Circuit fully affirmed the lower court's jury award to EMCORE and JDSU.

In accordance with U.S. GAAP, a contingency that might result in a gain should not be reflected in the financial statements because to do so might be to recognize income before its realization.

b) Avago-related Litigation

On July 15, 2008, the Company was served with a complaint filed by Avago Technologies and what appear to be affiliates thereof in the United States District Court for the Northern District of California, San Jose Division (Avago Technologies U.S., Inc., et al., EMCORE Corporation, et al., Case No.: C08-3248 JW) (the "Commercial Case"). In this complaint, Avago asserts claims for breach of contract and breach of express warranty against Venture Corporation Limited (one of the Company's customers) and asserts a tort claim for negligent interference with prospective economic advantage against the Company.

On December 5, 2008, the Company was also served with a complaint by Avago Technologies filed in the United States District Court for the Northern District of California, San Jose Division alleging infringement of two patents by the Company's VCSEL products. (Avago Technologies Singapore et al., EMCORE Corporation, et al., Case No.: C08-5394 EMC) (the N.D. CA Patent Case"). This matter has been stayed pending final resolution of the International Trade Commission matter described immediately below.

On March 5, 2009, the Company was notified that, based on a complaint filed by Avago alleging the same patent infringement that formed the basis of the complaint previously filed in the Northern District of California, the U.S. International Trade Commission (the "ITC") had determined to begin an investigation titled "In the Matter of Certain Optoelectronic Devices, Components Thereof and Products Containing the Same", Inv. No. 337-TA-669. This matter was tried before an administrative law judge of the ITC from November 16-20, 2009.

On March 12, 2010, the Company was advised that an initial determination had been issued by the administrative law judge of the ITC that found that one of the two patent claims asserted against the Company related to certain of the Company's products was both valid and infringed. This initial determination was subject to review and confirmation by the ITC itself. On March 29, 2010, the Company filed a petition with the ITC for a review of certain portions of

the initial determination that were adverse to the Company. The ITC declined to review the initial determination.

On July 12, 2010, the ITC issued its final determination, as well as a limited exclusion order and cease and desist order directed to the Company's infringing products which prohibits importation of those products into the United States. Those remedial orders were reviewed by the President of the United States and his decision to approve those orders was issued on September 10, 2010, thereby prohibiting further importation of the infringing products. These remedial orders do not apply to any of the products sold by the Company's customers that may contain infringing products.

Table of Contents

The ITC does not have the authority to award damages for patent infringement; therefore, there was no financial penalty as a result of the final determination by the ITC. The Company has formulated and implemented a product redesign intended to eliminate the impact of the accused infringement, the exclusion, and the cease and desist orders issued by the ITC. The Company continues to actively pursue its re-design strategy, including qualifying the newly re-designed products with certain of its major customers. The ITC decision will also not be binding in the N.D. CA Patent Case which will remain stayed until all appeals of the ITC decision have been exhausted. The Company is appealing the ITC's decision, and on November 8, 2010, the Company filed its notice of appeal with the United States Court of Appeals for the Federal Circuit.

The Company intends to continue to vigorously defend against the allegations in the ITC case, the N.D. CA Patent Case, and the Commercial Case.

c) Green and Gold related litigation

On December 23, 2008, Plaintiffs Maurice Prissert and Claude Prissert filed a purported stockholder class action (the "Prissert Class Action") pursuant to Federal Rule of Civil Procedure 23 allegedly on behalf of a class of Company shareholders against the Company and certain of its present and former directors and officers (the "Individual Defendants") in the United States District Court for the District of New Mexico captioned, Maurice Prissert and Claude Prissert v. EMCORE Corporation, Adam Gushard, Hong Q. Hou, Reuben F. Richards, Jr., David Danzilio and Thomas Werthan, Case No. 1:08cv1190 (D.N.M.). The Complaint alleges that the Company and the Individual Defendants violated certain provisions of the federal securities laws, including Section 10(b) of the Securities Exchange Act of 1934, arising out of the Company's disclosure regarding its customer Green and Gold Energy ("GGE") and the associated backlog of GGE orders with the Company's Photovoltaics business segment. The Complaint in the Prissert Class Action seeks, among other things, an unspecified amount of compensatory damages and other costs and expenses associated with the maintenance of the action. On or about February 12, 2009, a second purported stockholder class action (Mueller v. EMCORE Corporation et al., Case No. 1:09cv 133 (D.N.M.)) (the "Mueller Class Action"), together with the Prissert Class Action, the "Class Actions") was filed in the United States District Court for the District of New Mexico against the same defendants named in the Prissert Class Action, based on substantially the same facts and circumstances, containing substantially the same allegations and seeking substantially the same relief.

Plaintiffs in both class actions have moved to consolidate the matters into a single action. On September 25, 2009, the court issued an order consolidating both the Prissert and Mueller actions into one consolidated proceeding, but denied plaintiffs motions for appointment of a lead plaintiff or lead plaintiff's counsel. On July 15, 2010, the court appointed IBEW Local Union No. 58 Annuity Fund to serve as lead plaintiff ("IBEW"), but denied, without prejudice, IBEW's motion to appoint lead counsel. On August 24, 2010, IBEW filed a renewed motion for appointment as lead plaintiff and for approval of its selection of counsel. That motion remains pending.

On January 23, 2009, Plaintiff James E. Stearns filed a purported stockholder derivative action (the "Stearns Derivative Action") on behalf of the Company against the Individual Defendants, as well as the Company as nominal defendant in the Superior Court of New Jersey, Atlantic County, Chancery Division (James E. Stearns, derivatively on behalf of EMCORE Corporation v. Thomas J. Russell, Robert Bogomolny, Charles Scott, John Gillen, Reuben F. Richards, Jr., Hong Q. Hou, Adam Gushard, David Danzilio and Thomas Werthan, Case No. Atl-C-10-09). This action is based on essentially the same factual contentions as the Prissert Class Action, and alleges that the Individual Defendants engaged in improprieties and violations of law in connection with the reporting of the GGE backlog. The Stearns Derivative Action seeks several forms of relief, allegedly on behalf of the Company, including, among other things, damages, equitable relief, corporate governance reforms, an accounting of, rescission of, restitution of, and costs and disbursements of the lawsuit.

On March 11, 2009, Plaintiff Gary Thomas filed a second purported shareholder derivative action (the “Thomas Derivative Action”; together with the Stearns Derivative Action, the “Derivative Actions”) in the U.S. District Court for the District of New Mexico against the Company and certain of the Individual Defendants (Gary Thomas, derivatively on behalf of EMCORE Corporation v. Thomas J. Russell, Robert Bogomolny, Charles Scott, John Gillen, Reuben F. Richards, Jr., Hong Q. Hou, and EMCORE Corporation, Case No. 1.09-cv-00236, (D.N.M.)). The Thomas Derivative Action makes the same allegations as the Stearns Derivative Action and seeks essentially the same relief.

The Stearns Derivative Action and the Thomas Derivative action have been consolidated before a single judge in Somerset County, New Jersey, and have been stayed pending resolution of the Class Actions.

The Company intends to vigorously defend against the allegations of both the Class Actions and the Derivative Actions.

As of December 31, 2010 and the filing date of this Quarterly Report on Form 10-Q, no amounts have been accrued for any litigation item discussed above since no estimate of loss can be made at this time.

Table of Contents

NOTE 12. Segment Data and Related Information

The Company has five operating divisions: (1) EMCORE Digital Fiber Optics Products, (2) EMCORE Broadband Fiber Optics Products, and (3) EMCORE Hong Kong, which are aggregated as a separate reporting segment, Fiber Optics, and (4) EMCORE Photovoltaics and (5) EMCORE Solar Power, which are aggregated as a separate reporting segment, Photovoltaics. Fiber Optics revenue is derived primarily from sales of optical components and subsystems for CATV, FTTP, enterprise routers and switches, telecom grooming switches, core routers, high performance servers, supercomputers, and satellite communications data links. Photovoltaics revenue is derived primarily from the sales of solar power generation products for the space and terrestrial markets, including solar cells, covered interconnected solar cells, satellite solar panels, and CPV solar cells, receiver assemblies, and systems. The Company evaluates its reportable segments in accordance with ASC 280, Segment Reporting. The Company's Chief Executive Officer is the chief operating decision maker pursuant to ASC 280, and he allocates resources to segments based on their business prospects, competitive factors, net revenue, operating results and other non-GAAP financial ratios. Operating income or expense that is not specifically related to an operating segment is charged to a separate unallocated corporate division.

The following table sets forth the revenue and percentage of total revenue attributable to each of the Company's reporting segments.

| Segment Revenue (in thousands) | Three Months Ended December 31, | | | |
|-----------------------------------|------------------------------------|--------------|-----------|--------------|
| | 2010 | | 2009 | |
| | Revenue | % of Revenue | Revenue | % of Revenue |
| Fiber Optics | \$ 31,812 | 61% | \$ 25,608 | 60% |
| Photovoltaics | 20,295 | 39 | 16,794 | 40 |
| Total revenue | \$ 52,107 | 100% | \$ 42,202 | 100% |

The following table sets forth the Company's consolidated revenue by geographic region with revenue assigned to geographic regions based on our customers' billing address.

| Geographic Revenue (in thousands) | Three Months Ended December 31, | | | |
|--------------------------------------|------------------------------------|--------------|-----------|--------------|
| | 2010 | | 2009 | |
| | Revenue | % of Revenue | Revenue | % of Revenue |
| North America | \$ 35,215 | 68% | \$ 34,361 | 81% |
| Far East Asia | 14,230 | 27 | 6,269 | 15 |
| Europe | 2,492 | 5 | 1,277 | 3 |
| Other | 170 | - | 495 | 1 |
| Total revenue | \$ 52,107 | 100% | \$ 42,402 | 100% |

The following table sets forth our significant customer, defined as customers that represented greater than 10% of total consolidated revenue, by reporting segment.

| Significant Customers As a percentage of total consolidated revenue | Three Months Ended December 31, |
|--|------------------------------------|
|--|------------------------------------|

Edgar Filing: EMCORE CORP - Form 10-Q

| | 2010 | 2009 |
|-----------------------------------|------|------|
| Fiber Optics – related customers: | | |
| Cisco Systems, Inc. | - | 14% |
| Aurora Networks | 10% | - |
| Photovoltaics – related customer: | | |
| Loral Space & Communications | 12% | 15% |

In addition, revenue from one customer of the Photovoltaics segment represented 13% of the Company’s consolidated revenue for the three months ended December 31, 2010. We do not expect revenue from this customer to exceed 10% of the Company’s consolidated revenue on a going forward basis.

Table of Contents

The following table sets forth operating (loss) income attributable to each of the Company's reporting segments.

| Statement of Operations Data (in thousands) | Three Months Ended December 31, | |
|--|------------------------------------|-------------|
| | 2010 | 2009 |
| Operating (loss) income: | | |
| Fiber Optics segment | \$ (4,521) | \$ (6,989) |
| Photovoltaics segment | 1,746 | (3,438) |
| Operating loss | \$ (2,775) | \$ (10,427) |

The following table sets forth the depreciation and amortization attributable to each of the Company's reporting segments.

| Segment Depreciation and Amortization (in thousands) | Three Months Ended December 31, | |
|---|------------------------------------|----------|
| | 2010 | 2009 |
| Fiber Optics segment | \$ 1,663 | \$ 1,764 |
| Photovoltaics segment | 1,344 | 1,353 |
| Depreciation and amortization | \$ 3,007 | \$ 3,117 |

Long-lived assets consist primarily of property, plant, and equipment and also goodwill and intangible assets. The following table sets forth long-lived assets for each of the Company's reporting segments and Corporate division.

| Long-lived Assets (in thousands) | As of | As of |
|-------------------------------------|----------------------|-----------------------|
| | December 31, 2010 | September 30, 2010 |
| Fiber Optics segment | \$ 30,364 | \$ 31,175 |
| Photovoltaics segment | 44,950 | 45,935 |
| Corporate division | 988 | 1,002 |
| Long-lived assets | \$ 76,302 | \$ 78,112 |

As of December 31, 2010 and September 30, 2010, approximately 88% and 87%, respectively, of the Company's long-lived assets were located in the United States.

NOTE 13. San'an Joint Venture

On July 30, 2010, the Company entered into an agreement for the establishment and operation of a joint venture (the "JV Agreement") with San'an Optoelectronics Co., Ltd. ("San'an") for the purpose of engaging in the development, manufacturing, and distribution of CPV receivers, modules, and systems for terrestrial solar power applications under technology licensing from the Company.

The JV Agreement provides for the parties to form Suncore Photovoltaics Co., Ltd., a limited liability company ("Suncore"), under the laws of the People's Republic of China. The registered capital of Suncore is \$30 million, among which, San'an will contribute \$18 million in cash, accounting for sixty percent (60%) of the registered capital of

Suncore, and the Company will contribute \$12 million in cash, accounting for forty percent (40%) of the registered capital of Suncore. The registered capital of Suncore will be paid in by both parties in two installments according to the following schedule:

- The first installment consisting of one-third of the subscribed registered capital contribution amount by February 26, 2011;
- The second installment consisting of two thirds of the subscribed registered capital contribution amount by August 26, 2011.

Table of Contents

The establishment of the Suncore entity which was subject to Chinese regional government approval occurred on January 12, 2011. The Chairman of San'an will serve as the Chairman of Suncore and Dr. Charlie Wang, Executive Vice President of EMCORE Corporation, will serve as the General Manager of Suncore. All operational activities and business for CPV receivers, modules, and systems currently residing at both San'an and EMCORE's Langfang, China manufacturing facilities will eventually be transferred to Suncore. In conjunction with the formation of this joint venture, the Company has agreed to grant Suncore an exclusive license to manufacture EMCORE's current and future improved CPV receivers, modules and systems in China for terrestrial solar power applications.

Concurrently with the execution of the JV Agreement, the Company entered into a cooperation agreement (the "Cooperation Agreement") with an affiliate of San'an. Pursuant to the Cooperation Agreement, the Company, or a designated affiliate of the Company, will receive an aggregate \$8.5 million in consulting fees (the "Consulting Fees"), following the establishment of Suncore, in exchange for a technology license and related support and strategic consulting services to Suncore. The Company intends to use the Consulting Fees to fund most of its capital contribution requirements to Suncore with the remaining portion being funded by the Company's cash flow from operations and by borrowings under the Company's Loan Agreement with Wells Fargo. Pursuant to the Cooperation Agreement, the San'an affiliate will provide Suncore with working capital financing in the form of loans and/or guarantees.

On December 4, 2010, the Company entered into an Investment and Cooperation Agreement (the "Agreement") with San'an and the Huainan Municipal Government ("Huainan") in China. The Agreement provides for Suncore's primary engineering, manufacturing, and distribution operations for CPV components and systems to be established in the High-Tech Development Zone of Huainan City in exchange for subsidies and favorable tax and other incentives to be provided by Huainan. The Agreement contemplates the development of a total of 1,000 megawatts of manufacturing capacity in Huainan over the next five years, with 200 megawatts to be in place by the end of 2011, an additional 300 megawatts by the end of 2013, and the remaining 500 megawatts by the end of 2015.

Under the terms of the Agreement, Huainan has committed to providing subsidies that include: reimbursement of fees and taxes related to the acquisition of an approximately 263-acre site on which the facility is to be constructed; reimbursement of 100% of the local portion of the business, value added and income taxes incurred during the first five years of Suncore's production activities and 50% of the amount of those taxes during the subsequent five years; reimbursement of certain administrative and utility charges within the Huainan City High-Tech Development Zone; cash rebates to Suncore of RMB 1.4 (approximately US\$0.21) for every watt of the first 1,000 megawatts of CPV systems manufactured in Huainan and sold in China; and a cash subsidy of RMB 500 million (approximately U.S. \$75 million) that may be used solely for the purchase of capital equipment for the development of Suncore's operations in Huainan. In the event the RMB 500 million cash subsidy is used for any purpose other than as authorized under the Agreement, Suncore would be subject to a penalty payable to Huainan of twice the amount of the subsidy.

Under the terms of the Agreement, EMCORE and San'an agree to commence construction of the Suncore facility in Huainan within one month after the site for the facility is made available. The Agreement was subject to and received approval from the shareholders of San'an on December 23, 2010.

NOTE 14. Fair Value Accounting

ASC 820, Fair Value Measurements and Disclosures, establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs.

In January 2010, the FASB issued ASU 2010-06, Improving Disclosures about Fair Value Measurements. ASU 2010-06 amends ASC Topic 820 to require the following additional disclosures regarding fair value measurements: (i)

the amounts of transfers between Level 1 and Level 2 of the fair value hierarchy; (ii) reasons for any transfers in or out of Level 3 of the fair value hierarchy and (iii) the inclusion of information about purchases, sales, issuances and settlements in the reconciliation of recurring Level 3 measurements. ASU 2010-06 also amends ASC Topic 820 to clarify existing disclosure requirements, requiring fair value disclosures by class of assets and liabilities rather than by major category and the disclosure of valuation techniques and inputs used to determine the fair value of Level 2 and Level 3 assets and liabilities.

The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

-Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities. The Company classifies investments within Level 1 if quoted prices are available in active markets. Level 1 assets include instruments valued based on quoted market prices in active markets which generally could include money market funds, corporate publicly traded equity securities on major exchanges and U.S. Treasury notes with quoted prices on active markets.

Table of Contents

- Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. The Company classifies items in Level 2 if the investments are valued using observable inputs to quoted market prices, benchmark yields, reported trades, broker/dealer quotes or alternative pricing sources with reasonable levels of price transparency. These investments could include: government agencies, corporate bonds, commercial paper, and auction rate securities.

-Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The Company did not hold financial assets or liabilities within Level 3.

The following table provides the Company's financial assets and liabilities, consisting of the following types of instruments, measured at fair value on a recurring basis:

(in thousands)

| | As of December 31, 2010 | | | | Total |
|-------------------------------------|--|--|--|------|-----------|
| | Quoted Prices in Active Markets for Identical Assets [Level 1] | Significant Other Observable Remaining Inputs [Level 2] | Significant Unobservable Inputs [Level 3] | | |
| Assets | | | | | |
| Money market fund deposits | \$ 23,047 | \$ - | \$ - | \$ - | \$ 23,047 |
| Restricted fund deposits | 2,346 | - | - | - | 2,346 |
| Total assets measured at fair value | \$ 25,393 | \$ - | \$ - | \$ - | \$ 25,393 |
| Liabilities | | | | | |
| Warrants | \$ - | \$ 747 | \$ - | \$ - | \$ 747 |

(in thousands)

| | As of September 30, 2010 | | | | Total |
|-------------------------------------|--|--|--|------|-----------|
| | Quoted Prices in Active Markets for Identical Assets [Level 1] | Significant Other Observable Remaining Inputs [Level 2] | Significant Unobservable Inputs [Level 3] | | |
| Assets | | | | | |
| Money market fund deposits | \$ 19,944 | \$ - | \$ - | \$ - | \$ 19,944 |
| Restricted fund deposits | 1,298 | - | - | - | 1,298 |
| Total assets measured at fair value | \$ 21,242 | \$ - | \$ - | \$ - | \$ 21,242 |
| Liabilities | | | | | |
| Warrants | \$ - | \$ 475 | \$ - | \$ - | \$ 475 |

Money market fund deposits consist primarily of cash and occasionally highly liquid short-term investments with an original maturity of three months or less at the time of purchase.

Restricted fund deposits represents interest-bearing investments in bank certificates of deposit or similar type money market funds which act as collateral supporting the issuance of letters of credit and performance bonds for the benefit of third parties and bank controlled deposits on account.

Table of Contents

Certain warrants issued by the Company were classified as a liability since the warrants may be settled for cash under certain circumstances and meet the classification requirements for liability accounting in accordance with ASC 815. The Company expects an impact to the condensed consolidated statement of operations when it records an adjustment to fair value of the warrants at the end of each quarterly reporting period going forward. As of December 31, 2010 and September 30, 2010, the fair value of the warrants was estimated to be \$0.7 million and \$0.5 million, respectively, using the Monte Carlo option pricing model. The Monte Carlo option pricing model was used since it allows the valuation of each warrant to factor in the value associated with the Company's right to affect a mandatory exercise of each warrant if the Company's common stock trades at a price greater than 140% of the exercise price of any warrant for 10 consecutive trading days.

The Monte Carlo option pricing model required the input of highly subjective assumptions, including the warrant's expected life and the price volatility of the underlying stock, as outlined below:

| Assumptions used in the Option Pricing Model | As of December 31, 2010 | As of September 30, 2010 |
|--|-------------------------------|--------------------------------|
| Expected dividend yield | - | - |
| Expected stock price volatility | 102.7 % | 100.0 % |
| Risk-free interest rate | 1.5 % | 1.3 % |
| Expected term (in years) | 4.25 | 4.50 |

The carrying amounts of accounts receivable, short-term debt including borrowings under the Company's credit facility, accounts payable, accrued expenses and other current liabilities approximate fair value because of the short maturity of these instruments.

NOTE 15. Income Taxes

During the three months ended December 31, 2010 and 2009, there were no material increases or decreases in unrecognized tax benefits and management does not anticipate any material increases or decreases in the amounts of unrecognized tax benefits over the next twelve months. As of December 31, 2010, the Company had approximately \$185,000 of interest and penalties accrued as tax liabilities on the balance sheet. As of December 31, 2010 and September 30, 2010, the Company's unrecognized gross tax benefit totaled \$338,000.

The Company files income tax returns in the U.S. federal, state, and local jurisdictions and, currently, no federal, state, and local income tax returns are under examination. The following tax years remain open to income tax examination for each of the more significant jurisdictions where the Company is subject to income taxes: after fiscal year 2007 for U.S. federal, after fiscal year 2006 for the state of California, and after fiscal year 2007 for the state of New Mexico.

Table of Contents

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Business Overview

We offer a broad portfolio of compound semiconductor-based products for the broadband, fiber optics, space, and solar power markets. We were established in 1984 as a New Jersey corporation and we have two reporting segments: Fiber Optics and Photovoltaics. Our Fiber Optics segment offers optical components, subsystems, and systems for high-speed data and telecommunications, cable television ("CATV"), and fiber-to-the-premises ("FTTP") networks. Our Photovoltaics segment provides products for both space and terrestrial applications. For space applications, we offer high-efficiency gallium arsenide ("GaAs") multi-junction solar cells, covered interconnected cells ("CICs"), and solar panels. For terrestrial applications, we offer concentrating photovoltaic ("CPV") power systems for commercial and utility scale solar applications as well as GaAs solar cells and integrated CPV components for use in other solar power concentrator systems. Our headquarters and principal executive offices are located at 10420 Research Road, SE, Albuquerque, New Mexico, 87123, and our main telephone number is (505) 332-5000. For more information about our Company, please visit our website at <http://www.emcore.com>.

Liquidity and Capital Resources

As of December 31, 2010, cash and cash equivalents was approximately \$23.0 million and working capital totaled \$33.6 million. For the three months ended December 31, 2010, the Company generated \$3.9 million in cash from operations compared with a consumption of \$1.2 million of cash in the prior year. The improvement in cash flow was due primarily to improved operating performance when compared to the prior year.

With respect to measures taken to improve liquidity, in November 2010, the Company entered into a three-year \$35 million asset-backed revolving credit facility with Wells Fargo Bank, which can be used for working capital, letters of credit, and other general corporate purposes. The credit facility is secured by substantially all of the Company's assets and is subject to a borrowing base formula based on the Company's eligible accounts receivable and inventory accounts, which is in the process of being finalized. The Company expects at least 40% of the total amount of credit under the credit facility to be available for use based on the borrowing base formula during fiscal year 2011.

The credit facility contains customary representations and warranties, affirmative, and negative covenants and certain events of default, including a subjective acceleration clause. Under this clause, Wells Fargo may declare an event of default if it believes in good faith that the Company's ability to pay all or any portion of its indebtedness with Wells Fargo or to perform any of its material obligations under the credit facility has been impaired, or if it believes in good faith that there has been a material adverse change in the business or financial condition of the Company. If an event of default is not cured within the grace period (if applicable), then Wells Fargo may, among other things, accelerate repayment of amounts borrowed under the credit facility, cease making advances under the credit facility, or take possession of the Company's assets that secure its obligations under the credit facility. The Company does not anticipate at this time any change in the business or financial condition of the Company that could be deemed a material adverse change by Wells Fargo.

We believe that our existing balances of cash and cash equivalents, together with the cash expected to be generated from operations and amounts expected to be available under our credit facility with Wells Fargo Bank will provide us with sufficient financial resources to meet our cash requirements for operations, working capital, and capital expenditures for the next 12 months.

However, in the event of unforeseen circumstances, unfavorable market or economic developments, unfavorable results from operations, or if Wells Fargo declares an event of default on the credit facility, the Company may have to raise additional funds by any one or a combination of the following: issuing equity, debt or convertible debt, or selling

certain product lines and/or portions of our business. There can be no guarantee that the Company will be able to raise additional funds on terms acceptable to us, or at all. A significant contraction in the capital markets, particularly in the technology sector, may make it difficult for us to raise additional capital if or when it is required, especially if the Company experiences negative operating results. As a result of the delays in filing our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 and our Annual Report on Form 10-K for the fiscal year ended September 30, 2010, we are currently ineligible to register our securities on Form S-3. As a result it may be more difficult and costly for us to access the capital markets until we regain Form S-3 eligibility. If adequate capital is not available to us as required, or is not available on favorable terms, our business, financial condition, and results of operations may be adversely affected.

Strategic Plan

Over the past several years, the Company has engaged in the design and deployment of concentrating photovoltaic (CPV) systems for commercial and utility-scale solar power applications. We believe that our current Gen-III CPV system design is superior in performance and is competitive in cost to silicon solar power modules when deployed in regions with high solar irradiance. We also believe that our CPV systems business has a potential to generate significant revenue growth for the Company.

Table of Contents

Our CPV systems business will require a substantial amount of capital to establish a high-volume, low-cost manufacturing infrastructure and to fund working capital needs as this business develops. As a result, the Company has pursued several strategic opportunities towards separating the Company's Photovoltaics and Fiber Optics businesses to raise capital for our CPV systems business. Additionally, the Company has also been pursuing strategies specifically related to the CPV systems business.

On July 30, 2010, the Company entered into an agreement for the establishment and operation of a joint venture (the "JV Agreement") with San'an Optoelectronics Co., Ltd. ("San'an") for the purpose of engaging in the development, manufacturing, and distribution of CPV receivers, modules, and systems for terrestrial solar power applications under technology licensing from the Company.

The JV Agreement provides for the parties to form Suncore Photovoltaics Co., Ltd., a limited liability company ("Suncore"), under the laws of the People's Republic of China. The registered capital of Suncore is \$30 million, among which, San'an will contribute \$18 million in cash, accounting for sixty percent (60%) of the registered capital of Suncore, and the Company will contribute \$12 million in cash, accounting for forty percent (40%) of the registered capital of Suncore. The registered capital of Suncore will be paid in by both parties in two installments according to the following schedule:

- The first installment consisting of one-third of the subscribed registered capital contribution amount by February 26, 2011;
- The second installment consisting of two thirds of the subscribed registered capital contribution amount by August 26, 2011.

The establishment of the Suncore entity which was subject to Chinese regional government approval occurred on January 12, 2011. The Chairman of San'an will serve as the Chairman of Suncore and Dr. Charlie Wang, Executive Vice President of EMCORE Corporation, will serve as the General Manager of Suncore. All operational activities and business for CPV receivers, modules, and systems currently residing at both San'an and EMCORE's Langfang, China manufacturing facilities will eventually be transferred to Suncore. In conjunction with the formation of this joint venture, the Company has agreed to grant Suncore an exclusive license to manufacture EMCORE's current and future improved CPV receivers, modules and systems in China for terrestrial solar power applications.

Concurrently with the execution of the JV Agreement, the Company entered into a cooperation agreement (the "Cooperation Agreement") with an affiliate of San'an. Pursuant to the Cooperation Agreement, the Company, or a designated affiliate of the Company, will receive an aggregate \$8.5 million in consulting fees (the "Consulting Fees"), following the establishment of Suncore, in exchange for a technology license and related support and strategic consulting services to Suncore. The Company intends to use the Consulting Fees to fund most of its capital contribution requirements to Suncore with the remaining portion being funded by the Company's cash flow from operations and by borrowings under the Company's Loan Agreement with Wells Fargo. Pursuant to the Cooperation Agreement, the San'an affiliate will provide Suncore with working capital financing in the form of loans and/or guarantees.

On December 4, 2010, the Company entered into an Investment and Cooperation Agreement (the "Agreement") with San'an and the Huainan Municipal Government ("Huainan") in China. The Agreement provides for Suncore's primary engineering, manufacturing, and distribution operations for CPV components and systems to be established in the High-Tech Development Zone of Huainan City in exchange for subsidies and favorable tax and other incentives to be provided by Huainan. The Agreement contemplates the development of a total of 1,000 megawatts of manufacturing capacity in Huainan over the next five years, with 200 megawatts to be in place by the end of 2011, an additional 300 megawatts by the end of 2013, and the remaining 500 megawatts by the end of 2015.

Under the terms of the Agreement, Huainan has committed to providing subsidies that include: reimbursement of fees and taxes related to the acquisition of an approximately 263-acre site on which the facility is to be constructed; reimbursement of 100% of the local portion of the business, value added and income taxes incurred during the first five years of Suncore's production activities and 50% of the amount of those taxes during the subsequent five years; reimbursement of certain administrative and utility charges within the Huainan City High-Tech Development Zone; cash rebates to Suncore of RMB 1.4 (approximately US\$0.21) for every watt of the first 1,000 megawatts of CPV systems manufactured in Huainan and sold in China; and a cash subsidy of RMB 500 million (approximately U.S. \$75 million) that may be used solely for the purchase of capital equipment for the development of Suncore's operations in Huainan. In the event the RMB 500 million cash subsidy is used for any purpose other than as authorized under the Agreement, Suncore would be subject to a penalty payable to Huainan of twice the amount of the subsidy.

Under the terms of the Agreement, EMCORE and San'an agree to commence construction of the Suncore facility in Huainan within one month after the site for the facility is made available. The Agreement was subject to and received approval from the shareholders of San'an on December 23, 2010.

Table of Contents

The commitments from the Company, San'an, and its affiliate related to cash, working capital loans, and achievement of land and cash grants as well as, the various incentives and subsidies from Huainan city, should provide Suncore with adequate working capital to establish a new high volume, low-cost manufacturing facility for our CPV systems business. As a result of this joint venture, the financial burden related to the launch of the Company's new Gen-III CPV system design should be greatly reduced.

The Company expects the long-term business outlook to remain positive for the Company's Space Solar Power Generation and CATV product lines. Although quarterly demand for the Space Solar Power Generation business can sometimes be uneven given the timing of satellite launches, we expect the general stability of the Space Solar Power Generation and CATV product lines to provide a solid foundation in order for the Company to invest in and pursue growth opportunities in the Terrestrial Solar Power and Telecom/Datacom Fiber Optics product lines.

Order Backlog

As of December 31, 2010, the Company had a consolidated order backlog of approximately \$57.3 million, a 20% decrease from the \$71.3 million order backlog reported as of the end of the preceding quarter. On a segment basis, the Photovoltaics order backlog totaled \$36.1 million, a 32% decrease from \$52.9 million reported as of the end of the preceding quarter. The Fiber Optics order backlog totaled \$21.2 million, a 15% increase from \$18.4 million reported as of the end of the preceding quarter. Order backlog is defined as purchase orders or supply agreements accepted by the Company with expected product delivery and/or services to be performed within the next twelve months.

The decrease in Photovoltaics backlog as of December 31, 2010 was primarily attributed to two events within the quarter. The first was related to a shipment of space solar cells for an international customer that was in finished goods inventory at the end of the September quarter due to a delay in receipt of an export license. The order was expected to ship in the September quarter, however the license was not issued until early in the December quarter and the product shipped within the December quarter. The second event impacting the Photovoltaics backlog as of December 31, 2010 was related to the rescheduling of space solar cells for one of our large U.S. customers. Our customer has asked us to push out the delivery on some of their photovoltaic cells beyond twelve months in order to accommodate a facility move at their contract manufacturer. In both cases listed above, we do not believe that either event is related to the fundamental strength or anticipated market demand for our space solar products in the near future.

From time to time, our customers may request that the Company delay shipment of certain orders and our backlog could also be adversely affected if customers unexpectedly cancel purchase orders that we have previously accepted. A majority of our fiber optics products typically ship within the same quarter as when the purchase order is received; therefore, our backlog at any particular date is not necessarily indicative of actual revenue or the level of orders for any succeeding period.

Results of Operations

Correction of Prior Period Financial Statements

During the third fiscal quarter ended June 30, 2010, management determined that approximately \$2.5 million of excess and obsolete inventory reserves related to the Company's Fiber Optics segment and \$0.2 million of compensation expense should have been recorded in the quarter ended September 30, 2009. The impact from correcting prior period financial statements resulted in the reduction of cost of revenue of approximately \$1.3 million and \$0.3 million from amounts previously reported in the quarters ended December 31, 2009 and March 31, 2010, respectively which improved profitability in these reporting periods. These corrections had no impact to net cash provided by (used in) operating activities or other subtotals as reported on the condensed consolidated statements of

cash flows for the three months ended December 31, 2009. These corrections will be made to applicable prior period financial information in future filings with the SEC.

Table of Contents

The following table sets forth the Company's condensed consolidated statements of operations data expressed as a percentage of total revenue.

| | Three Months Ended | |
|---|--------------------|----------|
| | December 31, | |
| | 2010 | 2009 |
| Revenue | 100.0 % | 100.0 % |
| Cost of revenue | 75.7 | 78.0 |
| Gross profit | 24.3 | 22.0 |
| Operating expenses: | | |
| Selling, general, and administrative | 15.8 | 28.9 |
| Research and development | 13.8 | 17.7 |
| Total operating expenses | 29.6 | 46.6 |
| Operating loss | (5.3) | (24.6) |
| Other (income) expense: | | |
| Interest income | - | - |
| Interest expense | 0.5 | 0.3 |
| Foreign exchange loss | 0.7 | 0.5 |
| Change in fair value of financial instruments | 0.5 | 2.7 |
| Financing instrument cost | - | 0.5 |
| Total other expense | 1.7 | 4.0 |
| Net loss | (7.0)% | (28.6)% |

Comparison of the Three Months Ended December 31, 2010 and 2009

Revenue:

Revenue for the three months ended December 31, 2010 was \$52.1 million, an increase of \$9.7 million, or 23%, from \$42.4 million reported in the prior year.

On a segment basis, revenue for the Fiber Optics segment was \$31.8 million, an increase of \$6.2 million, or 24%, from \$25.6 million reported in the prior year. Compared to the prior year, revenue from digital fiber optics products increased 25% which was driven by product volume increases from both telecom optical products and laser/detector component products. Revenue from broadband products increased 21% when compared to the prior year which was driven by product volume increases from CATV transmitters, modules, and components, and an increase in volume from video transport products. During the three months ended December 31, 2010, the ITC ruling on our parallel optics devices resulted in a reduction of sales from the prior quarter. See Footnote 11 – Commitments and Contingencies in the notes to the condensed consolidated financial statements for disclosures related to the ITC ruling. The Fiber Optics segment accounted for 61% of the Company's consolidated quarterly revenue in fiscal 2011 compared to 60% in the prior year.

Revenue for the Photovoltaics segment was \$20.3 million, an increase of \$3.5 million, or 21%, from \$16.8 million reported in the prior year. The increase in Photovoltaics revenue was primarily due to an increase in demand for the Company's space solar power products. Compared to the prior year, sales of space solar cells and CICs increased 20%, revenue from service contracts increased 76%, and revenue earned on long-term space solar panels decreased 4%. Historically, quarterly revenue has fluctuated significantly in the Photovoltaics segment due to the completion of long-term contracts, varying shipment schedules on long-term supply agreements, and changes in product mix within order backlog. The Photovoltaics segment accounted for 39% of the Company's consolidated quarterly revenue in fiscal 2011 compared to 40% in the prior year period.

Gross Profit:

Consolidated gross profit was \$12.7 million, an improvement of \$3.4 million, from a gross profit of \$9.3 million reported in the prior year. Consolidated gross margin was 24.3%, an improvement from the 22.0% gross margin reported in the prior year.

On a segment basis, Fiber Optics gross margin was 18.7%, down from the 21.9% gross margin reported in the prior year, due to a change in revenue product mix. Photovoltaics gross margin was 33.1%, an improvement from the 22.1% gross margin reported in the prior year. The increase in Photovoltaics gross margin was primarily due to increased sales of higher margin space solar power products along with improved manufacturing yields on certain satellite solar panel contracts.

Table of Contents

Operating Expenses:

Sales, general, and administrative expenses for the three months ended December 31, 2010 totaled \$8.3 million, a decrease of \$3.9 million, or 32%, from \$12.2 million reported in the prior year. Sales, general, and administrative expenses included \$4.2 million of patent litigation and other corporate-related legal expense and \$1.3 million related to the surrender of stock options in the prior year. As a percentage of revenue, sales, general, and administrative expenses were 15.8%, a decrease from 28.9% in the prior year.

Research and development expenses for the three months ended December 31, 2010 totaled \$7.2 million, a decrease of \$0.3 million, or 4%, from \$7.5 million reported in the prior year. As a percentage of revenue, research and development expenses were 13.8%, a decrease from 17.7% in the prior year.

Consolidated operating expenses for the three months ended December 31, 2010 totaled \$15.5 million, a decrease of \$4.2 million, or 22%, from \$19.7 million reported in the prior year.

Operating loss:

The consolidated operating loss for the three months ended December 31, 2010 was \$2.8 million, an improvement of \$7.6 million, or 73%, from an operating loss of \$10.4 million reported in the prior year, with the variance primarily due to the 2010 legal expenses discussed above as well as, improved operating performance at the gross margin level.

Change in fair value of financial instruments.

The warrants issued by the Company on October 1, 2009 were classified as a liability since the warrants met the classification requirements for liability accounting in accordance with ASC 815. The Company expects an impact to the condensed consolidated statement of operations when it records an adjustment to fair value of the warrants at the end of each quarterly reporting period going forward. As of December 31, 2009, the fair value of the warrants was estimated to be \$1.1 million. As of December 31, 2010, the fair value of the warrants was estimated to be \$0.7 million, which represented an increase of \$0.2 million from \$0.5 million recorded as of September 30, 2010.

Cost of financing instruments.

Costs incurred to enter into the Company's equity line of credit facility were expensed as incurred. On October 1, 2009, the Company recorded \$0.2 million related to the issuance of 185,185 shares of common stock.

Net Loss:

The consolidated net loss for the three months ended December 31, 2010 was \$3.6 million, an improvement of \$8.5 million, or 70%, from \$12.1 million net loss reported in the prior year, with the variance primarily due to the 2010 legal expenses discussed above as well as, improved operating performance at the gross margin level. The net loss per share for the three months ended December 31, 2010 was \$0.04 per share, an improvement of \$0.11 per share, from a net loss of \$0.15 per share reported in the prior year.

Cash Flow

Cash Provided by (Used for) Operating Activities

For the three months ended December 31, 2010, net cash provided by operating activities was approximately \$4.4 million, which represents an increase of \$5.6 million from \$1.2 million in cash used by operating activities for the three months ended December 31, 2009.

For the three months ended December 31, 2010, the \$4.4 million cash provided by operating activities was primarily due to the Company's improved operating performance as well as a decrease in certain components of working capital of approximately \$3.4 million. The net decrease in certain components of working capital was primarily due to a \$5.3

million decrease in accounts receivable, an increase of \$0.5 million in accounts payable, and a decrease of \$0.3 million in inventory; partially offset by a \$0.1 million increase in other assets, and a \$2.6 million decrease in accrued expenses and other current liabilities. Non-cash adjustments used to reconcile net loss to net cash provided by operating activities included \$3.0 million related to depreciation and amortization expense and \$0.8 million related to stock-based compensation expense.

For the three months ended December 31, 2009, the \$1.2 million cash usage was primarily due to the Company's net loss of \$12.1million partially offset by a net decrease in certain components of working capital of approximately \$3.0 million. The net decrease in certain components of working capital was due to a \$3.6 million increase in accounts payable, a \$1.5 million decrease in inventory, and a \$0.2 million decrease in other assets; partially offset by a \$1.3 million decrease in accrued expenses and other current liabilities and a \$1.0 million increase in accounts receivable. Non-cash adjustments used to reconcile net loss to net cash used in operating activities included \$3.2 million related to stock-based compensation expense, \$3.1 million related to depreciation and amortization expense, and \$1.4 million related to expenses associated with the Company's equity facility.

Table of Contents

Net Cash (Used in) Provided for Investing Activities

For the three months ended December 31, 2010, net cash used in investing activities was \$2.2 million, which represents an increase of \$3.5 million from \$1.3 million in cash provided by investing activities for the three months ended December 31, 2009.

For the three months ended December 31, 2010, the \$2.2 million of net cash used in investing activities was primarily due to \$1.0 million increase in restricted cash, \$1.0 million related to capital expenditures, and \$0.2 million related to investment in patents.

For the three months ended December 31, 2009, the \$1.3 million in net cash provided by investing activities was primarily due to a release of restricted cash of \$1.5 million; partially offset by \$0.2 million invested in patents and plant and equipment.

Net Cash Provided by Financing Activities

For the three months ended December 31, 2010, net cash provided by financing activities totaled \$1.2 million, which represents an increase of \$0.4 million from \$0.8 million in cash provided by financing activities for the three months ended December 31, 2009.

For the three months ended December 31, 2010, the \$1.2 million in net cash provided by financing activities was primarily due to net borrowings under the Company's credit facility.

For the three months ended December 31, 2009, the \$0.8 million in net cash provided by financing activities consisted of \$0.5 million in proceeds from the Company's employee stock purchase plan and \$0.3 million in net borrowings under the Company's credit facility.

Contractual Obligations and Commitments

The Company's contractual obligations and commitments over the next five years are summarized in the table below:

| (in thousands) | Total | For the Fiscal Years Ended September 30, | | | |
|--|-----------------|--|-----------------|-----------------|-------------------|
| | | 2011 | 2012 to 2013 | 2014 to 2015 | 2016 and later |
| As of December 31, 2010 | | | | | |
| Operating lease obligations | \$6,041 | \$1,359 | \$1,907 | \$152 | \$2,623 |
| Line of credit | 11,756 | 11,756 | - | - | - |
| Purchase obligations | 26,202 | 26,113 | 81 | 8 | - |
| Total contractual obligations and commitments | \$43,999 | \$39,228 | \$1,988 | \$160 | \$2,623 |

Interest payments are not included in the contractual obligations and commitments table above since they are insignificant to the Company's results of operations.

Operating leases

Operating leases include non-cancelable terms and exclude renewal option periods, property taxes, insurance and maintenance expenses on leased properties.

Line of Credit

As of December 31, 2010, the Company had an \$11.8 million LIBOR rate loan outstanding, with an interest rate of 3.3%, and approximately \$0.3 million in an outstanding standby letter of credit under the Loan Agreement. The Company completely paid off the outstanding borrowings on January 28, 2011 using cash on hand.

Table of Contents

Suncore Joint Venture

On July 30, 2010, the Company entered into an agreement for the establishment and operation of a joint venture, Suncore Photovoltaics Co., Ltd., with San'an Optoelectronics Co., Ltd. for the purpose of engaging in the development, manufacturing, and distribution of CPV receivers, modules, and systems for terrestrial solar power applications under technology licensing from the Company. The establishment of the Suncore entity which was subject to Chinese regional government approval occurred on January 12, 2011. The registered capital of Suncore is \$30 million, among which, San'an will contribute \$18 million in cash, accounting for sixty percent (60%) of the registered capital of Suncore, and the Company will contribute \$12 million in cash, accounting for forty percent (40%) of the registered capital of Suncore. The registered capital of Suncore will be paid in by both parties in two installments according to the following schedule:

- The first installment consisting of one-third of the subscribed registered capital contribution amount by February 26, 2011;
- The second installment consisting of two thirds of the subscribed registered capital contribution amount by August 26, 2011.

The Company intends to fund most of its capital contribution requirements to Suncore using consulting fees paid by San'an with the remaining portion being funded by the Company's cash flow from operations and by borrowings under the Company's Loan Agreement with Wells Fargo.

Segment Data and Related Information

See Footnote 12 - Segment Data and Related Information in the notes to the condensed consolidated financial statements for disclosures related to business segment revenue, geographic revenue, significant customers, and operating loss by business segment.

Recent Accounting Pronouncements

See Footnote 2 - Recent Accounting Pronouncements in the notes to the condensed consolidated financial statements for disclosures related to recent accounting pronouncements.

Critical Accounting Policies

See Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended September 30, 2010 for disclosures related to the Company's critical accounting policies.

Executive Officer

Mr. Mark Weinswig was hired by the Company as Chief Financial Officer effective October 11, 2010.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

See Item 7A - Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for the fiscal year ended September 30, 2010.

ITEM 4. Controls and Procedures

a. Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934 (the "Act") is recorded, processed, summarized, and

reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including its Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial and Accounting Officer), as appropriate, to allow timely decisions regarding required disclosure.

Management, under the supervision and with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Act) as of December 31, 2010. Based on this evaluation, management concluded that the Company's disclosure controls and procedures were not effective because of the material weaknesses described in section (c) below.

Table of Contents

In light of the material weaknesses described in section (c) below, additional analyses and other procedures were performed to ensure that the Company's condensed consolidated financial statements included in this Quarterly Report on Form 10-Q were prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"). These measures included expanded quarter-end closing procedures, the dedication of significant internal resources to scrutinize account analyses and reconciliations, and management's own internal reviews and efforts to remediate the material weaknesses in internal control over financial reporting described below. As a result of these measures, management concluded that the Company's condensed consolidated financial statements included in this Quarterly Report on Form 10-Q present fairly, in all material respects, the Company's condensed consolidated financial position, results of operations, and cash flows as of the dates, and for the periods, presented in conformity with GAAP.

Attached as exhibits to this Quarterly Report on Form 10-Q are certifications of the Company's Chief Executive Officer and Chief Financial Officer, which are required in accordance with Rule 13a-14 of the Act. This Evaluation of Disclosure Controls and Procedures section includes information concerning management's evaluation of disclosure controls and procedures referred to in those certifications and, as such, should be read in conjunction with the certifications of the Company's Chief Executive Officer and Chief Financial Officer.

b. Changes in Internal Control over Financial Reporting

Except for the changes described in section (c) below related to inventory reserve transactions and inventory held by third parties, there were no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

c. In Process Remediation Actions to Address the Internal Control Weaknesses

A "material weakness" is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis. Management identified the following material weaknesses in the Company's internal control over financial reporting as of September 30, 2010 which continue to exist as of December 31, 2010:

1) Control activities related to certain inventory reserve transactions

The Company did not maintain effective controls over certain inventory reserve transactions. Specifically, the Company did not have effectively designed controls to prevent the reversal of certain inventory reserves and provide reasonable assurance that inventory reserves were recorded in accordance with GAAP.

2) Control activities related to certain inventory held by third parties

The Company did not maintain effective controls over certain inventory held by third parties. Specifically, reconciliations of inventory held by third parties were not performed on a part-by-part basis; therefore, controls were not designed and in place to provide reasonable assurance that the inventory held by third parties was recorded in accordance with GAAP.

In response to the identified material weaknesses described above, the Company has dedicated significant resources to improving its control environment. Management believes that actions taken during the quarter ended December 31, 2010, along with other improvements not yet fully implemented, will address the material weaknesses in the Company's internal control over financial reporting described above. Company management plans to continue to

review and make changes to the overall design of its control environment, including the roles and responsibilities within the organization and reporting structure, as well as policies and procedures to improve the overall internal control over financial reporting. In particular, the Company has implemented, or plans to implement, the measures described below to remediate the material weaknesses.

1) Control activities related to certain inventory reserve transactions

As of September 30, 2010 and December 31, 2010, the Company's Finance Department completed an excess and obsolete (E&O) reserve rollforward from prior periods to ensure that any decrease in the E&O reserve was attributed to either a sale or disposal of reserved inventory. The Company plans to perform this control on a quarterly basis.

Table of Contents

2) Control activities related to certain inventory held by third parties

On a quarterly basis, reconciliations will be performed on both a total dollar basis and on a part-by-part basis to ensure that inventory held by third parties has been recorded in accordance with GAAP.

Management intends to continue to monitor the effectiveness of these actions and will make changes to the action plans if deemed necessary and appropriate.

d. Limitations on the Effectiveness of Internal Control over Financial Reporting

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal controls over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by individual acts, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Table of Contents

PART II. OTHER INFORMATION
ITEM 1. Legal Proceedings

See Footnote 11 - Commitments and Contingencies in the notes to the condensed consolidated financial statements for disclosures related to the Company's legal proceedings.

ITEM 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended September 30, 2010, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us also may materially adversely affect our business, financial condition and/or operating results.

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

Not Applicable.

ITEM 3. Defaults Upon Senior Securities

Not Applicable.

ITEM 5. Other Information

Not Applicable.

ITEM 6. Exhibits

| Exhibit Number | Description |
|-------------------|-------------|
|-------------------|-------------|

| | |
|--------------|--|
| <u>31.1*</u> | Certificate of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
|--------------|--|

| | |
|--------------|--|
| <u>31.2*</u> | Certificate of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
|--------------|--|

| | |
|--------------|--|
| <u>32.1*</u> | Certificate of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
|--------------|--|

| | |
|--------------|--|
| <u>32.2*</u> | Certificate of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
|--------------|--|

* Filed herewith

Table of Contents

SIGNATURES

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

EMCORE CORPORATION

Date: February 7, 2011

By: /s/ Hong Hou
Hong Q. Hou, Ph.D.

Chief Executive Officer
(Principal Executive Officer)

Date: February 7, 2011

By: /s/ Mark Weinswig
Mark Weinswig

Chief Financial Officer
(Principal Financial and Accounting Officer)