

EMCORE CORP  
Form 10-Q  
February 05, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 2013  
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, 87123  
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:  
Common Stock, no par value  
(Title of each class)

NASDAQ Stock Market  
(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

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.  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 x No

As of January 31, 2014, the number of shares outstanding of our no par value common stock totaled 30,357,764.

---

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, as amended (the Securities Act) and Section 21E of the Securities and Exchange Act of 1934, as amended (the Exchange Act). 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”, “would”, and similar expressions or variations of these terms and similar phrases. Additionally, statements concerning future matters such as our expected liquidity, 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, 2013, as updated by our subsequent periodic reports. These cautionary statements apply to all forward-looking statements wherever they appear in this Quarterly Report.

Forward-looking statements are based on certain assumptions and analysis made in light of our experience and perception of historical trends, current conditions and expected future developments as well as other factors that we believe are appropriate under the circumstances. While these statements represent our judgment on what the future may hold, and we believe these judgments are reasonable, these statements are not guarantees of any events or financial results. 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. 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, 2013

TABLE OF CONTENTS

|   | Page |
|---|------|
| <b><u>Part I:</u></b> Financial Information   |      |
| Item 1. Financial Statements  |      |
| Condensed <u>Consolidated Statements of Operations and Comprehensive Income (Loss) for the three month ended December 31, 2013 and 2012</u> | 4    |
| <u>Condensed Consolidated Balance Sheets as of December 31, 2013 and September 30, 2013</u>   | 5    |
| <u>Condensed Consolidated Statements of Cash Flows for the three months ended December 31, 2013 and 2012</u>                                | 6    |
| <u>Notes to Condensed Consolidated Financial Statements</u>   | 7    |
| 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>   | 34   |
| Item 4. <u>Controls and Procedures</u>  | 34   |
| <b>Part II:</b> Other Information   |      |
| Item 1. Legal Proceedings   | 35   |
| Item 1A. Risk Factors   | 35   |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds   | 35   |
| Item 3. Defaults Upon Senior Securities   | 35   |
| Item 4. Mine Safety Disclosures   | 35   |
| Item 5. Other Information   | 35   |
| Item 6. <u>Exhibits</u>   | 35   |
| <u>SIGNATURES</u>   | 36   |

Table of Contents

## PART I. Financial Information

## ITEM 1. Financial Statements

## EMCORE CORPORATION

## Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income

For the three months ended December 31, 2013 and 2012

(in thousands, except net (loss) income per share)

(unaudited)

|   | For the three months ended<br>December 31, |           |
|---|--|-----------|
|   | 2013                                       | 2012      |
| Revenue   | \$44,211                                   | \$49,306  |
| Cost of revenue                                       | 34,076                                     | 38,358    |
| Gross profit  | 10,135                                     | 10,948    |
| Operating expense (income):                           |  |           |
| Selling, general, and administrative                  | 7,972                                      | 6,904     |
| Research and development                              | 4,403                                      | 5,390     |
| Flood-related insurance proceeds                      | —  | (4,192)   |
| Total operating expense                               | 12,375                                     | 8,102     |
| Operating (loss) income                               | (2,240)                                    | ) 2,846   |
| Other income (expense):                               |  |           |
| Interest expense, net                                 | (126)                                      | ) (238)   |
| Foreign exchange gain                                 | 100  | 101       |
| Gain on sale of investment                            | 290  | —         |
| Change in fair value of financial instruments         | (78)                                       | ) 237     |
| Total other income                                    | 186  | 100       |
| (Loss) income before income tax expense               | (2,054)                                    | ) 2,946   |
| Income tax expense                                    | —  | (120)     |
| Net (loss) income                                     | \$(2,054)                                  | ) \$2,826 |
| Foreign exchange translation adjustment               | 45   | 69        |
| Comprehensive (loss) income                           | \$(2,009)                                  | ) \$2,895 |
| Per share data:                                       |  |           |
| Net (loss) income per basic share                     | \$(0.07)                                   | ) \$0.11  |
| Net (loss) income per diluted share                   | \$(0.07)                                   | ) \$0.11  |
| Weighted-average number of basic shares outstanding   | 29,938                                     | 25,977    |
| Weighted-average number of diluted shares outstanding | 29,938                                     | 26,236    |

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

Table of Contents

## EMCORE CORPORATION

## Condensed Consolidated Balance Sheets

As of December 31, 2013 and September 30, 2013

(in thousands, except per share data)

(unaudited)

|   | As of<br>December 31,<br>2013 | As of<br>September 30,<br>2013 |
|---|-------------------------------|--------------------------------|
| <b>ASSETS</b>   |                               |                                |
| Current assets:   |                               |                                |
| Cash and cash equivalents   | \$18,144                      | \$16,104                       |
| Restricted cash   | 552                           | 815                            |
| Accounts receivable, net of allowance of \$434 and \$3,363, respectively  | 35,920                        | 41,826                         |
| Inventory   | 32,029                        | 32,115                         |
| Prepaid expenses and other current assets   | 8,746                         | 9,437                          |
| Total current assets  | 95,391                        | 100,297                        |
| Property, plant, and equipment, net   | 48,678                        | 49,744                         |
| Goodwill  | 20,384                        | 20,384                         |
| Other intangible assets, net  | 1,905                         | 2,159                          |
| Other non-current assets, net of allowance of \$3,575 and \$3,533, respectively   | 885                           | 1,130                          |
| Total assets  | \$167,243                     | \$173,714                      |
| <b>LIABILITIES and SHAREHOLDERS' EQUITY</b>   |                               |                                |
| Current liabilities:  |                               |                                |
| Borrowings from credit facility   | \$17,200                      | \$21,706                       |
| Accounts payable  | 18,000                        | 19,643                         |
| Deferred gain associated with sale of assets  | 3,400                         | —                              |
| Warrant liability   | 233                           | 155                            |
| Accrued expenses and other current liabilities  | 22,076                        | 21,597                         |
| Total current liabilities   | 60,909                        | 63,101                         |
| Asset retirement obligations  | 5,105                         | 5,053                          |
| Deferred gain associated with sale of assets  | —                             | 3,400                          |
| Other long-term liabilities   | 937                           | 981                            |
| Total liabilities   | 66,951                        | 72,535                         |
| Commitments and contingencies (Note 12)   |                               |                                |
| Shareholders' equity:   |                               |                                |
| Preferred stock, \$0.0001 par value, 5,882 shares authorized; none issued or outstanding  | —                             | —                              |
| Common stock, no par value, 50,000 shares authorized; 30,220 shares issued and 30,180 shares outstanding as of December 31, 2013; 30,022 shares issued and 29,982 shares outstanding as of September 30, 2013 | 750,388                       | 749,266                        |
| Treasury stock, at cost; 40 shares  | (2,071                        | ) (2,071 )                     |
| Accumulated other comprehensive income  | 1,668                         | 1,623                          |
| Accumulated deficit   | (649,693                      | ) (647,639 )                   |
| Total shareholders' equity  | 100,292                       | 101,179                        |
| Total liabilities and shareholders' equity  | \$167,243                     | \$173,714                      |

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



Table of Contents

## EMCORE CORPORATION

## Condensed Consolidated Statements of Cash Flows

For the Three Months Ended December 31, 2013 and 2012

(in thousands)

|  | For the three months ended<br>December 31, |           |   |
|--|--|-----------|---|
|  | 2013                                       | 2012      |   |
| Cash flows from operating activities:  |  |           |   |
| Net (loss) income  | \$(2,054                                   | ) \$2,826 |   |
| Adjustments to reconcile net (loss) income to net cash used in operating activities: |  |           |   |
| Depreciation, amortization, and accretion expense                                    | 2,068                                      | 2,018     |   |
| Stock-based compensation expense   | 1,135                                      | 1,082     |   |
| Gain on sale of an investment  | (290                                       | ) —       |   |
| Provision adjustments related to doubtful accounts                                   | (35  | ) —       |   |
| Provision adjustments related to product warranty                                    | 265  | 629       |   |
| Change in fair value of financial instruments  | 78   | (237      | ) |
| Non-cash insurance proceeds  | —  | (4,192    | ) |
| Total non-cash adjustments   | 3,221                                      | (700      | ) |
| Changes in operating assets and liabilities:   |  |           |   |
| Accounts receivable  | 5,950                                      | 180       |   |
| Inventory  | 135  | (2,133    | ) |
| Other assets   | 981  | 3,197     |   |
| Accounts payable   | (1,652                                     | ) (6,581  | ) |
| Accrued expenses and other current liabilities                                       | 144  | (1,308    | ) |
| Total change in operating assets and liabilities                                     | 5,558                                      | (6,645    | ) |
| Net cash provided from (used in) operating activities                                | 6,725                                      | (4,519    | ) |
| Cash flows from investing activities:  |  |           |   |
| Cash proceeds from sale of investment  | 290  | —         |   |
| Purchase of equipment  | (684                                       | ) (2,030  | ) |
| Deposits on equipment orders   | —  | (3        | ) |
| Decrease (increase) in restricted cash   | 262  | (945      | ) |
| Proceeds from disposal of property, plant and equipment                              | —  | 203       |   |
| Net cash used in investing activities  | (132                                       | ) (2,775  | ) |
| Cash flows from financing activities:  |  |           |   |
| Net (payments) proceeds from borrowings from credit facilities                       | (4,506                                     | ) 611     |   |
| Proceeds from sale of common stock   | —  | 9,475     |   |
| Proceeds from stock plans  | 14   | 10        |   |
| Net cash (used in) provided by financing activities                                  | (4,492                                     | ) 10,096  |   |
| Effect of exchange rate changes on foreign currency                                  | (61  | ) 34      |   |
| Net increase in cash and cash equivalents  | 2,040                                      | 2,836     |   |
| Cash and cash equivalents at beginning of period                                     | 16,104                                     | 9,047     |   |
| Cash and cash equivalents at end of period   | \$18,144                                   | \$11,883  |   |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>                              |  |           |   |
| Cash paid during the period for interest   | \$112                                      | \$196     |   |
| Cash paid during the period for income taxes   | \$4  | \$15      |   |

NON-CASH INVESTING AND FINANCING ACTIVITIES

|   |     |         |
|---|-----|---------|
| Forgiveness of capital lease and accounts payable | \$— | \$4,192 |
| Acquisition of equipment under capital lease      | \$— | \$257   |

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

Table of Contents

EMCORE Corporation  
Notes to our Condensed Consolidated Financial Statements  
For the three months ended December 31, 2013  
(unaudited)

NOTE 1. Description of Business

Business Overview

EMCORE Corporation and its subsidiaries (the “Company”, “we”, “our”, or “EMCORE”) offers a broad portfolio of compound semiconductor-based products for the fiber optics 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 business segment provides optical components, subsystems and systems for high-speed telecommunications, Cable Television (CATV), Wireless and Fiber-To-The-Premise (FTTP) networks, as well as products for satellite communications, video transport and specialty photonics technologies for defense and homeland security applications. EMCORE's Solar Photovoltaics business segment provides products for space power applications including high-efficiency multi-junction solar cells, Covered Interconnect Cells (CICs) and complete satellite solar panels, and terrestrial applications, including high-efficiency GaAs solar cells for concentration photovoltaic (CPV) power systems.

Interim Financial Statements

The accompanying unaudited condensed consolidated financial 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 notes required by U.S. GAAP for annual financial statements. In our opinion, 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, 2013 has been derived from the audited consolidated financial statements as of such date. For a more complete understanding of our business, financial position, operating results, cash flows, risk factors and other matters, please refer to our Annual Report on Form 10-K for the fiscal year ended September 30, 2013. All significant intercompany accounts and transactions have been eliminated in consolidation. We are not the primary beneficiary of, nor do we hold a significant variable interest in, any variable interest entity. We have evaluated subsequent events through the date that the financial statements were issued.

Sale of Fiber Optics-related Assets

On March 27, 2012, we entered into a Master Purchase Agreement with a subsidiary of Sumitomo Electric Industries, LTD (SEI), pursuant to which we agreed to sell certain assets and transfer certain obligations associated with our Fiber Optics segment. On May 7, 2012, we completed the sale of these assets to SEI and recorded a gain of approximately \$2.8 million. Under the terms of the Master Purchase Agreement, we have agreed to indemnify SEI for up to \$3.4 million of potential claims and expenses for the two-year period following the sale and we have recorded this amount as a deferred gain on our balance sheet as of December 31, 2013 and September 30, 2013 as a result of these contingencies. SEI paid \$13.1 million in cash and deposited approximately \$2.6 million into escrow as security for indemnification obligations and any purchase price adjustments. Settlement of escrow amounts occurs over a two-year period and is subject to claim adjustments. During the fiscal year ended September 30, 2013, we resolved the

purchase price contingencies resulting in the reduction of the purchase price by \$1.1 million. The reduced purchase price is recorded as an offset to the escrow receivable of \$2.6 million while an additional \$0.4 million of gain on sale of assets was recognized during the fiscal year ended September 30, 2013. There remains a deferred gain of \$3.4 million related to our indemnification obligation at December 31, 2013.

In May 2012, we also entered into a separate facility lease and transition services agreement (TSA) with SEI related to financial services, supply chain, facility, and information infrastructure support functions to be provided by us. We believe the values assigned to the facility lease and TSA approximate fair value. During the three months ended December 31, 2013 and 2012, we recognized \$0.7 million and \$0.7 million, respectively, related to TSA fees and facility rental income which was recorded as a benefit against operating expenses incurred for such services.

Table of Contents

Liquidity and Capital Resources

Historically, we have consumed cash from operations and incurred significant net losses. We have managed our liquidity position through a series of cost reduction initiatives, borrowings from our credit facility, capital markets transactions, and the sale of assets.

As of December 31, 2013, cash and cash equivalents totaled \$18.1 million and net working capital totaled approximately \$34.5 million. Working capital, calculated as current assets minus current liabilities, is a financial metric we use which represents available operating liquidity. For the three months ended December 31, 2013, we incurred a net loss of \$2.1 million. Net cash provided from operating activities for the three months ended December 31, 2013 totaled \$6.7 million.

With respect to measures taken to improve liquidity:

**Credit Facility:** On November 11, 2010, we entered into a Credit and Security Agreement (credit facility) with Wells Fargo Bank. The credit facility, as it has been amended through its five amendments, currently provides us with a revolving credit of up to \$35 million through November 2015 that can be used for working capital requirements, letters of credit, and other general corporate purposes. The credit facility is secured by the Company's assets and is subject to a borrowing base formula based on the Company's eligible accounts receivable, inventory, and machinery and equipment accounts.

Our credit facility contains customary representations and warranties, and affirmative and negative covenants, including, among other things, cash balance and excess availability requirements, and limitations on liens and certain additional indebtedness and guarantees, in addition to minimum tangible net worth, fixed charge coverage, and EBITDA covenants. The covenants are written such that as long as we maintain the minimum cash balance and excess availability requirement, the other covenants are not required to be met. As of December 31, 2013, we were in compliance with the financial covenants contained in the credit facility since cash on deposit and excess availability exceeded the \$2.5 million minimum financial covenant requirement.

Our credit facility 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 our ability to pay all or any portion of our indebtedness with Wells Fargo or to perform any of our 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. We do 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.

The borrowing availability provided by the credit facility includes approximately \$4.2 million secured by machinery and equipment, which is reduced monthly by approximately \$91,000. The borrowing base also includes amounts which are not yet earned by the final rendition of services by the Company including progress billings and that portion of those amounts earned but not yet invoiced. The borrowing base for these amounts will be the lesser of (1) 60% of these amounts, or (2) \$5.0 million.

The credit facility established the Company's minimum cash balance and excess liquidity requirement at \$2.5 million until June 30, 2014, when it will increase by \$750,000 and thereafter on the first day of each quarter until it reaches \$5.0 million. If the minimum cash balance and excess liquidity requirement falls below the specified amounts, the

other financial covenants noted above are triggered.

On August 26, 2013, we entered into a Fifth Amendment to the credit facility, pursuant to which Wells Fargo agrees, among other things, to provide up to \$7.5 million in secured financing to the Company using certain real estate as collateral, subject to the terms and conditions of the Fifth Amendment and the credit facility. This change to the borrowing base calculation was not implemented as of December 31, 2013 as not all conditions required had been completed.

## Table of Contents

As of December 31, 2013, we had a \$17.2 million LIBOR rate loan outstanding under our credit facility, with an interest rate of 3.3%. As of January 31, 2014, there is no outstanding balance under this credit facility as cash was used to pay down the credit facility. As of December 31, 2013, the credit facility also had \$1.3 million reserved for five outstanding stand-by letters of credit, leaving a remaining \$4.9 million borrowing availability balance under this credit facility. We now expect at least 50% of the \$35.0 million credit facility to be available for use during fiscal year 2014.

Stock Sales: During August 2012, we filed a shelf registration statement on Form S-3 with the SEC pursuant to which we may, from time to time, sell up to an aggregate of \$50 million of our common or preferred stock, warrants or debt securities. On August 23, 2012, the registration statement was declared effective by the SEC, which will allow us to access the capital markets for the three year period following this effective date. On September 18, 2013, we sold 2,875,000 shares of common stock for net proceeds of \$11.7 million, which was the second stock sale completed under the above referenced shelf registration.

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

However, in the event of unforeseen circumstances, unfavorable market or economic developments, unfavorable results from operations, material claims made under the indemnification provisions of our Master Purchase Agreement with SEI in excess of amounts held in escrow, or if Wells Fargo declares an event of default on the credit facility, we may have to raise additional funds or reduce expenditures by any one or a combination of the following: issuing equity, debt or convertible debt, selling certain product lines and/or portions of our business, furloughs, or reduction of discretionary spending. There can be no assurance that we 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, or adverse developments in our business may make it difficult for us to raise additional capital if or when it is required, especially if we experience negative operating results. If adequate capital is not available to us as required, or is not available on favorable terms, our business, financial condition, results of operations, and cash flows may be adversely affected.

## NOTE 2. Recent Accounting Pronouncements

There have been no recent accounting pronouncements or changes in accounting pronouncements that are of significance, or of potential significance, to us other than those discussed below:

In March 2013, the FASB issued ASU No. 2013-05, Foreign Currency Matters. This accounting standard update requires an entity to release into net income the entire amount of a cumulative translation adjustment related to its investment in a foreign entity when as a parent it either sells a part or all of its investment in the foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets within the foreign entity. This accounting standard update will be effective for our fiscal year beginning on October 1, 2014. We are currently evaluating the impact of this accounting standard update on our Consolidated Financial Statements.

In July 2013, the FASB issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The guidance requires a liability related to an unrecognized tax benefit to be offset against a deferred tax asset for a net operating loss carryforward, a similar tax loss or a tax credit carryforward if certain criteria are met. The guidance is effective for interim and annual periods beginning after December 15, 2013 and should be applied prospectively to unrecognized tax benefits that exist at the effective date. Early adoption and retrospective application of the new guidance is permitted. We are currently evaluating the impact of this accounting standard update on our Consolidated Financial Statements.

NOTE 3. Fair Value Accounting

ASC 820, Fair Value Measurements, establishes a valuation hierarchy for disclosure of the inputs to valuation techniques used to measure fair value. This 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:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities. We classify investments within Level 1 if quoted prices are available in 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. We classify 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.

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 this hierarchy is determined based on the lowest level input that is significant to the fair value measurement. We do not hold any financial assets or liabilities within Level 3.

Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The following table lists our financial assets and liabilities that are measured at fair value on a recurring basis:

| Fair Value Measurement<br>(in thousands) | Level 1<br>Quoted Prices in<br>Active Markets for<br>Identical Assets | Level 2<br>Significant Other<br>Observable<br>Remaining Inputs | Level 3<br>Significant<br>Unobservable<br>Inputs | Total    |
|--|---|--|--|----------|
| As of December 31, 2013                  |   |  |  |          |
| Assets:                                  |   |  |  |          |
| Cash and cash equivalents                | \$18,144  | —  | —  | \$18,144 |
| Restricted cash                          | 552   | —  | —  | 552      |
| Liabilities:                             |   |  |  |          |
| Warrant liability                        | —   | 233  | —  | 233      |
| As of September 30, 2013                 |   |  |  |          |
| Assets:                                  |   |  |  |          |
| Cash and cash equivalents                | \$16,104  | —  | —  | \$16,104 |
| Restricted cash                          | 815   | —  | —  | 815      |
| Liabilities:                             |   |  |  |          |
| Warrant liability                        | —   | 155  | —  | 155      |

Cash consists primarily of bank deposits or, occasionally, highly liquid short-term investments with a maturity of three months or less at the time of purchase.

Restricted cash represents temporarily restricted deposits held as compensating balances against short-term borrowing arrangements.

As of December 31, 2013 and September 30, 2013, warrants representing the right to purchase 400,001 shares of our common stock were outstanding. All of our warrants meet the classification requirements for liability accounting pursuant to ASC 815, Derivatives and Hedging. Each quarter, we expect an impact on our statement of operations and comprehensive income (loss) when we record the change in fair value of our outstanding warrants using the Monte Carlo option valuation model. The Monte Carlo option valuation model is used since it allows the valuation of each warrant to factor in the value associated with our right to effect a mandatory exercise of each warrant. The valuation model requires the input of subjective assumptions, including the warrant's expected life and the price volatility of the underlying stock. The change in the fair value of our warrants has been primarily due to the change in the closing price of our common stock.

The carrying amounts of accounts receivable, prepaid expenses and other current assets, borrowings from our credit facility, accounts payable, accrued expenses and other current liabilities approximate fair value because of the short maturity of these instruments.

Table of Contents

## NOTE 4. Accounts Receivable

The components of accounts receivable consisted of the following:

| (in thousands)                  | As of<br>December 31,<br>2013 | As of<br>September 30, 2013 |
|---------------------------------|-------------------------------|-----------------------------|
| Accounts receivable             | \$31,998                      | \$39,827                    |
| Accounts receivable – unbilled  | 4,356                         | 5,362                       |
| Accounts receivable, gross      | 36,354                        | 45,189                      |
| Allowance for doubtful accounts | (434                          | ) (3,363                    |
| Accounts receivable, net        | \$35,920                      | \$41,826                    |

Unbilled accounts receivable represents revenue recognized but not yet billed as of 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 is based on the age of receivables and a specific identification of receivables considered at risk of collection.

As of December 31, 2013 and September 30, 2013, we had \$5.5 million and \$9.2 million, respectively, of accounts receivable recorded using the percentage of completion method. Of these amounts, \$1.7 million was invoiced and \$3.8 million was unbilled as of December 31, 2013 and \$4.6 million was invoiced and \$4.6 million was unbilled as of September 30, 2013.

Included in accounts receivable, net at December 31, 2013 and September 30, 2013 is \$0.9 million and \$6.5 million, respectively, from sales to Suncore. See [Note 15 - Suncore Joint Venture](#) for additional disclosures related to Suncore.

The decrease in the allowance for doubtful accounts during the three months ended December 31, 2013 is primarily due to historical amounts that were written off.

## NOTE 5. Inventory

The components of inventory consisted of the following:

| (in thousands)  | As of<br>December 31,<br>2013 | As of<br>September 30, 2013 |
|-----------------|-------------------------------|-----------------------------|
| Raw materials   | \$12,647                      | \$12,094                    |
| Work in-process | 4,751                         | 4,122                       |
| Finished goods  | 14,631                        | 15,899                      |
| Inventory       | \$32,029                      | \$32,115                    |

Table of Contents

## NOTE 6. Property, Plant, and Equipment, net

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

| (in thousands)                      | As of<br>December 31,<br>2013 | As of<br>September 30, 2013 |
|-------------------------------------|-------------------------------|-----------------------------|
| Land                                | \$1,502                       | \$1,502                     |
| Building and improvements           | 18,298                        | 18,423                      |
| Equipment                           | 22,290                        | 23,134                      |
| Furniture and fixtures              | 88                            | 95                          |
| Computer hardware and software      | 899                           | 933                         |
| Leasehold improvements              | 2,831                         | 3,029                       |
| Construction in progress            | 2,770                         | 2,628                       |
| Property, plant, and equipment, net | \$48,678                      | \$49,744                    |

As of December 31, 2013 and September 30, 2013, accumulated depreciation was approximately \$81.7 million and \$79.9 million, respectively.

## NOTE 7. Intangible Assets

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

| (in thousands)     | As of December 31, 2013 |                             |               | As of September 30, 2013 |                             |               |
|--------------------|-------------------------|-----------------------------|---------------|--------------------------|-----------------------------|---------------|
|                    | Gross<br>Assets         | Accumulated<br>Amortization | Net<br>Assets | Gross Assets             | Accumulated<br>Amortization | Net<br>Assets |
| Fiber Optics:      |                         |                             |               |                          |                             |               |
| Core Technology    | \$12,727                | \$(11,928)                  | ) \$799       | \$12,727                 | \$(11,822)                  | ) \$905       |
| Customer Relations | 3,511                   | (2,719)                     | ) 792         | 3,511                    | (2,647)                     | ) 864         |
| Patents            | 4,697                   | (4,527)                     | ) 170         | 4,697                    | (4,498)                     | ) 199         |
|                    | 20,935                  | (19,174)                    | ) 1,761       | 20,935                   | (18,967)                    | ) 1,968       |
| Photovoltaics:     |                         |                             |               |                          |                             |               |
| Patents            | 1,972                   | (1,828)                     | ) 144         | 1,972                    | (1,781)                     | ) 191         |
| Total              | \$22,907                | \$(21,002)                  | ) \$1,905     | \$22,907                 | \$(20,748)                  | ) \$2,159     |

Amortization expense related to intangible assets is included in sales, general, and administrative expense on our statement of operations and comprehensive (loss) income. Based on the carrying amount of our intangible assets as of December 31, 2013, the estimated future amortization expense is as follows:

## Estimated Future Amortization Expense

| (in thousands)                                      |         |
|---|---------|
| Nine months ended September 30, 2014                | \$763   |
| Fiscal year ended September 30, 2015                | 555     |
| Fiscal year ended September 30, 2016                | 554     |
| Fiscal year ended September 30, 2017                | 33      |
| Fiscal year ended September 30, 2018 and thereafter | —       |
| Total   | \$1,905 |



Table of Contents

## NOTE 8. Accrued Expenses and Other Current Liabilities

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

| (in thousands)                                 | As of<br>December 31,<br>2013 | As of<br>September 30, 2013 |
|--|-------------------------------|-----------------------------|
| Compensation                                   | \$6,118                       | \$4,361                     |
| Warranty                                       | 3,884                         | 4,030                       |
| Termination fee                                | 2,775                         | 2,775                       |
| Professional fees                              | 1,247                         | 676                         |
| Royalty  | 958                           | 1,061                       |
| Customer deposits                              | 805                           | 730                         |
| Deferred revenue                               | 870                           | 2,565                       |
| Self insurance                                 | 1,319                         | 1,352                       |
| Income and other taxes                         | 1,409                         | 1,345                       |
| Loss on sale contracts                         | 551                           | 415                         |
| Severance and restructuring accruals           | 762                           | 601                         |
| Other  | 1,378                         | 1,686                       |
| Accrued expenses and other current liabilities | \$22,076                      | \$21,597                    |

Severance and restructuring accruals: In August 2012, Mr. Reuben Richards, Jr. proposed to the Board to step-down from his position as the Company's Executive Chairman and all other positions he held as an officer or employee of the Company and its affiliates, effective as of September 30, 2012. Mr. Richards remained as Chairman of the Board and a member of the Board.

The Company and Mr. Richards entered into a separation agreement and general release, dated August 6, 2012 (Separation Agreement), which includes mutual releases by Mr. Richards and the Company of all claims related to Mr. Richards' employment and service relationship with, and termination of employment and service from, the Company. Under the terms of the Separation Agreement, Mr. Richards acknowledged and agreed that the restrictive covenants contained in his employment agreement would remain in full force and effect. The separation agreement provides for among other things, the continuation of his base salary for 88 weeks, benefits for 18 months, and immediate vesting of all his outstanding non-vested equity awards. These payments are not contingent upon any future service by Mr. Richards. In fiscal year 2012, we recorded a charge of \$1.1 million related to Mr. Richards' separation agreement.

On November 15, 2013, Mr. Chris Larocca proposed to resign as the Company's Chief Operating Officer, effective as of November 30, 2013. The Company recorded a charge of \$0.5 million in the three months ended December 31, 2013 related to the separation agreement entered into as part of Mr. Larocca's resignation.

Our severance and restructuring-related accrual specifically relates to the Separation Agreement and non-cancelable obligations associated with an abandoned leased facility. Expense related to severance and restructuring accruals is included in sales, general, and administrative expense on our statement of operations and comprehensive (loss) income. The following table summarizes the changes in the severance and restructuring-related accrual accounts:

| (in thousands)                   | Severance-related<br>accruals | Restructuring-related<br>accruals | Total |
|----------------------------------|-------------------------------|-----------------------------------|-------|
| Balance as of September 30, 2013 | \$523                         | \$ 78                             | 601   |
| Expense - charged to accrual     | 454                           | —                                 | 454   |
| Payments and accrual adjustments | (293                          | ) —                               | (293  |

|                                 |       |      |       |
|---------------------------------|-------|------|-------|
| Balance as of December 31, 2013 | \$684 | \$78 | \$762 |
|---------------------------------|-------|------|-------|

Table of Contents

Warranty: We generally provide product and other warranties on our solar cells, components, power systems, and fiber optic products, in addition to certain already divested product lines where we retained the warranty obligations. Certain parts and labor warranties from our vendors can be assigned to our customers. Our reported financial position or results of operations may be materially different under changed conditions or when using different estimates and assumptions. In the event that estimates or assumptions prove to differ from actual results, adjustments are made in subsequent periods to reflect more current information.

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

| Product Warranty Accruals<br>(in thousands)     | For the three months ended December 31, |         |
|---|---|---------|
|   | 2013                                    | 2012    |
| Balance at beginning of period                  | \$4,561                                 | \$3,692 |
| Provision for product warranty - expense        | 265                                     | 629     |
| Adjustments and utilization of warranty accrual | (411                                    | ) (149  |
| Balance at end of period                        | \$4,415                                 | \$4,172 |
| Current portion                                 | \$3,884                                 | \$3,764 |
| Non-current portion                             | 531                                     | 408     |
| Product warranty liability at end of period     | \$4,415                                 | \$4,172 |

The decrease in our provision for product warranty expense for the three months ended December 31, 2013 compared to the same period in 2012 was primarily due to specific customer warranty claims in 2012.

## NOTE 9. Impact from Thailand Flood

In October 2011, we announced that flood waters had severely impacted the inventory and production operations of our primary contract manufacturer in Thailand. The impacted areas included certain product lines for the Telecom and Cable Television (CATV) market segments. Our Photovoltaics segment was not affected by the Thailand floods.

In December 2012, we received flood-related insurance proceeds of \$4.2 million in the form of forgiveness of \$2.2 million of outstanding capital lease obligations and \$2.0 million of outstanding payables. In March 2013, we received the final flood-related insurance proceeds of \$14.8 million in the form of a receivable of \$8.2 million, which we received cash payment for in April 2013, forgiveness of \$3.4 million of outstanding capital lease obligations and \$3.2 million of outstanding payables. No additional flood-related insurance proceeds associated with this event are anticipated.

## NOTE 10. Credit Facilities

On November 11, 2010, we entered into a Credit and Security Agreement (credit facility) with Wells Fargo Bank. The credit facility, as it has been amended through its five amendments, currently provides us with a revolving credit of up to \$35 million through November 2015 that can be used for working capital requirements, letters of credit, and other general corporate purposes. The credit facility is secured by the Company's assets and is subject to a borrowing base formula based on the Company's eligible accounts receivable, inventory, and machinery and equipment accounts.

The credit facility contains customary representations and warranties, and affirmative and negative covenants, including, among other things, cash balance and excess availability requirements, and limitations on liens and certain additional indebtedness and guarantees, in addition to minimum tangible net worth, fixed charge coverage, and EBITDA covenants. The covenants are written such that as long as we maintain the minimum cash balance and excess

availability requirement, the other covenants are not required to be met. As of December 31, 2013, we were in compliance with the financial covenants contained in the credit facility since cash on deposit and excess availability exceeded the \$2.5 million minimum financial covenant requirement.

Table of Contents

The credit facility 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 our ability to pay all or any portion of our indebtedness with Wells Fargo or to perform any of our 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. We do 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.

The borrowing availability provided by the credit facility includes approximately \$4.2 million secured by machinery and equipment, which is reduced monthly by approximately \$91,000. The borrowing base also includes amounts which are not yet earned by the final rendition of services by the Company including progress billings and that portion of those amounts earned but not yet invoiced. The borrowing base for these amounts will be the lesser of (1) 60% of these amounts, or (2) \$5.0 million.

The credit facility established the Company's minimum cash balance and excess liquidity requirement at \$2.5 million until June 30, 2014, when it will increase by \$750,000 and thereafter on the first day of each quarter until it reaches \$5.0 million. If the minimum cash balance and excess liquidity requirement falls below the specified amounts, the other financial covenants noted above are triggered.

On August 26, 2013, we entered into a Fifth Amendment to the credit facility, pursuant to which Wells Fargo agrees, among other things, to provide up to \$7.5 million in secured financing to the Company using certain real estate as collateral, subject to the terms and conditions of the Fifth Amendment and the credit facility. This change to the borrowing base calculation was not implemented as of December 31, 2013 as not all conditions required had been completed.

As of December 31, 2013, we had a \$17.2 million LIBOR rate loan outstanding, with an interest rate of 3.3%, and approximately \$1.3 million reserved for five outstanding stand-by letters of credit under the credit facility. We now expect at least 50% of the \$35.0 million credit facility to be available for use during fiscal year 2014.

NOTE 11. Income and other Taxes

During the three months ended December 31, 2013 and 2012, there were no material increases or decreases in unrecognized tax benefits and we do not anticipate any material increases or decreases in the amounts of unrecognized tax benefits for the remaining fiscal year 2014. As of December 31, 2013 and September 30, 2013, we had approximately \$370,000 and \$354,000, respectively, of interest and penalties accrued as tax liabilities on our balance sheet.

During the three months ended December 31, 2013 and 2012, we incurred \$0 and \$0.1 million, respectively, of income tax expense. The provision for 2012 is primarily due to federal alternative minimum tax and state income tax.

We file income tax returns in the U.S. federal, state, and local jurisdictions and, currently, no federal and local income tax returns are under examination. We are currently under examination by one state for the fiscal years 2009 through 2011. The following tax years remain open to assessment for each of the more significant jurisdictions where we are subject to income taxes: after fiscal year 2009 for U.S. federal, after fiscal year 2008 for the state of California, and after fiscal year 2009 for the state of New Mexico.

Included in our operating income for the three months ended December 31, 2013 were \$0.6 million of New Mexico incentive tax credits received. The amount received was allocated to cost of goods sold, selling, general and administrative and research and development expense primarily based on the number of employees allocated to the related departments. These credits will result in cash refunds and reduction of future payroll and compensation taxes. There were no incentive tax credits received during the three months ended December 31, 2012.

Table of Contents

NOTE 12. Commitments and Contingencies

**Operating Lease Obligations:** We lease certain land, facilities, and equipment under non-cancelable operating leases. Operating lease amounts above exclude renewal option periods, property taxes, insurance, and maintenance expenses on leased properties. Our facility 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. Rent expense was approximately \$0.4 million and \$0.6 million for the three months ended December 31, 2013 and 2012, respectively. There are no off-balance sheet arrangements other than our operating leases.

**Asset Retirement Obligations:** We have known conditional asset retirement conditions, such as certain asset decommissioning and restoration of rented facilities to be performed in the future. Our asset retirement obligations include assumptions related to renewal option periods for those facilities where we expect to extend lease terms. In future periods, the asset retirement obligation is accreted for the change in its present value and capitalized costs are depreciated over the useful life of the related assets. If the fair value of the estimated asset retirement obligation changes, an adjustment will be recorded to both the asset retirement obligation and the asset retirement capitalized cost. Revisions in estimated liabilities can result from revisions of estimated inflation rates, escalating retirement costs, and changes in the estimated timing of settling asset retirement obligations. The fair value of our asset retirement obligations were estimated by discounting projected cash flows over the estimated life of the related assets using credit adjusted risk-free rates which ranged from 3.25% to 5.78%. There were no asset retirement obligations settled during the three months ended December 31, 2013 and 2012. Accretion expense of \$0.1 million and \$0.1 million was recorded during the three months ended December 31, 2013, and 2012, respectively.

**Indemnifications:** We have agreed to indemnify certain customers against claims of infringement of the intellectual property rights of others in our sales contracts with these customers. Historically, we have not paid any claims under these indemnification obligations. On September 19, 2013, we received written notice from a customer of our broadband products requesting indemnification relating to a lawsuit brought against them alleging patent infringement of a system incorporating our product. As of December 31, 2013, there has been no resolution to this claim. In March 2012, we entered into a Master Purchase Agreement with SEI, pursuant to which we agreed to sell certain assets and transfer certain obligations associated with our Fiber Optics segment. Under the terms of the Master Purchase Agreement, we have agreed to indemnify SEI for up to \$3.4 million of potential claims and expenses for the two-year period following the sale and we recorded this amount as a deferred gain on our balance sheet as of December 31, 2013 and September 30, 2013 as a result of these contingencies. In April and May 2013, we received letters from SEI asserting indemnification claims under the Master Purchase Agreement up to \$1.5 million. As of December 31, 2013, there has been no resolution to these claims. See Note 1 - Description of Business in the notes to the condensed consolidated financial statements for additional disclosures related to this asset sale.

**Legal Proceedings:** We are subject to various legal proceedings, claims, and litigation, either asserted or unasserted that arise in the ordinary course of business. While the outcome of these matters is currently not determinable, we do not expect the resolution of 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. Professional legal fees are expensed when incurred. We accrue for contingent losses when such losses are probable and reasonably estimable. In the event that estimates or assumptions prove to differ from actual results, adjustments are made in subsequent periods to reflect more current information. Should we 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 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 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.

b) Nichia Corporation

On October 8, 2013, we were served with a complaint filed by Nichia Corporation in the United States District Court for the Eastern District of Texas, alleging patent infringement by one of our broadband products, unspecified monetary damages and injunctive relief (Nichia Corporation v. EMCORE Corporation, Case No.: 2-13-CV480). We answered the complaint and denied the allegations. We will vigorously defend ourselves against the plaintiff's claims.

Table of Contents

## NOTE 13. Equity

## Stock Sales

During August 2012, we filed a shelf registration statement on Form S-3 with the SEC pursuant to which we may, from time to time, sell up to an aggregate of \$50 million of our common or preferred stock, warrants or debt securities. On August 23, 2012, the registration statement was declared effective by the SEC, which will allow us to access the capital markets for the three year period following this effective date. On October 3, 2012, we sold 1,832,410 shares of common stock for net proceeds of \$9.5 million. In addition, on September 18, 2013, we sold 2,875,000 shares of common stock for net proceeds of \$11.7 million.

## Equity Plans

We provide long-term incentives to eligible officers, directors, and employees in the form of equity-based awards. We maintain three equity incentive compensation plans, collectively described below as our Equity Plans:

- the 2000 Stock Option Plan (2000 Plan),
- the 2010 Equity Incentive Plan (2010 Equity Plan),
- the 2012 Equity Incentive Plan (2012 Equity Plan).

We issue new shares of common stock to satisfy awards issued under our Equity Plans.

## Stock Options

Most of our stock options vest and become exercisable over a four to five year period and have a contractual life of 10 years. Certain stock options awarded are intended to qualify as incentive stock options pursuant to Section 422A of the Internal Revenue Code.

The following table summarizes stock option activity under the Equity Plans for the three months ended December 31, 2013:

|   | Number of<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted Average<br>Remaining<br>Contractual Life<br>(in years) | Aggregate<br>Intrinsic Value<br>(*) (in<br>thousands) |
|---|---------------------|--|---|---|
| Outstanding as of September 30, 2013                | 1,745,948           | \$17.78                                  |   |   |
| Granted   | 3,875               | \$5.09                                   |   |   |
| Exercised   | (1,301 )            | \$4.31                                   |   | \$1   |
| Forfeited   | (4,564 )            | \$6.27                                   |   |   |
| Expired   | (37,280 )           | \$20.58                                  |   |   |
| Outstanding as of December 31, 2013                 | 1,706,678           | \$17.73                                  | 4.04  |   |
| Exercisable as of December 31, 2013                 | 1,524,835           | \$19.26                                  | 3.53  | \$151   |
| Vested and expected to vest as of December 31, 2013 | 1,675,945           | \$17.97                                  | 3.95  | \$266   |

(\*) 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. For the three months ended December 31, 2012, the intrinsic value of options exercised was \$1,000.

As of December 31, 2013, there was approximately \$0.6 million of unrecognized stock-based compensation expense, net of estimated forfeitures, related to non-vested stock options granted under the Equity Plans which is expected to be

recognized over an estimated weighted average life of 3.1 years.

Table of Contents

## Valuation Assumptions

The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option valuation model, adhering to the straight-line attribution approach using the following weighted-average assumptions, of which the expected term and stock price volatility rate are highly subjective:

|  | For the Three Months Ended December 31, |        |
|--|---|--------|
|  | 2013                                    | 2012   |
| Black-Scholes weighted average assumptions:                                |   |        |
| Expected dividend rate   | —                                       | % —    |
| Expected stock price volatility rate                                       | 95.7                                    | % 97.1 |
| Risk-free interest rate  | 1.7                                     | % 0.9  |
| Expected term (in years)   | 6.0                                     | 6.0    |
| Weighted average grant date fair value per share of stock options granted: | \$3.92                                  | \$3.65 |

## Restricted Stock

Restricted stock awards (RSAs) and restricted stock units (RSUs) granted under the 2010 Equity Plan and 2012 Equity Plan typically vest over 3 years and are subject to forfeiture if employment terminates prior to the lapse of the restrictions. RSAs are considered issued and outstanding shares on the grant date and have the same dividend and voting rights as other common stock. RSUs are not considered issued or outstanding common stock until they vest.

The following table summarizes the activity related to RSAs and RSUs:

| Restricted Stock Activity           | Restricted Stock Awards |  | Restricted Stock Units |  |
|-------------------------------------|-------------------------|--|------------------------|--|
|                                     | Number of Shares        | Weighted Average Grant Date Fair Value | Number of Shares       | Weighted Average Grant Date Fair Value |
| Non-vested as of September 30, 2013 | 99,561                  | \$5.84                                 | 854,928                | \$4.51                                 |
| Granted                             | —                       | —                                      | 60,000                 | \$4.95                                 |
| Vested                              | —                       | \$—                                    | (152,300 )             | \$3.96                                 |
| Forfeited                           | (1,227 )                | \$5.68                                 | (23,419 )              | \$4.41                                 |
| Non-vested as of December 31, 2013  | 98,334                  | \$5.85                                 | 739,209                | \$4.66                                 |

Restricted stock awards: As of December 31, 2013, there was approximately \$43,000 of remaining unamortized stock-based compensation expense, net of estimated forfeitures, associated with RSAs, which will be expensed over a weighted average remaining service period of approximately 0.1 years.

Restricted stock units: As of December 31, 2013, there was approximately \$2.2 million of remaining unamortized stock-based compensation expense, net of estimated forfeitures, associated with RSUs, which will be expensed over a weighted average remaining service period of approximately 1.8 years. The 0.7 million outstanding non-vested RSUs have an aggregate intrinsic value of approximately \$3.8 million and a weighted average remaining contractual term of 1.0 years. Of the 0.7 million outstanding non-vested RSUs, approximately 0.7 million RSUs are expected to vest and have an aggregate intrinsic value of approximately \$3.4 million and a weighted average remaining contractual term of 1.8 years.

Table of Contents

## Stock-based compensation

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

| Stock-based Compensation Expense - by award type<br>(in thousands) | For the Three Months Ended<br>December 31, |         |
|--|--|---------|
|  | 2013                                       | 2012    |
| Employee stock options   | \$67                                       | \$258   |
| Restricted stock awards and units                                  | 678  | 406     |
| Employee stock purchase plan                                       | 120  | 131     |
| 401(k) match in common stock                                       | 160  | 256     |
| Outside director fees in common stock                              | 110  | 31      |
| Total stock-based compensation expense                             | \$1,135                                    | \$1,082 |

| Stock-based Compensation Expense - by expense type<br>(in thousands) | For the Three Months Ended<br>December 31, |         |
|--|--|---------|
|  | 2013                                       | 2012    |
| Cost of revenue  | \$217                                      | \$315   |
| Selling, general, and administrative                                 | 641  | 382     |
| Research and development   | 277  | 385     |
| Total stock-based compensation expense                               | \$1,135                                    | \$1,082 |

## Income (Loss) Per Share.

The following table sets forth the computation of basic and diluted net income (loss) per share:

| Basic and Diluted Net Income (Loss) Per Share<br>(in thousands, except per share)  | For the three months ended December<br>31, |            |
|--|--|------------|
|  | 2013                                       | 2012       |
| Numerator - Net income (loss)  | \$ (2,054)                                 | ) \$ 2,826 |
| Less: Undistributed earnings allocated to participating securities   | —  | (23 )      |
| Undistributed earnings allocated to common shareholders for basic net income<br>(loss) per share   | \$ (2,054)                                 | ) \$ 2,803 |
| Undistributed earnings allocated to common shareholders for diluted net<br>income (loss) per share   | \$ (2,054)                                 | ) \$ 2,803 |
| Denominator:   |  |            |
| Denominator for basic net income (loss) per share - weighted average shares<br>outstanding   | 29,938                                     | 25,977     |
| Dilutive options outstanding, unvested stock units and ESPP  | —  | 259        |
| Denominator for diluted net income (loss) per share - adjusted weighted<br>average shares outstanding  | 29,938                                     | 26,236     |
| Basic net income (loss) per share  | \$ (0.07)                                  | ) \$ 0.11  |
| Diluted net income (loss) per share  | \$ (0.07)                                  | ) \$ 0.11  |
| Weighted average antidilutive options, unvested restricted stock units and<br>awards, warrants and ESPP shares excluded from the computation | 3,049                                      | 2,913      |
| Average market price of common stock   | \$5.04                                     | \$4.68     |

Table of Contents

The antidilutive stock options and unvested stock were excluded from the computation of diluted net income (loss) per share due to the assumed proceeds from the award's exercise or vesting being greater than the average market price of the common shares or due to the Company incurring a net loss for the periods presented.

Future Issuances

As of December 31, 2013, we had common stock reserved for the following future issuances:

| Future Issuances   | Number of Common Stock<br>Shares Available for Future<br>Issuances |
|--|--|
| Exercise of outstanding stock options                        | 1,706,678  |
| Unvested restricted stock units                              | 739,209  |
| Purchases under the employee stock purchase plan             | 433,958  |
| Issuance of stock-based awards under the Equity Plans        | 576,834  |
| Exercise of outstanding warrants                             | 400,001  |
| Purchases under the officer and director share purchase plan | 88,741   |
| Total reserved   | 3,945,421  |

Table of Contents

## NOTE 14. Segment Data and Related Information

We have three operating divisions within the following two reporting segments:

**Fiber Optics:** EMCORE Digital Fiber Optics Products and EMCORE Broadband Fiber Optics Products are aggregated as a separate reporting segment, Fiber Optics. Our Fiber Optics reporting segment provides optical components, subsystems, and systems for high-speed telecommunications, cable television (CATV), and fiber-to-the-premise (FTTP) networks, as well as products for satellite communications, video transport, and specialty photonics technologies for defense and homeland security applications.

**Photovoltaics:** EMCORE Photovoltaics is a separate reporting segment, Photovoltaics. Our Photovoltaics reporting segment provides products for both space and terrestrial solar power applications. For space solar power applications, we offer high-efficiency multi-junction solar cells, covered interconnect cells (CICs), and complete satellite solar panels. For terrestrial power applications, we offer high-efficiency GaAs solar cells for concentrating photovoltaic (CPV) power systems.

We evaluate our reportable segments pursuant to ASC 280, Segment Reporting. The Company's Chief Executive Officer is the chief operating decision maker and he assesses the performance of the operating segments and allocates resources to segments based on their business prospects, competitive factors, net revenue, operating results, and other non-GAAP financial ratios.

**Revenue:** The following tables set forth revenue attributable to each of our reporting segments and by geographic region with revenue assigned to geographic regions based on our customers' billing address.

| Segment Revenue<br>(in thousands) | For the three months ended<br>December 31, |          |
|-----------------------------------|--|----------|
|                                   | 2013                                       | 2012     |
| Fiber Optics revenue              | \$23,292                                   | \$29,678 |
| Photovoltaics revenue             | 20,919                                     | 19,628   |
| Total revenue                     | \$44,211                                   | \$49,306 |

| Revenue by Geographic Region<br>(in thousands) | For the three months ended<br>December 31, |          |
|--|--|----------|
|  | 2013                                       | 2012     |
| United States                                  | \$28,097                                   | \$34,667 |
| Asia   | 10,287                                     | 8,900    |
| Europe   | 5,434                                      | 5,213    |
| Other  | 393  | 526      |
| Total revenue                                  | \$44,211                                   | \$49,306 |

Revenue by geographic location is determined based on the location of our customer.

**Significant Customers:** Revenue from one of our customers of the Photovoltaics segment represented 14% of our consolidated revenue for the three months ended December 31, 2013. No single customer from the Photovoltaics segment represented greater than 10% of our consolidated revenue for the three months ended December 31, 2012. No single customer from the Fiber segment represented greater than 10% of our consolidated revenue for the three months ended December 31, 2013. Revenue from Cisco systems represented 11% of our consolidated revenue for the three months ended December 31, 2012.

Revenue from Suncore represented 5.0% of our consolidated revenues for the three months ended December 31, 2012. See Note 15 - Suncore Joint Venture for additional disclosures related to the Suncore revenues.

21

---

Table of Contents

Operating (Loss) Income: The following table sets forth operating (loss) income attributable to each of our reporting segments.

| Operating (Loss) Income<br>(in thousands) | For the three months ended<br>December 31, |            |
|---|--|------------|
|   | 2013                                       | 2012       |
| Fiber Optics operating loss               | \$ (6,571                                  | ) \$ (395  |
| Photovoltaics operating income            | 4,331                                      | 3,241      |
| Total operating (loss) income             | \$ (2,240                                  | ) \$ 2,846 |

Non-Cash Expenses: The following tables set forth our significant non-cash expenses attributable to each of our reporting segments.

| Depreciation, Amortization, and Accretion Expense<br>(in thousands) | For the three months ended<br>December 31, |          |
|---|--|----------|
|   | 2013                                       | 2012     |
| Fiber Optics segment  | \$ 1,484                                   | \$ 1,282 |
| Photovoltaics segment   | 584  | 736      |
| Total depreciation, amortization, and accretion expense             | \$ 2,068                                   | \$ 2,018 |

| Stock-based Compensation Expense<br>(in thousands) | For the three months ended<br>December 31, |          |
|--|--|----------|
|  | 2013                                       | 2012     |
| Fiber Optics segment                               | \$ 755                                     | \$ 726   |
| Photovoltaics segment                              | 380  | 356      |
| Total stock-based compensation expense             | \$ 1,135                                   | \$ 1,082 |

Long-lived Assets: 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 our reporting segments and our unallocated Corporate division.

| Long-lived Assets<br>(in thousands) | As of<br>December 31, 2013 | As of<br>September 30, 2013 |
|-------------------------------------|----------------------------|-----------------------------|
| Fiber Optics segment                | \$ 22,713                  | \$ 23,804                   |
| Photovoltaics segment               | 39,862                     | 40,048                      |
| Unallocated Corporate division      | 8,392                      | 8,435                       |
| Long-lived assets                   | \$ 70,967                  | \$ 72,287                   |

As of December 31, 2013 and September 30, 2013, approximately 80% and 80%, respectively, of our long-lived assets were located in the United States. The remaining assets are primarily located in China and Thailand.

Table of Contents

NOTE 15. Suncore Joint Venture

On July 30, 2010, we entered into a joint venture 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 a technology license from us. The joint venture, Suncore Photovoltaic Technology Co., Ltd. (Suncore), is a limited liability company under the laws of the People's Republic of China. In June 2013, we entered into an agreement to transfer our 40% registered ownership interest in Suncore to San'an Optoelectronics Co., Ltd. ("San'an") for a purchase price of \$4.8 million.

In November 2011, we agreed to grant Suncore an exclusive license to use certain intellectual property and know-how, both existing and to-be-developed, related to the fabrication process and testing of terrestrial CPV solar cells on terrestrial CPV solar systems solely within the PRC, Hong Kong, Macau, and Taiwan (the licensed territory) and be able to use, market, and sell the terrestrial CPV solar cells worldwide, excluding only the United States. This licensing agreement was initially for \$2.5 million and does not include intellectual property associated with the development of space qualified or radiation hardened solar cells. Suncore had not fulfilled all the requirements necessary to initiate payment for this license; as a result, we did not record any receivables from Suncore associated with this license agreement as of September 30, 2013. In October 2013, we amended the license agreement with Suncore that provides for the license agreement to be amended from \$2.5 million to \$0.8 million. In addition, we are only required to provide ongoing support through December 31, 2013 to Suncore. During the three months ended December 31, 2013, we received full payment from Suncore and recognized license revenue of \$0.8 million related to the amendment.

On August 5, 2012, we entered into a definitive agreement which consolidated the Company's terrestrial CPV system engineering and development efforts, for both ground mount and rooftop terrestrial CPV products, into Suncore. EMCORE employees who were engaged in terrestrial CPV product and business development, as well as key engineering, sales, and marketing personnel, were transferred to Suncore upon the closing of the agreement on September 21, 2012. Suncore funded all ongoing R&D, marketing, sales, and business development functions related to terrestrial CPV systems. We sold these assets for \$2.8 million. Included in prepaid expenses and other current assets at September 30, 2012 is the \$2.8 million sale price, which amount was collected during the three months ended December 31, 2012. EMCORE will continue to own all of its intellectual property related to solar cell technology and maintain investment activities to advance CPV solar cell performance to serve a broader customer base within the CPV industry.

During the three months ended December 31, 2013 and 2012, we recorded revenue from Suncore of \$0.8 million and \$2.6 million, respectively.

Included in prepaid expenses and other current assets as of December 31, 2013 and September 30, 2013, is \$0.3 million and \$0.3 million, respectively, for amounts due from Suncore related to transaction services provided in accordance with the August 2012 definitive agreement and other smaller amounts.

In June 2013, we entered into an agreement to transfer our 40% registered ownership interest in Suncore to San'an for a purchase price of \$4.8 million. Under the terms of the Transfer Agreement, each of the parties agreed to indemnify the other for any losses incurred as a result of either party's breach of its obligations under the Transfer Agreement. Closing was subject to customary conditions, including Chinese regulatory approvals. The payment for the purchase price was made upon the completion of the share transfer, which occurred during the fourth quarter of fiscal 2013. Upon completion of the share transfer in September 2013, the Company recognized \$3.3 million of deferred revenue from Suncore included in the financial statements as of September 30, 2013, as well as the resulting gain of \$4.8 million on our registered ownership interest.



## Table of Contents

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

You should read the following discussion of our financial condition and results of operations in conjunction with the financial statements and the notes thereto included in Financial Statements under Item 1 within this Quarterly Report. The following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Quarterly Report, particularly in Risk Factors under Part II, Item IA. These cautionary statements apply to all forward-looking statements wherever they appear in this Quarterly Report.

#### Business Overview

EMCORE Corporation and its subsidiaries (referred to herein as the "Company", "we", "our", or "EMCORE") offers a broad portfolio of compound semiconductor-based products for the broadband, fiber optics, satellite, and solar power markets. We were established in 1984 as a New Jersey corporation and we have two reporting segments: Fiber Optics and Photovoltaics. EMCORE's Fiber Optics business segment provides optical components, subsystems and systems for high-speed telecommunications, Cable Television (CATV), Wireless and Fiber-To-The-Premise (FTTP) networks, as well as products for satellite communications, video transport and specialty photonics technologies for defense and homeland security applications. Our solar Photovoltaics business segment provides products for space power applications including high-efficiency multi-junction solar cells, Covered Interconnect Cells (CICs) and complete satellite solar panels, and terrestrial applications, including high-efficiency GaAs solar cells for concentrating photovoltaic (CPV) power systems. In addition to organic growth and development of our existing Fiber Optics and Photovoltaics segments, we intend to pursue other strategies to enhance shareholder value, which may include acquisitions, investments in joint ventures, partnerships, and other strategic alternatives, such as dispositions, reorganizations, recapitalizations or other similar transactions. Accordingly, the Strategy Committee of the Board and our management may from time to time be engaged in evaluating potential, and entering into definitive agreements with respect to, such transactions and other strategic alternatives.

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 specific information about us, our products, or the markets we serve, please visit our website at <http://www.emcore.com>. The information contained in or linked to our website is not a part of, nor incorporated by reference into, this Quarterly Report on Form 10-Q or a part of any other report or filing with the Securities and Exchange Commission (SEC).

#### Recent Developments

##### Strategy Committee of the Board of Directors

The Company's Board of Directors recently created a Strategy Committee of the Board of Directors, which is charged with evaluating strategic opportunities for the Company that may enhance shareholder value. The Strategy Committee may from time to time consider strategic opportunities, such as acquisitions, dispositions and joint ventures, and may engage financial and other advisors to assist it in doing so. There can be no assurance that the Strategy Committee will identify strategic opportunities that the Company will determine to pursue, or that the consideration of any such opportunity would result in the completion of a strategic transaction.

#### Suncore Joint Venture

In June 2013, we entered into an agreement to transfer our 40% registered ownership interest in Suncore to San'an for a purchase price of \$4.8 million. The carrying value of our registered ownership interest in Suncore was \$0 as of September 30, 2013. Upon completion of the share transfer in September 2013, the Company recognized \$3.3 million of deferred revenue from Suncore included in the financial statements as of September 30, 2013, as well as the resulting gain of \$4.8 million on our registered ownership interest. See Note 15 - Suncore Joint Venture in the notes to the condensed consolidated financial statements for more information regarding Suncore.

Table of Contents

## Impact from Thailand Flood

In October 2011, flood waters severely impacted the inventory and production operations of our primary contract manufacturer in Thailand. The impacted areas included certain product lines for the Telecom and Cable Television (CATV) market segments. This had a significant impact on our operations and our ability to meet customer demand for certain of our fiber optics products. Our Photovoltaics segment was not affected by the Thailand floods.

Since that announcement, we developed and implemented a plan to rebuild the impacted production lines at other locations, including an alternate facility of our contract manufacturer in Thailand, as well as our own manufacturing facilities in the United States and China. We completed the plan to rebuild our production lines and return to pre-flood capacity production levels as of September 2012. See Note 9 - Impact from Thailand Flood in the notes to the condensed consolidated financial statements for additional disclosures related to the impact of the Thailand flood on our operations.

## Results of Operations

The following table sets forth our consolidated statements of operations data expressed as a percentage of revenue.

|   | For the three months ended December 31, |    |       |   |
|---|---|----|-------|---|
|   | 2013                                    |    | 2012  |   |
| Revenue                                       | 100.0                                   | %  | 100.0 | % |
| Cost of revenue                               | 77.1                                    |    | 77.8  |   |
| Gross profit                                  | 22.9                                    |    | 22.2  |   |
| Operating expense (income):                   |   |    |       |   |
| Selling, general, and administrative          | 18.0                                    |    | 14.0  |   |
| Research and development                      | 10.0                                    |    | 10.9  |   |
| Flood-related insurance proceeds              | —                                       |    | (8.5  | ) |
| Total operating expense                       | 28.0                                    |    | 16.4  |   |
| Operating (loss) income                       | (5.1                                    | )  | 5.8   |   |
| Other income (expense):                       |   |    |       |   |
| Interest expense, net                         | (0.3                                    | )  | (0.5  | ) |
| Foreign exchange gain                         | 0.2                                     |    | 0.2   |   |
| Gain on sale of investment                    | 0.7                                     |    | —     |   |
| Change in fair value of financial instruments | (0.2                                    | )  | 0.5   |   |
| Total other income (expense)                  | 0.4                                     |    | 0.2   |   |
| (Loss) income before income tax expense       | (4.7                                    | )  | 6.0   |   |
| Income tax expense                            | —                                       |    | (0.2  | ) |
| Net (loss) income                             | (4.7                                    | )% | 5.8   | % |

Table of Contents

## Comparison of financial results:

## Revenue:

| (in thousands, except percentages) | For the Three Months Ended December 31, |          |           |          |
|------------------------------------|---|----------|-----------|----------|
|                                    | 2013                                    | 2012     | \$ Change | % Change |
| Fiber Optics revenue               | \$23,292                                | \$29,678 | \$(6,386) | (21.5)%  |
| Photovoltaics revenue              | 20,919                                  | 19,628   | 1,291     | 6.6%     |
| Total revenue                      | \$44,211                                | \$49,306 | \$(5,095) | (10.3)%  |

## Fiber Optics Revenue:

Our Fiber Optics reporting segment provides optical components, subsystems, and systems for high-speed telecommunications, cable television (CATV), and fiber-to-the-premise (FTTP) networks, as well as products for satellite communications, video transport, and specialty photonics technologies for defense and homeland security applications. Our Fiber Optics segment is broken out into two distinct product lines:

- Broadband products, which includes cable television products, fiber-to-the-premises products, satellite communication products, video transport products, and defense and homeland security products; and,
- Digital products, which include telecom optical products.

For the three months ended December 31, 2013, revenue from broadband products decreased 26% compared to the same period during the prior year. This decrease was primarily driven by lower sales of our CATV products due to lower customer demand. Sales of our CATV products, which include our quadrature amplitude modulation (QAM) transmitters and receivers, represent the second largest percentage of our total fiber optics-related revenue.

For the three months ended December 31, 2013, revenue from digital products decreased 3% compared to the same period during the prior year. Our telecom optical-related product line, which includes tunable XFP, and integrated tunable laser assemblies (ITLAs), represent the largest percentage of our total fiber optics-related revenue.

Our Fiber Optics segment accounted for 53% and 60% of our consolidated revenue for the three months ended December 31, 2013 and 2012, respectively.

## Photovoltaics Revenue:

Our Photovoltaics reporting segment provides products for both space and terrestrial solar power applications. For space solar power applications, we offer high-efficiency multi-junction solar cells, covered interconnect cells (CICs), and complete satellite solar panels. For terrestrial power applications, we offer high-efficiency multi-junction solar cells for concentrating photovoltaic (CPV) power systems.

For the three months ended December 31, 2013, revenue from photovoltaics increased approximately 7% compared to the same period during the prior year primarily due to higher revenues from our space cell products. Sales of our satellite solar cells, CICs and panel products represent the largest percentage of our total photovoltaics-related revenue. Historically, our Photovoltaics revenue has fluctuated significantly due to the timing of program completions and product shipments of major orders.

Our Photovoltaics segment accounted for 47% and 40% of our consolidated revenue for the three months ended December 31, 2013 and 2012, respectively.

Table of Contents

## Gross Profit:

| (in thousands, except percentages) | For the Three Months Ended December 31, |          |           |          |
|------------------------------------|---|----------|-----------|----------|
|                                    | 2013                                    | 2012     | \$ Change | % Change |
| Fiber Optics gross profit          | \$2,397                                 | \$4,965  | \$(2,568) | (51.7)%  |
| Photovoltaics gross profit         | 7,738                                   | 5,983    | 1,755     | 29.3%    |
| Total gross profit                 | \$10,135                                | \$10,948 | \$(813)   | (7.4)%   |

Our cost of revenue consists of raw materials, compensation expense including non-cash stock-based compensation expense, depreciation expense and other manufacturing overhead costs, expenses associated with excess and obsolete inventories, and product warranty costs. Historically, our cost of revenue, as a percentage of revenue, has fluctuated largely due to inventory and specific product warranty charges. Our gross margins are also affected by product mix, manufacturing yields and volumes, and timing related to the completion of long-term contracts.

Consolidated gross margins were 23% and 22% for the three months ended December 31, 2013 and 2012, respectively.

Stock-based compensation expense within cost of revenue totaled approximately \$0.2 million and \$0.3 million during the three months ended December 31, 2013 and 2012, respectively.

## Fiber Optics Gross Profit:

Fiber Optics gross margin was 10.3% and 16.7% for the three months ended December 31, 2013 and 2012, respectively.

For the three months ended December 31, 2013, gross margins decreased from both our broadband and digital product lines when compared to the same period during the prior year. The decrease in gross margins is primarily due to lower sales volume and pricing.

## Photovoltaics Gross Profit:

Photovoltaics gross margin was 37.0% and 30.5% for the three months ended December 31, 2013 and 2012, respectively. The increase in gross margin compared to the same period during the prior year is primarily due to higher revenues, a decrease in the cost of raw materials used in our products, and an increase in sales of our higher margin products. Additionally, included in gross margin for the three months ended December 31, 2013 is \$0.8 million of license technology revenue received from Suncore. See Note 15 - Suncore Joint Venture for additional disclosures related to the Suncore revenues.

## Selling, General and Administrative (SG&amp;A):

| (in thousands, except percentages) | For the Three Months Ended December 31, |         |           |          |
|------------------------------------|---|---------|-----------|----------|
|                                    | 2013                                    | 2012    | \$ Change | % Change |
| SG&A expense                       | \$7,972                                 | \$6,904 | \$1,068   | 15.5%    |

SG&A consists primarily of compensation expense including non-cash stock-based compensation expense related to executive, finance, and human resources personnel, as well as sales and marketing expenses, professional fees, amortization expense on intangible assets, legal and patent-related costs, and other corporate-related expenses.

Stock-based compensation expense within SG&A totaled approximately \$0.6 million and \$0.4 million during the three months ended December 31, 2013 and 2012, respectively.

Table of Contents

The increase in SG&A expense for the three months ended December 31, 2013 when compared to the same period during the prior year was due to higher severance related costs associated with Mr. Larocca's resignation, additional costs associated with a shareholder group regarding matters addressed in their recent Schedule 13D filing with the SEC, and higher audit-related costs.

As a percentage of revenue, SG&A expenses were 18.0% and 14.0% for the three months ended December 31, 2013 and 2012, respectively.

## Research and Development (R&amp;D):

| (in thousands, except percentages) | For the Three Months Ended December 31, |         |           |          |
|------------------------------------|---|---------|-----------|----------|
|                                    | 2013                                    | 2012    | \$ Change | % Change |
| R&D expense                        | \$4,403                                 | \$5,390 | \$(987)   | (18.3)%  |

R&D consists primarily of compensation expense including non-cash stock-based compensation expense, as well as engineering and prototype costs, depreciation expense, and other overhead expenses, as they related to the design, development, and testing of our products. Our R&D costs are expensed as incurred. We believe that in order to remain competitive, we must invest significant financial resources in developing new product features and enhancements and in maintaining customer satisfaction worldwide.

Stock-based compensation expense within R&D totaled \$0.3 million and \$0.4 million during the three months ended December 31, 2013 and 2012, respectively.

The decrease in R&D expense for the three months ended December 31, 2013 when compared to the same period during the prior year was due to lower compensation-related costs in 2013 due to a reduction in headcount in the Fiber Optics segment.

As a percentage of revenue, R&D expenses were 10.0% and 10.9% for the three months ended December 31, 2013 and 2012, respectively.

## Other Operating Income:

| (in thousands, except percentages) | For the Three Months Ended December 31, |           |           |          |
|------------------------------------|---|-----------|-----------|----------|
|                                    | 2013                                    | 2012      | \$ Change | % Change |
| Flood-related insurance proceeds   | \$—                                     | \$(4,192) | \$(4,192) | (100.0)% |

## Flood-related Insurance Proceeds:

During the three months ended December 31, 2012, we received flood-related insurance proceeds of \$4.2 million from our contract manufacturer. Flood-related insurance proceeds related to inventory and equipment destroyed by the Thailand flood were recognized when they became realized. See [Note 9 - Impact from Thailand Flood](#) in the notes to the condensed consolidated financial statements for additional disclosures related to the impact of the Thailand flood on our operations.



Table of Contents

## Operating (Loss) Income:

| (in thousands, except percentages) | For the Three Months Ended December 31, |          |            |            |
|------------------------------------|---|----------|------------|------------|
|                                    | 2013                                    | 2012     | \$ Change  | % Change   |
| Fiber Optics operating loss        | \$(6,571 )                              | \$(395 ) | \$(6,176 ) | (1,563.5)% |
| Photovoltaics operating income     | 4,331                                   | 3,241    | 1,090      | (33.6)%    |
| Total operating (loss) income      | \$(2,240 )                              | \$2,846  | \$(5,086 ) | 178.7%     |

Operating (loss) income represents revenue less the cost of revenue and direct operating expenses incurred within the operating segments as well as allocated expenses such as shared service departments and gains on sale of unconsolidated affiliates. Operating (loss) income is a measure of profit and loss that executive management uses to assess performance and make decisions. As a percentage of revenue, our operating (loss) income was (5.1)%, and 5.8% for the three months ended December 31, 2013 and 2012, respectively.

## Other Income (Expense):

| (in thousands, except percentages)            | For the Three Months Ended December 31, |          |           |          |
|---|---|----------|-----------|----------|
|   | 2013                                    | 2012     | \$ Change | % Change |
| Interest expense, net                         | \$(126 )                                | \$(238 ) | \$112     | 47.1%    |
| Foreign exchange gain                         | 100                                     | 101      | (1 )      | (1.0)%   |
| Gain on sale of investment                    | 290                                     | —        | 290       | N/A      |
| Change in fair value of financial instruments | (78 )                                   | )237     | (315 )    | (132.9)% |
| Total other income                            | \$186                                   | \$100    | \$86      | 86.0%    |

## Foreign Exchange

We recognize gains and losses due to the effect of exchange rate changes on foreign currency primarily due to our operations in Spain, the Netherlands, and in China. The assets and liabilities of our foreign operations are translated from their respective functional currencies into U.S. dollars at the rates in effect at the consolidated balance sheet dates, and the revenue and expense amounts are translated at the average rate during the applicable periods reflected on the consolidated statements of operations and comprehensive loss. Foreign currency translation adjustments are recorded as accumulated other comprehensive income. Gains and losses from foreign currency transactions denominated in currencies other than the U.S. dollar, both realized and unrealized, are recorded as foreign exchange gain (loss) on our consolidated statements of operations and comprehensive loss. A majority of the gain or losses recorded relates to the change in value of the euro and yuan renminbi relative to the U.S. dollar.

## Change in Fair Value of Financial Instruments

As of December 31, 2013 and September 30, 2013, warrants representing the right to purchase 400,001 shares of our common stock were outstanding.

All of our warrants meet the classification requirements for liability accounting pursuant to ASC 815, Derivatives and Hedging. Each quarter, we expect an impact on our statement of operations and comprehensive loss when we record the change in fair value of our outstanding warrants using the Monte Carlo option valuation model. The Monte Carlo option valuation model is used since it allows the valuation of each warrant to factor in the value associated with our

right to affect a mandatory exercise of each warrant. The valuation model requires the input of highly subjective assumptions, including the warrant's expected life and the price volatility of the underlying stock. The change in the fair value of our warrants has been primarily due to the change in the closing price of our common stock. See Note 3 - Fair Value Accounting in the notes to the condensed consolidated financial statements for additional information related to our valuation of our outstanding warrants.

Table of Contents

## Gain on Sale of Investment

During the three months ended December 31, 2013, we sold our investment in a company that had a net book value of \$0 at September 30, 2013, for \$0.3 million.

## Income Tax Expense

During the three months ended December 31, 2012, we recorded income tax expense of \$0.1 million primarily due to federal alternative minimum income tax and state income taxes.

## Net (Loss) Income:

| (in thousands, except percentages) | For the Three Months Ended December 31, |         |            |          |
|------------------------------------|---|---------|------------|----------|
|                                    | 2013                                    | 2012    | \$ Change  | % Change |
| Net (loss) income                  | \$(2,054 )                              | \$2,826 | \$(4,880 ) | 172.7%   |

Net (loss) income per basic and diluted share was \$(0.07) and \$0.11 for the three months ended December 31, 2013 and 2012, respectively.

## Order Backlog:

As of December 31, 2013, order backlog for our Photovoltaics segment totaled \$55.3 million, a decrease of 3% from \$57.1 million reported as of September 30, 2013. Order backlog is defined as purchase orders or supply agreements accepted by us and deferred revenue with expected product delivery and/or services to be performed within the next twelve months. From time to time, our customers may request that we delay shipment of certain orders and our order backlog could also be adversely affected if our customers unexpectedly cancel purchase orders that we have previously accepted.

Product sales from our Fiber Optics segment are made pursuant to purchase orders, often with short lead times. These orders are subject to revision or cancellation and often are made without deposits. Fiber optics products typically ship within the same quarter in which a purchase order is received; therefore, our order backlog at any particular date is not necessarily indicative of actual revenue or the level of orders for any succeeding period.

Table of Contents

## Cash Flow:

## Net Cash Provided By (Used In) Operating Activities

| Operating Activities<br>(in thousands, except<br>percentages) | For the Three Months Ended December 31, |           |           |          |
|---|---|-----------|-----------|----------|
|   | 2013                                    | 2012      | \$ Change | % Change |
| Net cash provided by<br>(used in) operating<br>activities     | \$6,725                                 | \$(4,519) | \$11,244  | 248.8%   |

## Fiscal 2014:

For the three months ended December 31, 2013, our operating activities provided cash of \$6.7 million for the three months ended December 31, 2013 primarily due to the changes in our current assets and liabilities (or working capital components) of \$5.6 million, depreciation, amortization and accretion expense of \$2.1 million, stock-based compensation expense of \$1.1 million and warranty provision of \$0.3 million partially offset by our net loss of \$2.1 million and the gain on sale of investment of \$0.3 million. The change in our current assets and liabilities was primarily the result of a decrease in accounts receivable of \$6.0 million, other assets of \$1.0 million, inventory of \$0.1 million and an increase in accrued expenses of \$0.1 million, partially offset by a decrease in accounts payable of \$1.7 million. The decrease in accounts payable is primarily a result of paying down balances that had increased in prior periods with the proceeds received in the current period from the collection of accounts receivable.

## Fiscal 2013:

Our operating activities consumed cash of \$4.5 million for the three months ended December 31, 2012 primarily due to the changes in our current assets and liabilities (or working capital components) of \$6.6 million and non-cash insurance proceeds of \$4.2 million, partially offset by our net income of \$2.8 million, depreciation, amortization and accretion expense of \$2.0 million, stock-based compensation expense of \$1.1 million and inventory loss provision of \$0.6 million. The change in our current assets and liabilities was primarily the result of a decrease in accounts payable of \$6.6 million, a decrease in accrued expenses and other current liabilities of \$1.3 million, and an increase in inventory of \$2.1 million, partially offset by a decrease in other assets of \$3.2 million and accounts receivable of \$0.2 million. The decrease in accounts payable is primarily a result of paying down balances that had increased in prior quarters with the proceeds received in the current period from the issuance of common stock and the collection of other current assets.

## Working Capital Components:

**Accounts Receivable:** We generally expect the level of accounts receivable at any given quarter to reflect the level of sales in that quarter. Our accounts receivable balances have fluctuated historically due to the timing of account collections, timing of product shipments, and/or change in customer credit terms.

**Inventory:** We generally expect the level of inventory at any given quarter to reflect the change in our expectations of forecasted sales. Our inventory balances have fluctuated historically due to the timing of customer orders and product shipments, changes in our internal forecasts related to customer demand, as well as adjustments related to excess and obsolete inventory.

**Accounts Payable:** The fluctuation of our accounts payable balances is primarily driven by changes in inventory purchases as well as changes related to the timing of actual payments to vendors.

Accrued Expenses: Our largest accrued expense typically relates to compensation. Historically, fluctuations of our accrued expense accounts have primarily related to changes in the timing of actual compensation payments, receipt or application of advanced payments, adjustments to our warranty accrual, and accruals related to professional fees.

Table of Contents

## Net Cash Used In Investing Activities

## Investing Activities

| (in thousands, except percentages)    | For the Three Months Ended December 31, |           |           |          |
|---------------------------------------|---|-----------|-----------|----------|
|                                       | 2013                                    | 2012      | \$ Change | % Change |
| Net cash used in investing activities | \$(132)                                 | \$(2,775) | \$2,643   | (95.2)%  |

## Fiscal 2014:

For the three months ended December 31, 2013, our investing activities consumed \$0.1 million of cash primarily from capital related expenditures of \$0.7 million, partially offset by cash proceeds of \$0.3 million from the sale of an investment and a decrease in restricted cash of \$0.3 million.

## Fiscal 2013:

For the three months ended December 31, 2012, our investing activities consumed \$2.8 million of cash primarily due to capital related expenditures of \$2.0 million, and the funding of restricted cash of \$0.9 million.

## Net Cash (Used In) Provided By Financing Activities

## Financing Activities

| (in thousands, except percentages)                  | For the Three Months Ended December 31, |          |            |          |
|---|---|----------|------------|----------|
|   | 2013                                    | 2012     | \$ Change  | % Change |
| Net cash (used in) provided by financing activities | \$(4,492)                               | \$10,096 | \$(14,588) | (144.5)% |

## Fiscal 2014:

For the three months ended December 31, 2013, our financing activities consumed cash of \$4.5 million primarily due to the net payment of \$4.5 million on our bank credit facility. See Note 1 - Description of Business in the notes to the condensed consolidated financial statements for information related to borrowings from our bank credit facility.

## Fiscal 2013:

For the three months ended December 31, 2012 our financing activities provided \$10.1 million of net cash primarily from proceeds of \$9.5 million from the sale of common stock and \$0.6 million of proceeds related to borrowings from our bank credit facility.

## Contractual Obligations and Commitments

Our contractual obligations and commitments for the remainder of fiscal 2014 and over the next five fiscal years are summarized in the table below:

(in thousands)

|                              | Total    | 2014     | 2015 to 2016 | 2017 to 2018 | 2019 and later |
|------------------------------|----------|----------|--------------|--------------|----------------|
| Purchase obligations         | \$22,304 | 22,144   | \$160        | \$—          | \$—            |
| Credit facility              | 17,200   | 17,200   | —            | —            | —              |
| Asset retirement obligations | 7,665    | —        | 436          | 4,754        | 2,475          |
| Operating lease obligations  | 4,390    | 522      | 1,278        | 152          | 2,438          |
|                              | \$51,559 | \$39,866 | \$1,874      | \$4,906      | \$4,913        |

Total contractual obligations  
and commitments

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

32

---

## Table of Contents

### Purchase Obligations

Our purchase obligations represent agreements to purchase goods or services that are enforceable and legally binding, that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transactions.

### Credit Facility

As of December 31, 2013, we had a \$17.2 million LIBOR rate loan outstanding, with an interest rate of 3.3%, and approximately \$1.3 million reserved under five outstanding standby letters of credit under the credit facility.

The credit facility contains customary representations and warranties, and affirmative and negative covenants, including, among other things, cash balance and excess availability requirements, and limitations on liens and certain additional indebtedness and guarantees, in addition to minimum tangible net worth, fixed charge coverage, and EBITDA covenants. The covenants are written such that as long as we maintain the minimum cash balance and excess availability requirement, the other covenants are not required to be met. As of December 31, 2013, we were in compliance with the financial covenants contained in the credit facility since cash on deposit and excess availability exceeded the \$2.5 million minimum financial covenant requirement.

The credit facility 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 our ability to pay all or any portion of our indebtedness with Wells Fargo or to perform any of our 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. We do 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.

The borrowing availability provided by the credit facility includes approximately \$4.2 million secured by machinery and equipment, which is reduced monthly by approximately \$91,000. The borrowing base also includes amounts which are not yet earned by the final rendition of services by the Company including progress billings and that portion of those amounts earned but not yet invoiced. The borrowing base for these amounts will be the lesser of (1) 60% of these amounts, or (2) \$5.0 million.

The credit facility established the Company's minimum cash balance and excess liquidity requirement at \$2.5 million until June 30, 2014, when it will increase by \$750,000 and thereafter on the first day of each quarter until it reaches \$5.0 million. If the minimum cash balance and excess liquidity requirement falls below the specified amounts, the other financial covenants noted above are triggered.

On August 26, 2013, we entered into a Fifth Amendment to the credit facility, pursuant to which Wells Fargo agrees, among other things, to provide up to \$7.5 million in secured financing to the Company using certain real estate as collateral, subject to the terms and conditions of the Fifth Amendment and the credit facility. This change to the borrowing base calculation was not implemented as of December 31, 2013 as not all conditions required had been completed.

We now expect at least 50% of the total amount of credit under the credit facility to be available for use based on the revised borrowing base formula during fiscal year 2014. See Note 10 - Credit Facilities for additional information related to our bank credit facility.

Asset Retirement Obligations

We have known conditional asset retirement conditions, such as certain asset decommissioning and restoration of rented facilities to be performed in the future. Our asset retirement obligations include assumptions related to renewal option periods where we expect to extend facility lease terms. Revisions in estimated liabilities can result from revisions of estimated inflation rates, escalating retirement costs, and changes in the estimated timing of settling asset retirement obligations. See Note 12 - Commitments and Contingencies in the notes to the condensed consolidated financial statements for additional information related to our asset retirement obligations.

Table of Contents

Operating Leases

Operating leases include non-cancelable terms and exclude renewal option periods, property taxes, insurance and maintenance expenses on leased properties. There are no off-balance sheet arrangements other than our operating leases. See Note 12 - Commitments and Contingencies in the notes to the condensed consolidated financial statements for additional information related to our operating lease obligations.

Segment Data and Related Information

See Note 14 - 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) income by business segment.

Recent Accounting Pronouncements

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

Restructuring Accruals

See Note 8 - Accrued Expenses and Other Current Liabilities in the notes to the condensed consolidated financial statements for disclosures related to our severance and restructuring-related accrual accounts.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

For Quantitative and qualitative disclosures about market risk affecting the Company, 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, 2013. We do not believe the Company's exposure to market risk has changed materially since September 30, 2013.

ITEM 4. Controls and Procedures

a. Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer, our Chief Financial Officer and our principal accounting officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2013. Based on this evaluation, our Chief Executive Officer, Chief Financial Officer and our principal accounting officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

b. Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

PART II. Other Information

ITEM 1. Legal Proceedings

See Note 12 - Commitments and Contingencies in the notes to our condensed consolidated financial statements for disclosures related to our 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, 2013, which could materially affect our business, financial condition or future results. We do not believe the Company's risks have changed materially since we filed our Form 10-K on December 9, 2013. 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 4. Mine Safety Disclosures

Not Applicable.

ITEM 5B. Other Information

Not Applicable.

ITEM 6. Exhibits

31.1\*\* Certificate of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2\*\* Certificate of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1\*\* Certificate of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2\*\* Certificate of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.INS‡ XBRL Instance Document.\*\*‡

101.SCH‡ XBRL Taxonomy Extension Schema Document.\*\*‡

101.CAL‡ XBRL Taxonomy Extension Calculation Linkbase Document. \*\*‡

101.LAB‡ XBRL Taxonomy Extension Label Linkbase Document. \*\*‡

101.PRE‡ XBRL Taxonomy Extension Presentation Linkbase Document. \*\*‡

101.DEF‡ XBRL Taxonomy Extension Definition Linkbase Document. \*\*‡

---

\*\* Filed herewith

‡ Submitted electronically with this Report.



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 5, 2014

By: /s/ Hong Hou  
Hong Q. Hou, Ph.D.  
Chief Executive Officer  
(Principal Executive Officer)

Date: February 5, 2014

By: /s/ Mark Weinswig  
Mark Weinswig  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

Each person whose signature appears below constitutes and appoints and hereby authorizes Hong Q. Hou, Ph.D. and, severally, such person's true and lawful attorneys-in-fact, with full power of substitution or resubstitution, for such person and in his name, place and stead, in any and all capacities, to sign on such person's behalf, individually and in each capacity stated below, any and all amendments, including post-effective amendments to this Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Commission granting unto said attorneys-in-fact, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as such person might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Table of Contents

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities indicated, on February 5, 2014.

| Signature  | Title   |
|--|---|
| /s/ Hong Q. Hou, Ph.D.<br>Hong Q. Hou, Ph.D.             | Chief Executive Officer and Director<br>(Principal Executive Officer)   |
| /s/ Mark B. Weinswig<br>Mark B. Weinswig                 | Chief Financial Officer<br>(Principal Financial and Accounting Officer) |
| /s/ Thomas J. Russell, Ph.D.<br>Thomas J. Russell, Ph.D. | Chairman Emeritus   |
| /s/ Reuben F. Richards, Jr.<br>Reuben F. Richards, Jr.   | Chairman of the Board   |
| /s/ Steven R. Becker<br>Steven R. Becker                 | Director  |
| /s/ Robert L. Bogomolny<br>Robert L. Bogomolny           | Director  |
| /s/ Stephen Domenik<br>Stephen Domenik                   | Director  |
| /s/ Gerald Fine<br>Gerald Fine                           | Director  |
| /s/ John Gillen<br>John Gillen                           | Director  |
| /s/ Sherman McCorkle<br>Sherman McCorkle                 | Lead Independent Director   |
| /s/ Charles T. Scott<br>Charles T. Scott                 | Director  |
| /s/ James A. Tegnalia, Ph.D.<br>James A. Tegnalia, Ph.D. | Director  |