EMCORE CORP
Form 10-K/A
January 28, 2010

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

FORM 10-K/A
(Amendment No. 1)

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2009

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	22-2746503
(State or other jurisdiction of incorporation or organization)	(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:

Title of each class:	Common Stock, No Par Value
Name of each exchange on which registered:	The NASDAQ Global Market

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ¨Yes xNo

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. ¨Yes xNo

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. xYes o 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 o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

o Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ¨Yes xNo

The aggregate market value of common stock held by non-affiliates of the registrant as of March 31, 2009 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately $56.4 million, based on the closing sale price of $ 0.76 per share of common stock as reported on The NASDAQ Global Market.

The number of shares outstanding of the registrant's no par value common stock as of January 15, 2010 was 81,741,138.

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Explanatory Note

This Amendment No. 1 on Form 10-K/A (this "Amendment") amends our Annual Report on Form 10-K for the fiscal year ended September 30, 2009, that was filed with the Securities and Exchange Commission ("SEC") on December 29, 2009 (the "Original Filing"). We are filing this Amendment to include the information required by Part III and not included in the Original Filing, as we will not file our definitive proxy statement within 120 days of the end of our fiscal year ended September 30, 2009.

Except as set forth in Part III below, no other changes are made to the Original Filing. Unless expressly stated, this Amendment does not reflect events occurring after the filing of the Original Filing, nor does it modify or update in any way the disclosures contained in the Original Filing. Throughout this report, references to "EMCORE", the "Company", "we", "our", or "us" refer to EMCORE Corporation and its consolidated subsidiaries, taken as a whole, unless the context otherwise indicates.

PART III

ITEM 10. Directors and Executive Officers of the Registrant

Pursuant to EMCORE's Restated Certificate of Incorporation, the Board of Directors of EMCORE is divided into three classes as set forth in the following table. The directors in each class hold office for staggered terms of three years. The Class B directors, Messrs. Scott, Hou and McCorkle are each being proposed for a three-year term (expiring in 2013) at our 2010 Annual Meeting of Shareholders (the "Annual Meeting"). Messrs. Scott and Hou were re-elected in 2007 for a term that expires in 2010, and Mr. McCorkle was elected to the Board of Directors in December 2009 by the Board of Directors as a Class B director in order to fill a vacancy.

The following table sets forth certain information regarding the members of and nominees for the Board of Directors:

Name and Other Information	Age	Class and Year in Which Term Will Expire	Principal Occupation	Served as Director Since
NOMINEES FOR ELECTION AT THE ANNUAL MEETING				
Charles T. Scott (1) (2) (3) (4)	60	Class B 2010	Chairman of William Hill plc	1998
Hong Q. Hou, Ph.D.	45	Class B 2010	Chief Executive Officer, EMCORE Corporation	2006
Sherman McCorkle (4)	66	Class B 2010	President and Chief Executive Officer, Technology Ventures Corporation	2009
DIRECTORS WHOSE TERMS CONTINUE				
Thomas J. Russell, Ph.D. (2) (4)	78	Class A 2011	Chairman Emeritus of the Board, EMCORE Corporation	1995

Reuben F. Richards, Jr.	54	Class A 2011	Executive Chairman, Chairman of the Board, EMCORE Corporation	1995
Robert Bogomolny (1) (3) (4)	71	Class A 2011	President, University of Baltimore	2002
John Gillen (1) (2) (3)(4)	68	Class C 2012	Partner, Gillen and Johnson, P.A., Certified Public Accountants	2003

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(1) Member of Audit Committee.
(2) Member of Nominating Committee.
(3) Member of Compensation Committee.
(4) Determined by the Board of Directors to be an independent director according to the rules of The NASDAQ Stock Market ("NASDAQ").

DIRECTORS AND EXECUTIVE OFFICERS

Set forth below is certain information with respect to the nominees for the office of director and other directors and executive officers of EMCORE.

THOMAS J. RUSSELL, Ph.D., 78, has been a director of the Company since May 1995 and was elected Chairman of the Board on December 6, 1996. In March 2008, Dr. Russell was named Chairman Emeritus. Dr. Russell founded Bio/Dynamics, Inc. in 1961 and managed the company until its acquisition by IMS International in 1973, following which he served as President of that company's Life Sciences Division. From 1984 until 1988, he served as director, then as Chairman of IMS International until its acquisition by Dun & Bradstreet in 1988. From 1988 to 1992, he served as Chairman of Applied Biosciences, Inc., and was a director until 1996. In 1990, Dr. Russell was appointed as a director of Saatchi & Saatchi plc (now Cordiant plc), and served on that board until 1997. He served as a director of Adidas-Salomon AG from 1994 to 2001. He also served on the board of LD COM Networks until 2004. He holds a Ph.D. in physiology and biochemistry from Rutgers University.

REUBEN F. RICHARDS, JR., 54, has been a director since May 1995 and Chairman of the Board of Directors and the Company's Executive Chairman since March 2008. Mr. Richards joined the Company in October 1995 and served in various executive capacities. Mr. Richards previously served as the Company's Chief Executive Officer from December 1996 until March 2008. From October 1995 to December 2006, Mr. Richards served as the Company's President. From September 1994 to December 1996, Mr. Richards was a Senior Managing Director of Jesup & Lamont Capital Markets, Inc. (an affiliate of a registered broker-dealer). From December 1994 to December 1996, he was a member and President of Jesup & Lamont Merchant Partners, L.L.C. From 1992 through 1994, Mr. Richards was a principal with Hauser, Richards & Co., a firm engaged in corporate restructuring and management turnarounds. From 1986 until 1992, Mr. Richards was a director at Prudential-Bache Capital Funding in its Investment Banking Division. Mr. Richards also served on the Board of Directors of the Company's former joint venture, GELcore LLC, from 1998 to 2006. Mr. Richards served as a director of WorldWater & Solar Technologies Corporation from November 2006 to January 2009.

HONG Q. HOU, Ph.D., 45, has served as a director of the Company since December 2006. Dr. Hong Hou joined the Company in 1998 and has served in various executive capacities. On March 31, 2008, Dr. Hou was named as the Chief Executive Officer. Dr. Hou previously served as President and Chief Operating Officer of the Company from December 2006 until March 2008. Dr. Hou co-founded the Company's Photovoltaics division, and subsequently managed the Company's Digital Fiber Optic Products division. From 1995 to 1998, Dr. Hou was a Principal Member of Technical Staff at Sandia National Laboratories. He was a Member of Technical Staff at AT&T Bell Laboratories from 1993 to 1995. He holds a Ph.D. in Electrical Engineering from the University of California at San Diego, and a Bachelor of Science degree from Jilin University in China. He has published over 150 journal articles and holds seven U.S. patents. Dr. Hou currently serves on the Board of Directors of the Greater Albuquerque Chamber of Commerce and the Kirtland Partnership Committee. Until January 2009, Dr. Hou previously served as a director of Crystal IS, Inc., and WorldWater & Solar Technologies Corporation.

CHARLES T. SCOTT, 60, has served as a director of the Company since February 1998. Since January 1, 2004, he has served as Chairman of the Board of Directors of William Hill plc, a leading provider of bookmaking services in the United Kingdom. Prior to that, Mr. Scott served as Chairman of a number of companies, including Cordiant Communications Group plc, Saatchi & Saatchi Company plc, and Robert Walters plc.

JOHN GILLEN, 68, has served as a director of the Company since March 2003. Mr. Gillen has been a partner in the firm of Gillen and Johnson, P.A., Certified Public Accountants since 1974. Prior to that time, Mr. Gillen was employed by the Internal Revenue Service and Peat Marwick Mitchell & Company, Certified Public Accountants (now KPMG LLP).

ROBERT BOGOMOLNY, 71, has served as a director of the Company since April 2002. Since August 2002, Mr. Bogomolny has served as President of the University of Baltimore. Prior to that, he served as Corporate Senior Vice President and General Counsel of G.D. Searle & Company, a pharmaceuticals manufacturer, from 1987 to 2001. At G.D. Searle, Mr. Bogomolny was responsible at various times for its legal, regulatory, quality control, and public affairs activities. He also led its government affairs department in Washington, D.C., and served on the Searle Executive Management Committee.

SHERMAN MCCORKLE, 66, has served as a director of the Company since December 2009. Mr. McCorkle is a native New Mexican, and has spent most of his career deeply involved in the New Mexico business community. Mr. McCorkle is Chief Executive Officer and President of Technology Ventures Corporation, positions he has held since that company's inception in 1993. Mr. McCorkle is also co-founder and Charter Director of New Mexico Bank and Trust and First Community Bank. He served as Chief Executive Officer and President of Sunwest Credit Services Corporation from 1988 to 1993. Mr. McCorkle was initially identified to the Nominating Committee of the Company's Board of Directors as a director candidate by Dr. Hong Hou.

Non-Director Executive Officers

JOHN M. MARKOVICH, 53, joined the Company in August 2008 as Chief Financial Officer. He has more than 20 years of executive financial management experience in assisting rapidly-growing public and private technology-based companies. Prior to joining the Company, Mr. Markovich was Executive Vice President and Chief Financial Officer of Energy Innovations, Inc., and previous to that he served as the Chief Financial Officer of Orqis Medical Corporation, Pictos Technologies, Relera, Inc., Tickets.com, Inc., and Optical Coating Laboratories, Inc. Earlier in his career, Mr. Markovich was Vice President and Treasurer of Western Digital Corporation and managed Citibank's high-tech corporate banking business in Southern California. Mr. Markovich earned an undergraduate degree in business from Miami University, an M.B.A. in finance from Michigan State University and is a graduate of Stanford University's Financial Management Program. Mr. Markovich is SOX certified by the Sarbanes-Oxley Institute.

KEITH J. KOSCO, ESQ., 57, joined the Company in January 2007 and serves as Chief Legal Officer and Secretary of the Company. From 2003 to 2006, Mr. Kosco served as General Counsel and Corporate Secretary of Aspire Markets, Inc. and from 2002 to 2003 served as General Counsel and Corporate Secretary of 3D Systems Corporation, a high-tech capital goods manufacturer. From 1998 to 2001, Mr. Kosco served as Director of Mergers and Acquisitions and Assistant General Counsel of Litton Industries, Inc., a technology and defense company that was acquired by Northrop Grumman Corporation in 2001. Mr. Kosco also has over 17 years of experience in private practice with the law firms of Squire Sanders & Dempsey and Morgan, Lewis & Bockius. Mr. Kosco received his J.D. degree from Harvard Law School in 1979.

JOHN IANNELLI, Ph.D., 44, joined the Company in January 2003 through the acquisition of Ortel Corporation from Agere Systems and has served as Chief Technology Officer since June 2007. Prior to his current role, Dr. Iannelli was Senior Director of Engineering of EMCORE's Broadband Fiber Optics division (Ortel). Dr. Iannelli joined Ortel in 1995 and has led several development programs and products in the areas of analog and digital transmitters/transceivers. He has made seminal inventions in the areas of fiber optic transport in digital and broadband infrastructures. He has numerous publications and issued U.S. patents. Dr. Iannelli holds a Ph.D. and Master of Science degree in Applied Physics from the California Institute of Technology, a Batchelor of Science degree in Physics from Rensselaer Polytechnic Institute, and a Master Degree in Business Administration from the University of Southern California.

CHRISTOPHER LAROCCA, 37, joined the Company in May 2004 as Senior Director of Business Development and Product Strategy. In May 2009, he was promoted to Chief Operating Officer. Prior to becoming Chief Operating Officer, Mr. Larocca served as Executive Vice President and General Manager of EMCORE's Solar Photovoltaics division. Prior to that, he served as Vice President and General Manager of EMCORE's Broadband Division since March 2007. Between April 2001 and May 2004, he served as Vice President of GELcore, a solid-state lighting joint venture between EMCORE and General Electric. Prior to joining GELcore in 2001, Mr. Larocca held a variety of commercial and Six Sigma roles within General Electric's Lighting division. Mr. Larocca holds a Master Degree in Business Administration from the University of Southern California and a Bachelor of Science degree in Civil Engineering from Clemson University.

Section 16(A) Beneficial Ownership Reporting Compliance

Based on the Company's review of copies of all disclosure reports filed by directors and executive officers of the Company, pursuant to Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and written representations furnished to the Company, the Company believes that there was compliance with all filing requirements of Section 16(a) applicable to directors and executive officers of the Company during the fiscal year 2009. During the fiscal year 2009, no person or entity beneficially owned more than 10 percent of the Company's common stock.

CODE OF ETHICS

The Company has adopted a code of ethics entitled "EMCORE Corporation Code of Business Conduct and Ethics", which is applicable to all employees, officers, and directors of EMCORE. The full text of our Code of Business Conduct and Ethics is included with the Corporate Governance information available on the Company's website (www.emcore.com). The Company intends to disclose any changes in or waivers from its code of ethics by posting such information on its website or by filing a Current Report on Form 8-K.

AUDIT COMMITTEE

The Company has a separately-designated standing Audit Committee (the "Audit Committee") established in accordance with Section 3(a)(58)(A) of the Exchange Act. The Audit Committee currently consists of Messrs. Scott (chairman), Gillen, and Bogomolny. Each member of the Audit Committee is currently an independent director within the meaning of NASDAQ Listing Rule 5605(a)(2). The Board of Directors has determined that Messrs. Scott and Gillen are each Audit Committee Financial Experts. The Audit Committee met 12 times in fiscal 2009.

ITEM 11. Executive Compensation

COMPENSATION OF DIRECTORS

The Board of Directors held 14 regularly scheduled and special telephonic meetings during fiscal 2009, and took certain other actions by unanimous written consent. During fiscal 2009, except for Mr. McCorkle who was elected following the conclusion of fiscal 2009, all directors of the Company attended at least 75% of the aggregate meetings of the Board and committees on which they served, during their tenure on the Board.

The Company compensates each non-employee director for service on the Board of Directors. Director compensation for fiscal 2009 included the following:

DIRECTOR COMPENSATION FOR FISCAL YEAR 2009

Name (1)	Fees Earned or Paid in Cash ($)	Stock Awards ($)(2)	Total ($)
Thomas J. Russell, Ph.D.	4,600	7,500	12,100
Charles T. Scott	11,300	11,500	22,800
John Gillen	10,500	10,500	21,000

Robert Bogomolny	10,150	10,000	20,150

(1) Reuben F. Richards, Jr., the Company's Executive Chairman and Chairman of the Board, and Hong Q. Hou, Ph.D., the Company's Chief Executive Officer, are not included in this table as they are employees of the Company and receive no compensation for their services as directors. Their compensation is disclosed in the Summary Compensation Table. Sherman McCorkle is not included in this table because he was elected to the Board of Directors following the end of the Company's 2009 fiscal year.

(2) The amounts in this column reflect the dollar amounts earned under the Company's 2007 Directors' Stock Award Plan, payment of which is made in common stock of the Company. The amounts in this column also reflect the dollar amount recognized for financial statement reporting purposes in fiscal 2009, in accordance with EITF 96-18, "Accounting for Equity Instruments That are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services".

Pursuant to the Company's Directors' Stock Award Plan adopted by the shareholders at the Company's 2007 annual meeting (the "2007 Stock Award Plan"), payments of fees are made in common stock of the Company payable in one issuance annually based on the closing price on The NASDAQ Global Market on the date of issuance. Non-employee directors earn a fee in the amount of $3,500 per Board meeting attended and $500 per committee meeting attended ($1,000 for the chairman of a committee). The Company also reimburses a non-employee director's reasonable out-of-pocket expenses incurred in connection with such Board or committee meetings. From time to time, Board members are invited to attend meetings of Board committees of which they are not members. When this occurs, these non-committee Board members earn a committee meeting fee of $500.

The Company's Outside Directors' Cash Compensation Plan provides for the payment of cash compensation to non-employee directors for their participation at Board meetings, in amounts established by the Board and periodically reviewed. Each non-employee director receives a meeting fee for each meeting that he attends (including telephonic meetings, but excluding execution of unanimous written consents) of the Board. In addition, each non-employee director receives a committee meeting fee for each meeting that he attends (including telephonic meetings, but excluding execution of unanimous written consents) of a Board committee. Until changed by resolution of the Board, the meeting fee is $4,000 and the committee meeting fee is $1,500; provided that the meeting fee for special telephonic meetings (i.e., Board meetings that are not regularly scheduled and in which non-employee directors typically participate telephonically) is $750 and the committee meeting fee for such special telephonic meetings is $600. Any non-employee director who is the chairman of a committee receives an additional $750 for each meeting of the committee that he chairs, and an additional $200 for each special telephonic meeting of such committee. On March 2, 2009, the Compensation Committee of the Board of Directors of the Company agreed to temporarily suspend the Company's Outside Directors' Cash Compensation Plan. Subsequently, on October 8, 2009, the Compensation Committee of the Board of Directors, in light of the Company's improving liquidity position and business outlook, approved the full reinstatement of the Company's Outside Directors' Cash Compensation Plan effective as of December 8, 2009.

Based on the results of a review in fiscal year 2008 of our past director compensation practices, the Compensation Committee concluded that certain directors had not been properly compensated under the Company's 1997 Director' Stock Award Plan ("1997 Stock Award Plan"), which lapsed in March 2007. In May 2008, it was concluded by the Compensation Committee that in order to properly compensate the affected directors that they would be given "make-whole" cash payments in lieu of shares that should have been received under the Company's 1997 Stock Award Plan:

Name	"Make-Whole" Cash Payment	Special Committee "Make-Whole" Cash Payment
Thomas J. Russell, Ph.D.	$45,300	$4,500
Charles T. Scott	$54,300	$2,300
John Gillen	$59,400	-
Robert Bogomolny	$29,900	$2,300

The cash payments were calculated by multiplying the number of shares that should have been awarded to the affected director by $7.51, which was the average price during the period between the 1997 Stock Award Plan lapsing and the 2007 Stock Award Plan becoming effective, during which time the Company did not have a stock award plan under which it could award shares to directors. These cash payments were paid by the Company to the affected directors in 25% increments. In May 2008, the first such payment was made. The second payment was made in January

2009. The third payment was made in October 2009, and the final payment was made in November 2009. The entire Special Committee "make-whole" cash payment was paid in October 2008. These make-whole payments are not included in the Director Compensation table above as they were previously accounted for in the Company's fiscal year 2008 and because they were previously disclosed in the Directors Compensation Table for Fiscal Year 2008 included in the Company's Form 10-K/A filed with the SEC on January 28, 2009.

No director who is an employee of the Company receives compensation for services rendered as a director under the Outside Directors' Cash Compensation Plan or the 2007 Stock Award Plan.

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis describes EMCORE's executive compensation program and analyzes the compensation decisions made for the executive officers included in the Summary Compensation Table (the "Named Executive Officers") for fiscal 2009.

Objectives and Components of the Company's Compensation Program

EMCORE's executive compensation program is designed to motivate executives to achieve strong financial, operational, and strategic performance and recognizes individual contributions to that performance. Through the compensation program, the Company seeks to attract and retain talented executive officers by providing total compensation that is competitive with that of other executives employed by companies of similar size, complexity and lines of business. The Company's executive compensation program is also designed to link executives' interests with shareholders' interests by providing a portion of total compensation in the form of stock-based incentives.

The Company's Annual Compensation Decision-Making Process

The Compensation Committee of the Board of Directors is responsible for setting and administering policies that govern EMCORE's executive compensation program. In October/November of each year, the Compensation Committee reviews the Company's performance and the performance of each of the Named Executive Officers for the prior fiscal year and typically reviews market surveys and proxy statements of our peer group as well as companies that have our same Standard Industrial Classification (SIC) code and annual revenues of $500 million or less. Based on such a review, the Compensation Committee discusses and approves any potential base salary increases related to the current fiscal year and awards annual cash incentives and stock option grants in recognition of Company and individual performance for the prior fiscal year.

After taking into consideration the difficult economic and market environment facing the Company at the end of the 2008 fiscal year, and in light of the Company's performance for fiscal 2008, the Compensation Committee determined to not make any adjustment to the Named Executive Officers' base salaries for the 2009 fiscal year and did not adopt a bonus plan or pay any bonuses for fiscal 2009. In light of these decisions, the Compensation Committee did not require updated compensation data via market surveys or information regarding the base salaries of the executive officers of peer group companies.

In November 2009, the Compensation Committee retained a compensation consultant to provide objective advice and counsel to the Compensation Committee on all matters related to the fiscal year 2010 compensation of our Named Executive Officers and our compensation programs generally. R.D. Brown & Company has been retained by the Compensation Committee as its compensation consultant.

Base Salary

Base salaries for executives are determined based upon job responsibilities, level of experience, individual performance, and comparisons to the salaries of executives in similar positions obtained from market surveys and publicly filed proxy statements. The goal for the base salary component is to compensate executives at a level that approximates the median salaries of individuals in comparable positions and markets. The Company's Compensation Committee typically reviews base salary levels from peer group companies on an annual basis, and uses a target of the 50th percentile - the point at which 50% of the sample salaries are lower, when setting salaries for our Named Executive Officers. Mr. Richards, the Company's Executive Chairman, reviews the performance of the Chief Executive Officer and the other executive officers and recommends salary increases for these individuals to the Compensation Committee. These recommendations are advisory and are based solely on the judgment and opinion of the Company's Executive Chairman based upon his review of the above-listed factors. In turn, the Compensation Committee independently reviews, adjusts, where appropriate, and approves the salary increases, if any, for these executive officers based upon the subjective discretion of the Compensation Committee reviewing an executive officer's experience, responsibility and performance. With respect to each executive officer, the Compensation Committee exercises its judgment as to how to weigh an executive officer's experience, responsibility and performance when determining any such salary increases. In executive session, the Compensation Committee reviews any salary increase for the Executive Chairman.

Because of the difficult economic and market environment facing the Company at the end of fiscal 2008, our Executive Chairman recommended to the Compensation Committee not to increase salaries for the Named Executive Officers.

Accordingly, the Compensation Committee did not discuss or approve any salary increase for the Executive Chairman. Additionally, the Compensation Committee did not require updated compensation data via market surveys or information regarding the base salaries of the executive officers of peer group companies because of its decision not to increase any salaries for any of the Named Executive Officers.

On March 2, 2009, the Compensation Committee, at the recommendation of the Company's Executive Management, approved a temporary base salary decrease for each of the Named Executive Officers. The base salaries were adjusted as follows:

- Mr. Richard's base salary was decreased from $437,325 to $371,726.
- Dr. Hou's base salary was decreased from $420,000 to $357,000.
- Mr. Markovich's salary was decreased from $300,000 to $270,000.
- Mr. Larocca's base salary was decreased from $213,000 to $202,350.
- Dr. Iannelli's base salary was decreased from $236,250 to $224,437.

On March 20, 2009, the Compensation Committee, again at the recommendation of the Company's Executive Management, approved a larger temporary base salary decrease for certain of the Named Executive Officers. Base salaries were adjusted as follows:

- Mr. Richard's base salary was further decreased from $371,726 to $349,860.
- Dr. Hou's base salary was further decreased from $357,000 to $336,000.
- Mr. Larocca's base salary was decreased from $202,350 to $181,050.
- Dr. Iannelli's base salary was further decreased from $224,437 to $212,625.

Prior to being promoted as the Company's Chief Operating Officer, Mr. Larocca served as Executive Vice President and General Manager of the Company's Solar Photovoltaics division. In April 2009, due to his expanding job responsibilities, Mr. Larocca received a base salary increase from $213,000 to $234,300. However, due to the imposed temporary salary reductions mentioned above, his temporary salary at that time was only raised from $181,050 to $210,870. In May 2009, upon his promotion to Chief Operating Officer, Mr. Larocca did not receive a base salary increase due to difficult business and economic conditions facing the Company at that time.

In light of the Company's improving liquidity position and business outlook, on September 10, 2009, the Compensation Committee, at the recommendation of the Company's Executive Management, approved a partial reinstatement of the annual base salaries of the Named Executive Officers. Accordingly, effective September 27, 2009, the annual base salaries of the Named Executive Officers were as follows:

- Mr. Richard's base salary was increased from $349,860 to $393,592.
- Dr. Hou's base salary was increased from $336,000 to $378,000.
- Mr. Markovich's salary was increased from $270,000 to $285,000.
- Mr. Larocca's base salary was increased from $210,870 to $222,585.
- Dr. Iannelli's base salary was increased from $212,625 to $224,437.

On October 8, 2009, the Compensation Committee, in light of the Company's improving liquidity position and business outlook, approved a full restoration of annual base salaries of the Named Executive Officers of the Company effective December 13, 2009, as follows:

- Mr. Richard's base salary is $437,325.
- Dr. Hou's base salary is $420,000.
- Mr. Markovich's salary is $300,000.

- Mr. Larocca’s base salary is $234,300.
- Dr. Iannelli’s base salary is $236,250.

Each of the base salary decreases and increases were based on the Company’s liquidity position and business outlook at the time of the salary change.

Annual Cash Incentives

Typically, EMCORE establishes a cash incentive plan each fiscal year which provides the Company's executive officers an opportunity to receive an annual cash payment in addition to their base salaries. The cash incentive plan is designed to place at risk a significant portion of an executive's annual cash compensation by linking the amount of compensation that an executive can achieve under the plan with individual and Company performance. We believe that providing annual cash incentive opportunities is a key component of maintaining a competitive executive compensation program.

Bonus incentives are discretionary and are established from time to time by the Compensation Committee with Board approval. Bonus incentives that have been offered in the past have been tied directly to the Company's annual financial performance. After taking into consideration the difficult economic and market environment facing the Company at the end of the 2008 fiscal year and in light of the Company's performance for fiscal 2008, the Compensation Committee determined not to adopt a bonus plan for fiscal year 2009, and no bonuses, discretionary or otherwise were paid to the Named Executive Officers during fiscal year 2009.

Although no bonus plan was adopted for the Company's fiscal year 2009, in December 2009, the Company paid out bonuses which had been granted by the Compensation Committee to certain Named Executive Officers for fiscal year 2008, but which had not been paid due to the difficult economic and market environment. The fiscal year 2008 bonuses paid by the Company were $78,719 for Mr. Richards, $75,600 for Dr. Hou, and $20,341 for Dr. Iannelli. Since Mr. Larocca was not a Named Executive Officer during fiscal year 2008, he received in December 2009 a bonus of $18,339, which was approved by Dr. Hou, as Chief Executive Officer of the Company. Since he joined the Company in August 2008, Mr. Markovich was ineligible for a fiscal year 2008 bonus.

The Compensation Committee has not approved a bonus cash incentive plan for fiscal year 2010, however, the Compensation Committee may decide to approve such a plan for fiscal year 2010 at a later date, based upon the Company's improving financial performance or other future change in business conditions or circumstances.

Long-Term Stock-Based Incentives

Long-term equity awards consist of stock options, which are designed to give executive officers an opportunity to acquire shares of common stock of the Company, to provide an incentive for the executives to continue to promote the best interests of the Company and enhance its long-term performance and to provide an incentive for executives to join and remain with the Company. Equity awards are an effective tool for aligning the interests of our executives with the interests of our shareholders.

Stock options give an executive the right to buy a share of the Company's common stock in the future at a predetermined exercise price. The exercise price is the closing price of the common stock on the grant date. New hire stock option awards vest over a five-year period while annual stock option awards vest over a four-year period. Other supplemental stock option awards vest over a four-year period. All options expire ten years after the grant date. In addition, no one recipient can be granted an award of options to purchase more than 600,000 shares of common stock in any twelve month period. Executives who voluntarily resign or are terminated for cause immediately forfeit all options that have not vested unless otherwise determined by the Compensation Committee.

In granting equity awards, the Compensation Committee uses its judgment and discretion and does not issue a targeted number of stock options, but rather reviews the executive's individual performance and the performance of the Company in the prior fiscal year to determine the appropriate value of the award at the time it is granted. Grants of stock options to executive officers are also based upon each officer's relative position, responsibilities, historical and expected contributions to the Company, and the officer's vested option balance and previous option grants, with primary weight given to the executive officer's relative rank and responsibilities. Initial stock option grants designed to recruit an executive officer to join the Company may be based on negotiations with the officer and with reference to historical option grants to existing officers. In considering long-term incentives for the Named Executive Officers, the Compensation Committee considered the following business level accomplishments: profitable growth of its space photovoltaics business even in the current challenging business environment, the effects of the reductions in force and salary decreases to reduce the Company's cost of doing business, management of working capital to improve the Company's liquidity position, initiatives and activities for the strategic separation of the Company's Solar and Fiber businesses, and improvement of the Company's business performance. The ultimate value of the award depends in large part on the future performance of our common stock.

In February 2009, the Compensation Committee awarded supplemental stock option grants to both Mr. Larocca and Dr. Iannelli. In connection with his promotion to Executive Vice President & General Manager of EMCORE's Solar Photovoltaics division, Mr. Larocca was awarded a promotional grant of options to purchase 30,000 shares of our common stock. Dr. Iannelli was granted options to purchase 25,000 shares of our common stock for fulfilling the role of interim General Manager of EMCORE's Solar Photovoltaics division. These grants vest in four equal installments over a four-year period, with the first installment of options vesting on the one-year anniversary of the grant date and equal amounts vesting on each subsequent anniversary of the grant date.

In May 2009, in connection with his appointment as Chief Operating Officer, the Compensation Committee approved for Mr. Larocca a one-time promotional grant of options to purchase 200,000 shares of our common stock. This grant vests in four equal installments over a four year period, with the first installment of options vesting on the one-year anniversary of the grant date and equal amounts vesting on each subsequent anniversary of the grant date.

In July 2009, in connection with the Company's annual stock option retention grant plan and following consideration of individual contributions to the above-mentioned business accomplishments, and the relative rank and responsibility of each of the Named Executive Officers, the Compensation Committee approved the following stock option grant awards:

Name	Number of Stock Options
Reuben F. Richards, Jr.	200,000
Hong Q. Hou, Ph.D.	200,000
John M. Markovich	100,000
Christopher Larocca	80,000
John Iannelli, Ph.D.	100,000

These grants vest in four equal installments over a four-year period, with the first installment of options vesting on the one-year anniversary of the grant date and equal amounts vesting on each subsequent anniversary of the grant date.

In August 2008, in connection with his appointment as Chief Financial Officer, the Compensation Committee approved for Mr. Markovich a grant of options to purchase 475,000 shares of the Company's common stock. Effective November 20, 2009, Mr. Markovich voluntarily forfeited all of these stock options. Mr. Markovich received no consideration in exchange for his forfeiture of these stock options.

At the time of his hire, the Company agreed that if performance metrics are met, the Company would recommend to the Compensation Committee of its Board of Directors that Mr. Markovich be granted options to purchase 125,000 shares of the Company's common stock in the second calendar quarter of 2010 as a performance based award. If granted, these options would vest equally over 4 years and expire 10 years after the grant date, and the exercise price of these options would be the closing price of the Company's common stock on the grant date, as determined pursuant to the Company's 2000 Stock Option Plan.

The exercise price for each of the above-described grants of options was the closing price of the common stock on the grant date.

Based on our review of historical stock option granting practices in fiscal 2006, the Audit Committee concluded that, pursuant to Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, the applicable measurement dates on certain stock options awarded differed from the grant dates previously used in accounting for such awards. Certain affected options may be deemed to have been granted with below-market exercise prices, which could have potentially subjected the affected option grantee to adverse taxation under Section 409A of the Internal Revenue Code, referred to as Section 409A.

To provide employees of the Company holding those options with an opportunity to avoid such adverse taxation, the Company commenced a special tender offer on November 19, 2008. The tender offer allowed those employees to tender options that were potentially subject to Section 409A for replacement. Following the completion of the tender offer on December 17, 2008, each tendered option was amended to increase the exercise price of the option to closing price as of the actual measurement dates that should have been used for financial accounting purposes. Accordingly, the Company entered into agreements with Dr. Hou and Dr. Iannelli since they both received discounted option grants prior to becoming Section 16 officers of the Company. To compensate them for the increased amounts reflected in the exercise price of their amended options, the Company paid Dr. Hou $9,100 and Dr. Iannelli $1,560 in January 2009.

Company Benefits

EMCORE's benefits are an important tool in our ability to attract and retain outstanding employees throughout the Company. As a business matter, we weigh the benefits we need to offer to attract and retain talented employees against the benefits we can afford to pay and still remain competitive. Benefit levels are reviewed periodically to ensure they are cost-effective and competitive and support the overall needs of Company employees.

This section describes the benefits that EMCORE provides to key executives and notes those instances when benefits for the Named Executive Officers differ from the general plan. In some instances, we also describe the programs we offer across the Company as context to specific discussions about executive benefits.

Medical, Dental, and Vision Benefits

The Company offers a standard benefits package to all of its employees, which includes medical, dental, and vision coverage. The Named Executive Officers receive coverage at 100% whereas all other employees of the Company receive coverage ranging from 50% - 100% depending on the service performed.

Company-sponsored Retirement Plans

The EMCORE Corporation 401(k) Plan (the "401(k) Plan") is a defined contribution plan with a 401(k) arrangement and is designed to comply with ERISA, the Internal Revenue Code, as well as federal and state legal requirements. The 401(k) Plan is designed to provide retirement benefits to eligible employees of EMCORE and is administered by Prudential Financial. Participants in the 401(k) Plan may elect to reduce compensation by a specific percentage, which is contributed to the participant's 401(k) account on a pre-tax basis as a salary deferral.

Employees may elect to contribute to the 401(k) Plan through salary reduction up to the yearly maximum tax-deductible deferral allowed pursuant to IRS regulations. A participant may elect to defer between 1-30% of his or her compensation per pay period. The deferral amount will not be subject to income tax until distribution. Each participant is able to direct his or her investment into any of the available investment options. Participant's contributions are vested at 100%.

EMCORE may provide a discretionary match of 50% of the first 6% of base compensation of a participant's contribution to the 401(k) Plan and this matching contribution vests over an initial five-year period. This matching contribution is in the form of the Company's common stock. Participants are able to exchange out of the Company's common stock to other investment options within the 401(k) Plan upon receipt of the Company match. Exchanges from other investment options to the Company's common stock are not permitted under the 401(k) Plan.

An employee becomes eligible to participate in the 401(k) Plan on the first day of the month following his or her date of hire and attaining the age of 20 years. A temporary or part-time employee is not eligible to participate in the 401(k) Plan until they have reached 1,000 work hours. An EMCORE re-hire is eligible to participate in the 401(k) Plan immediately.

Perquisites

EMCORE provides perquisites to key executive officers, including the Named Executive Officers, as a recruiting and retention tool. We believe that our perquisites are appropriate and we typically benchmark our perquisites against generally accepted corporate practices.

For more information regarding perquisites provided to the Named Executive Officers in fiscal 2009 see the footnotes to the “All Other Compensation” column of the Summary Compensation Table.

EMCORE’s Severance Policy and Severance Agreements

Under the Company’s Executive Severance Policy, participants are eligible to receive certain severance benefits if their employment with the Company is terminated and the termination constitutes a “Separation of Service” within the meaning of Section 409A of the Internal Revenue Code. However, participants are not eligible to receive severance benefits if they are terminated with cause, due to death or disability or if they voluntarily terminate their employment other than for good reason. In addition, a participant that is eligible to receive severance benefits under the Severance Policy must execute an agreement (a “Separation Agreement”) prepared by the Company that includes, among other things, a release by the participant of the Company from any liability or obligation to the participant. A participant will not receive severance benefits if the participant does not enter into a Separation Agreement with the Company and all severance benefits will cease if the participant violates any provision of his or her Separation Agreement.

Under the Severance Policy participants at the Chief /C-level Officers or higher will receive (i) for those hired or promoted prior to May 1, 2007, the continuation of their base salary for a period equal to one year and two weeks plus two additional weeks for each year the participant was employed by the Company, or (ii) for those hired or promoted on or after May 1, 2007, the continuation of their base salary for a period equal to one year and one week plus one additional week for each year the participant was employed by the Company. All severance payments under the Company's Executive Severance Policy will be paid out over time and on the regular paydays of the Company, to the extent administratively feasible.

Participants at the Vice President level will receive (i) for those hired or promoted prior to May 1, 2007, the continuation of their base salary for a period equal to five months and two weeks plus two additional weeks for each year the participant was employed by the Company, or (ii) for those hired or promoted on or after May 1, 2007, the continuation of their base salary for a period equal to five months and one week plus one additional week for each year the participant was employed by the Company.

If, following the sale, transfer, spin-off or other disposition to another party of the stock or assets of any subsidiary, business unit or division of the Company, a participant's employment is terminated after the end of a fiscal year but before annual cash incentive awards or pay-for-performance payments are distributed and the participant would otherwise be entitled to a cash incentive award, the participant will remain entitled to the annual cash incentive award or pay-for-performance payment attributable to the immediately preceding fiscal year. The Severance Policy also provides that participants will be eligible for certain benefits, including continued payment of certain health insurance premiums, outplacement services and other perquisites. The Company shall make this payment at the same time it pays this annual cash incentive awards or pay-for-performance payment to all of its other employees in accordance with the Company's normal practices but no later than March 15th of the applicable year.

Compensation of the Executive Chairman

The Compensation Committee annually reviews the compensation of Mr. Richards, Executive Chairman, and recommends any adjustments to the Board of Directors for approval. Mr. Richards participates in the same compensation programs and receives compensation based upon the same criteria as EMCORE's other executive officers. However, Mr. Richards' compensation reflects the higher level of responsibility that he has with respect to the strategic direction of EMCORE, the Company's financial and operating results, and interactions with the investment community.

The Compensation Committee determined that, other than the temporary base salary adjustments described above, it was not in the best interests of the Company and its shareholders to adjust the base salary of Mr. Richards or to award him any cash bonus during fiscal year 2009 due to the difficult economic conditions that existed during such time.

Tax and Accounting Considerations

Under Section 162(m) of the Internal Revenue Code, EMCORE may not deduct annual compensation in excess of $1 million paid to certain employees- generally its Chief Executive Officer and its four other most highly compensated executive officers, unless their compensation qualifies as performance-based compensation. While the Compensation Committee intends to structure performance-related awards in a way that will preserve the maximum deductibility of compensation awards, the Compensation Committee may from time to time approve awards that would vest upon the passage of time or other compensation, which would not result in qualification of those awards as performance-based compensation.

EXECUTIVE COMPENSATION

The table below sets forth certain information concerning the annual and long-term compensation earned for services in all capacities to the Company of those persons who during fiscal year 2009 (i) served as the Company's Chief Executive Officer, (ii) served as the Company's Chief Financial Officer, and (iii) were the three most highly-compensated officers (other than the Chief Executive Officer, and Chief Financial Officer). Compensation information is provided for the fiscal years ended September 30, 2007, 2008 and 2009, except in cases where an individual was not a Named Executive Officer for the applicable year.

Summary Compensation Table for Fiscal 2009

Name and Principal Position	Year	Salary ($)(3)	Option Awards ($)(4)	Non-Equity Incentive Plan Compensation ($)(5)	All Other Compensation ($)		Total ($)	
Reuben F. Richards, Jr.	2009	388,546	653,582	0	384	(6)	1,042,512	
Executive Chairman	2008	437,325	463,914	78,719	374	(6)	980,332	
and Chairman of the Board	2007	412,165	250,532	326,536	384	(6)	989,617	
Hong Q. Hou, Ph.D.	2009	373,154	994,440	0	14,555	(7)	1,382,149	
Chief Executive	2008	421,000	713,889	75,600	5,196	(8)	1,215,685	
Officer	2007	360,080	1,181,529	313,600	179,334	(9)	2,034,543	
John M. Markovich	2009	282,692	325,501	0	4,625	(10)	612,818	(16)
Chief Financial Officer (1)	2008	36,997	31,284	0	4,720	(11)	73,001	
John Iannelli, Ph.D.	2009	224,529	253,441	0	8,727	(12)	486,697	
Chief Technology	2008	237,625	179,998	20,341	6,588	(13)	444,552	
Officer	2007	203,857	87,760	34,294	5,877	(14)	331,788	
Christopher Larocca Chief Operating Officer (2)	2009	209,969	254,066	0	6,683	(15)	470,718	

(1) Mr. Markovich was appointed to Chief Financial Officer on August 18, 2008.

(2) Mr. Larocca was appointed to Chief Operating Officer on May 29, 2009.

(3) Salary represents amounts paid to the individual during the fiscal years ended September 30, 2007, 2008 and 2009. It does not represent an individual's current annual base salary.

(4) The amounts in this column reflect the dollar amount recognized for financial statement reporting purposes in fiscal 2007, 2008 and 2009, in accordance with Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" (revised 2004) (without regard to estimated forfeitures related to a service based conditions) and include amounts from awards granted in and prior to the applicable fiscal year. Assumptions used in the calculation of these amounts are included in footnote 4 to the Company's audited financial statements for the fiscal years ended September 30, 2007, 2008 and 2009, included in the Company's Annual Report on Form 10-K filed with the SEC on December 31, 2007, December 30, 2008 and December 29, 2009, respectively. These amounts reflect the Company's accounting expense for these awards and do not necessarily correspond to the actual value that will be recognized by the Named Executive Officer.

(5) The amounts in this column reflect the cash incentive awards earned in each fiscal year presented as approved by the Compensation Committee.

(6) Consists of life insurance premiums.

(7) Consists of life insurance premiums of $384, EMCORE's matching contributions under its 401(k) plan of $5,071, which are made in EMCORE common stock and payments under a stock option tender of $9,100.

(8) Consists of life insurance premiums of $374, and EMCORE's matching contributions under its 401(k) plan of $4,822, which are made in EMCORE common stock.

(9) Consists of life insurance premiums of $384, EMCORE's matching contributions under its 401(k) plan of $4,673, which are made in EMCORE common stock, relocation and housing of $45,000, and $129,277 to cover the reimbursement of Section 409A taxes that the Company paid on behalf of Dr. Hou relating to events prior to him being a Section 16 officer of the Company.

(10) Consists of life insurance premiums of $384 and EMCORE's matching contributions under its 401(k) plan of $4,241, which are made in EMCORE common stock.

(11) Consists of life insurance premiums of $374, and EMCORE's matching contributions under its 401(k) plan of $346, which are made in EMCORE common stock and relocation of $4,000.

(12) Consists of life insurance premiums of $384 and EMCORE's matching contributions under its 401(k) plan of $6,783, which are made in EMCORE common stock, and payments under a stock option tender of $1,560.

(13) Consists of life insurance premiums of $374 and EMCORE's matching contributions under its 401(k) plan of 6,214, which are made in EMCORE common stock.

(14) Consists of life insurance premiums of $384 and EMCORE's matching contributions under its 401(k) plan of $5,493, which are made in EMCORE common stock.

(15) Consists of life insurance premiums of $384 and EMCORE's matching contributions under its 401(k) plan of $6,299, which are made in EMCORE common stock.

(16) Effective November 20, 2009, Mr. Markovich voluntarily forfeited stock options exercisable into 475,000 shares of EMCORE common stock. Mr. Markovich received no consideration in exchange for his forfeiture of the stock options. These stock options were granted to Mr. Markovich on August 18, 2008 and had an exercise price of $5.57 per share.

Grants of Plan-Based Awards in Fiscal 2009

Name	Grant Date	All Other Option Awards: Number of Securities Underlying Options (#) (1)	Exercise or Base Price of Option Awards ($/Sh) (2)	Grant Date Fair Value of Stock and Option Awards ($) (3)
Reuben F. Richards, Jr.	7/27/09	200,000	1.25	177,660
Hong Q. Hou, Ph.D. (4)	7/27/09	200,000	1.25	177,660
John M. Markovich	7/27/09	100,000	1.25	88,830
John Iannelli, Ph.D. (4)	7/27/09	100,000	1.25	88,830
	2/27/09	25,000	0.69	13,073
Christopher Larocca	7/27/09	80,000	1.25	71,064
	5/29/09	200,000	1.31	198,560
	2/27/09	30,000	0.69	15,687

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(1) This column reflects the number of shares underlying options granted to the Named Executive Officers in fiscal 2009.

(2) All options were granted at an exercise price equal to the closing price of our common stock on the option grant date.

(3) This column reflects the fair value of these awards on the grant date as determined under the accounting principles used to calculate the value of equity awards. For the assumptions and methodologies used to value the awards reported in this column, see footnote (4) to the Summary Compensation Table.

(4) In connection with the special tender offer conducted by the Company, Dr. Hou and Dr. Iannelli tendered options that had measurement dates that differed from the grant dates, and the Company amended such options to increase the exercise price to be equal to the closing price as of the actual measurement dates that should have been used for financial accounting purposes. To compensate Dr. Hou and Dr. Iannelli for the increased exercise price of their amended options, the Company paid Dr. Hou $9,100 and Dr. Iannelli $1,560 in January 2009.

Outstanding Equity Awards as of September 30, 2009

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date
Reuben F.	25,000		22.00	4/14/10
Richards, Jr.	72,500	-	2.63	5/18/14
	225,000	-	3.42	5/18/15
	125,000	375,000(1)	5.76	3/31/18
	25,000	75,000(2)	8.38	5/19/18
	-	200,000(13)	1.25	7/27/19
Hong Q. Hou,	35,000(15)	-	2.89	5/18/14
Ph.D.	6,875	-	3.00	2/28/15
	41,250	13,750(4)	7.29	8/28/16
	245,000	-	5.76	12/14/16
	127,500	127,500(5)	8.78	9/25/17
	37,500	112,500(6)	6.67	4/3/18
	48,750	146,250(2)	8.38	5/19/18
	-	200,000(13)	1.25	7/27/19
John M.	95,000(3)	380,000(3)	5.57	8/18/18
Markovich	-	100,000(13)	1.25	7/27/19
John Iannelli,	40,000			
Ph.D.	6,000			
	11,000			
	13,500			
	881			
	9,000			
	1,500			
	5,000			
	37,500			
	18,750			
	-			

Current accounts related to real estate ventures (*)	510,008	312,253	60,513	17,928
Advances to suppliers	32,266	14,585	53,084	22,197
Credit assignment receivables	7,990	8,748	7,990	8,748

Client financing to be released	4,392	8,342	4,392	8,510
Deferred COFINS and PIS taxes	5,773	5,587	10,187	8,274
Recoverable taxes	7,383	7,806	18,905	8,347
Advances for future capital increase	49,575	90,888	1,644	10,350

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	Parent company		Consolidated	
	2008	**2007**	**2008**	**2007**
Other	3,209	11,632	26,059	17,566
	620,596	459,841	182,775	101,920

(*) The Company participates in jointly-controlled ventures and consortia with other partners, either directly or through related parties, to develop real estate properties. The management frameworks of these ventures, including cash management, are centralized in the lead partner, which supervises the construction, financing and budgets. Thus, the lead partner assures that the investments of the necessary funds are made and allocated as planned. The Company s shares of the funds pertaining to these ventures, which are not remunerated have no predetermined maturity dates. On average, the property developments are completed from 24 to 30 months. Other accounts payable to the venture partners are presented separately.

8 Investments in Subsidiaries

In January 2007, with the acquisition of 60% of AUSA, arising from the merger of Catalufa Participações Ltda., a capital increase amounting to R$ 134,029 was approved upon the issuance for public subscription of 6,358,116 common shares. As a result of this transaction, the Company recorded goodwill in the amount of R$ 163,589, which was based on expected future profitability, amortized exponentially and progressively until December 31, 2008 according to the estimated projected income before income tax and social contribution on net income of AUSA, calculated on accrual basis. During the year ended December 31, 2008, the Company amortized the amount of R$ 10,733 of goodwill arising from the acquisition of AUSA. The Company has the commitment to purchase the remaining 40% of AUSA s capital stock, which amount cannot be calculated yet and, consequently, is not recognized, and will be based on the fair value of AUSA, evaluated at the future acquisition dates. The contract for acquisition provides that the Company undertakes to purchase the remaining 40% of AUSA in the next five years (20% in January 2010 and the other 20% in January 2012) in kind or shares, at the Company s sole discretion.

On October 26, 2007, the Company acquired 70% of Cipesa. The Company and Cipesa formed a new company, Cipesa Empreendimentos Imobiliários Ltda. ("Nova Cipesa"), in which Gafisa has 70% of the capital and Cipesa has 30%. Gafisa contributed to Nova Cipesa R$ 50,000 in cash and acquired shares of Cipesa in Nova Cipesa in the amount of R$ 15,000, paid on October 26, 2008. Cipesa is entitled to receive from the company a variable portion of 2% of the Total Sales Value (VGV) of the projects launched by Nova Cipesa through 2014, not to exceed R$ 25,000, accordingly, the acquisition value considered by the Company totaled R$ 90,000. As a result of this transaction, the Company recorded goodwill of R$ 40,686, which is based on expected future profitability and will be amortized exponentially and progressively until December 31, 2008, according to the estimated projected income before income tax and social contribution on net income of Nova Cipesa, calculated on accrual basis.

In November 2007, the Company acquired for R$ 40,000 the remaining interest in some ventures held with Redevco do Brasil Ltda. As a result of this transaction, the Company recognized negative goodwill amounting to R$ 31,235, based on expected future profitability, and amortized exponentially and progressively until December 31, 2008, according to the estimated projected income before income tax and social contribution on net income of these SPEs. In the year ended December 31, 2008, the Company amortized negative goodwill amounting to R$ 12,713 arising from the acquisition of the SPEs.

As mentioned in Note 1, on October 21, 2008, as part of the acquisition of interest in Tenda, Gafisa S.A. merged the shareholders equity of Fit Residencial amounting to R$ 411,241, acquiring 60% of the shareholders equity of Tenda, at the book value of R$ 1,036,072, with investment of R$ 621,643. This transaction generated a negative goodwill of R$ 210,402, based on expected future profitability according to an income arising from the sale of the 40% quotas of Fit Residencial to Tenda shareholders in exchange for Tenda shares. Until December 31, 2008, this negative goodwill was amortized over the average construction period (until delivery of keys) of the real estate ventures of Fit Residencial, existing on the acquisition date, October 21, 2008. During the period from October 22 to December 31, 2008, the Company amortized the amount of R$ 41,008 of income, as negative goodwill, arising from the partial sale of Fit Residencial.

(a) Ownership interests

(i) Information on investees

	Company s interest - %		Investee s Shareholders equity		Investee s net income (loss)	
Investees	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Tenda	60.00		1,062,213	(14,944)	26,142	
Fit Residencial	60.00	100.00			(22,263)	(14,941)
Bairro Novo	50.00	50.00	8,164	10,298	(18,312)	(1,902)
AUSA	60.00	60.00	69,211	42,718	35,135	20,905
Cipesa Holding	100.00	100.00	62,157	47,954	(6,349)	(1,359)
Península SPE1 S.A.	50.00	50.00	(1,139)	(1,390)	205	(427)
Península SPE2 S.A.	50.00	50.00	98	(955)	1,026	2,267
Res. das Palmeiras SPE Ltda.	100.00	90.00	2,545	2,039	264	596
Gafisa SPE 40 Ltda.	50.00	50.00	5,841	1,713	1,269	2,225
Gafisa SPE 42 Ltda.	50.00	50.00	6,997	76	6,799	369
Gafisa SPE 43 Ltda.	99.80	99.80		(3)		(2)
Gafisa SPE 44 Ltda.	40.00	40.00	(377)	(534)	(192)	(533)
Gafisa SPE 45 Ltda.	99.80	99.80	1,058	(475)	(8,904)	(882)
Gafisa SPE 46 Ltda.	60.00	60.00	5,498	212	3,384	1,178
Gafisa SPE 47 Ltda.	80.00	99.80	6,639	(18)	(159)	(18)
Gafisa SPE 48 Ltda.	99.80	99.80	21,656	(718)	818	(718)
Gafisa SPE 49 Ltda.	99.80	100.00	(58)	(1)	(57)	(2)
Gafisa SPE 53 Ltda.	60.00	60.00	2,769	205	1,895	204
Gafisa SPE 55 Ltda.	99.80	99.80	20,540	(4)	(3,973)	(5)
Gafisa SPE 64 Ltda.	99.80	99.80		1		
Gafisa SPE 65 Ltda.	70.00	99.80	(281)	1	(732)	
Gafisa SPE 67 Ltda.	99.80		1			
Gafisa SPE 68 Ltda.	99.80				(1)	
Gafisa SPE 72 Ltda.	60.00		(22)		(22)	
Gafisa SPE 73 Ltda.	70.00		(155)		(155)	
Gafisa SPE 74 Ltda.	99.80		(330)		(331)	
Gafisa SPE 59 Ltda.	99.80	99.80	(2)	(1)	(1)	(2)
Gafisa SPE 76 Ltda.	99.80				(1)	
Gafisa SPE 78 Ltda.	99.80				(1)	
Gafisa SPE 79 Ltda.	99.80		(1)		(2)	
Gafisa SPE 75 Ltda.	99.80		(27)		(28)	
Gafisa SPE 80 Ltda.	99.80				(1)	
Gafisa SPE-85 Empr. Imob.	60.00		(756)		(1,200)	
Gafisa SPE-86	99.80		(82)		(83)	
Gafisa SPE-81	99.80		1			
Gafisa SPE-82	99.80		1			
Gafisa SPE-83	99.80		1			
Gafisa SPE-87	99.80		1			
Gafisa SPE-88	99.80		1			
Gafisa SPE-89	99.80		1			

Gafisa SPE-90	99.80		1			
Gafisa SPE-84	99.80		1			
Dv Bv SPE S.A.	50.00	50.00	(439)	(464)	126	(231)
DV SPE S.A.	50.00	50.00	932	1,658	(527)	695
Gafisa SPE 22 Ltda.	100.00	100.00	5,446	4,314	1,006	250
Gafisa SPE 29 Ltda.	70.00	70.00	257	2,311	271	(2,532)
Gafisa SPE 32 Ltda.	80.00	99.80	(760)	1	(760)	
Gafisa SPE 69 Ltda.	99.80		(401)		(402)	

	Company s interest - %		Investee s Shareholders equity		Investee s net income (loss)	
Investees	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Gafisa SPE 70 Ltda.	55.00		6,696			
Gafisa SPE 71 Ltda.	70.00		(794)		(795)	
Gafisa SPE 50 Ltda.	80.00	80.00	7,240	(121)	1,532	(121)
Gafisa SPE 51 Ltda.	90.00	90.00	15,669	8,387	6,620	1,602
Gafisa SPE 61 Ltda.	99.80		(14)		(14)	
Tiner Empr. e Part. Ltda.	45.00	45.00	26,736	10,980	15,762	5,331
O Bosque Empr. Imob. Ltda.	30.00	30.00	15,854	9,176	(62)	79
Alta Vistta	50.00	50.00	3,428	(644)	4,073	(618)
Dep. José Lages	50.00	50.00	34	(399)	433	(410)
Sitio Jatiuca	50.00	50.00	1,259	(2,829)	4,088	(3,361)
Spazio Natura	50.00	50.00	1,400	1,429	(28)	(28)
Parque Aguas	50.00	50.00	(1,661)	(281)	(1,529)	(280)
Parque Arvores	50.00	50.00	(1,906)	(625)	(1,698)	(625)
Dubai Residencial	50.00		5,374		(627)	
Cara de Cão	65.00		40,959		19,907	
Costa Maggiore	50.00		3,892		4,290	
Gafisa SPE 36 Ltda.		99.80		4,145		4,199
Gafisa SPE 38 Ltda.		99.80		5,088		4,649
Gafisa SPE 41 Ltda.		99.80		20,793		13,938
Villaggio Trust		50.00		5,587		1,664
Gafisa SPE 25 Ltda.		100.00		14,904		419
Gafisa SPE 26 Ltda.		100.00		121,767		(19)
Gafisa SPE 27 Ltda.		100.00		15,160		1,215
Gafisa SPE 28 Ltda.		99.80		(1,299)		(499)
Gafisa SPE 30 Ltda.		99.80		15,923		8,026
Gafisa SPE 31 Ltda.		99.80		22,507		761
Gafisa SPE 35 Ltda.		99.80		2,671		2,719
Gafisa SPE 37 Ltda.		99.80		8,512		2,661
Gafisa SPE 39 Ltda.		99.80		5,693		4,432
Gafisa SPE 33 Ltda.		100.00		11,256		1,696
DIODON Participações		100.00		36,556		4,637

(ii) Balances

	Company s interest - %		Investments		Equity in earnings (loss)	
Investees	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Tenda	60.00		637,328		15,589	
Fit Residencial	60.00	100.00		(14,974)	(22,263)	(14,975)

Bairro Novo	50.00	50.00	4,176	5,149	(9,156)	(951)
AUSA	60.00	60.00	41,527	25,631	21,081	12,543
Cipesa Holding	70.00	100.00	43,510	47,954	(4,444)	(1,359)
			726,541	63,760	807	(4,742)
Península SPE1 S.A.	50.00	50.00	(569)	(695)	102	(213)
Península SPE2 S.A.	50.00	50.00	49	(478)	513	1,133
Res. das Palmeiras SPE Ltda.	90.00	90.00	2,290	1,835	238	536
Gafisa SPE 40 Ltda.	50.00	50.00	2,921	857	634	1,113
Gafisa SPE 42 Ltda.	50.00	50.00	3,498	(17)	3,399	130

Investees	Company s interest - % 2008	2007	Investments 2008	2007	Equity in earnings (loss) 2008	2007
Gafisa SPE 43 Ltda.	99.80	99.80		(3)		(2)
Gafisa SPE 44 Ltda.	40.00	40.00	(151)	(214)	(77)	(213)
Gafisa SPE 45 Ltda.	99.80	99.80	1,056	(474)	(8,886)	(880)
Gafisa SPE 46 Ltda.	60.00	60.00	3,299	127	2,031	707
Gafisa SPE 47 Ltda.	80.00	99.80	6,626	(18)	(159)	(18)
Gafisa SPE 48 Ltda.	99.80	99.80	21,656	(716)	816	(716)
Gafisa SPE 49 Ltda.	99.80	100.00	(58)	(1)	(57)	(2)
Gafisa SPE 53 Ltda.	60.00	60.00	1,662	123	1,137	122
Gafisa SPE 55 Ltda.	99.80	99.80	20,540	(4)	(3,965)	(5)
Gafisa SPE 63 Ltda	100.00	100.00		(11)		(12)
Gafisa SPE 64 Ltda	99.80	99.80				(1)
Gafisa SPE 65 Ltda.	70.00	99.80	(281)	(1)	(731)	(2)
Gafisa SPE 67 Ltda.	99.80		1			
Gafisa SPE 68 Ltda.	99.80				(1)	
Gafisa SPE 72 Ltda.	60.00		(22)		(22)	
Gafisa SPE 73 Ltda.	70.00		(154)		(155)	
Gafisa SPE 74 Ltda.	99.80		(330)		(330)	
Gafisa SPE 59 Ltda.	99.80	99.80	(2)	(1)	(1)	(2)
Gafisa SPE 76 Ltda.	99.80				(1)	
Gafisa SPE 78 Ltda.	99.80				(1)	
Gafisa SPE 79 Ltda.	99.80				(1)	
Gafisa SPE 75 Ltda.	99.80		(27)		(28)	
Gafisa SPE 80 Ltda.	99.80				(1)	
Gafisa SPE-85 Empr. Imob.	60.00		(378)		(600)	
Gafisa SPE-86	99.80		(82)		(83)	
Gafisa SPE-81	99.80		1			
Gafisa SPE-82	99.80		1			
Gafisa SPE-83	99.80		1			
Gafisa SPE-87	99.80		1			
Gafisa SPE-88	99.80		1			
Gafisa SPE-89	99.80		1			
Gafisa SPE-90	99.80		1			
Gafisa SPE-84	99.80		1			
Dv Bv SPE S.A.	50.00	50.00	(219)	(232)	63	(115)
DV SPE S.A.	50.00	50.00	466	829	(263)	347
Gafisa SPE 22 Ltda.	100.00	100.00	5,446	4,314	1,006	250
Gafisa SPE 29 Ltda.	70.00	70.00	180	1,618	190	(1,772)
Gafisa SPE 32 Ltda.	80.00	99.80	(760)	1	(759)	
Gafisa SPE 69 Ltda.	99.80		(401)		(401)	
Gafisa SPE 70 Ltda.	55.00		6,683			
Gafisa SPE 71 Ltda.	70.00		(794)		(793)	
Gafisa SPE 50 Ltda.	80.00	80.00	5,792	(96)	1,226	(97)
Gafisa SPE 51 Ltda.	90.00	90.00	12,535	7,548	5,296	1,504
Gafisa SPE 61 Ltda.	99.80		(14)		(14)	

Tiner Empr. e Part. Ltda.	45.00	45.00	12,031	4,941	7,093	2,399
O Bosque Empr. Imob. Ltda.	30.00	30.00	4,756	2,753	(19)	24
Alta Vistta	50.00	50.00	1,714	(322)	2,036	(309)
Dep. José Lages	50.00	50.00	17	(199)	216	(205)
Sitio Jatiuca	50.00	50.00	629	(1,415)	2,044	(1,680)
Spazio Natura	50.00	50.00	700	714	(14)	(14)
Parque Aguas	50.00	50.00	(830)	(140)	(765)	(140)
Parque Arvores	50.00	50.00	(953)	(312)	(849)	(312)
Dubai Residencial	50.00		2,687		(313)	
Cara de Cão	65.00		26,623		12,455	

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	Company s interest - %		Investments		Equity in earnings (loss)	
Investees	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Costa Maggiore	50.00		1,946		2,145	
Gafisa SPE 36 Ltda.		99.80		4,136		4,190
Gafisa SPE 38 Ltda.		99.80		5,078		4,640
Gafisa SPE 41 Ltda.		99.80		20,752		13,910
Villaggio Trust		50.00		2,794		832
Gafisa SPE 25 Ltda.		100.00		14,904		419
Gafisa SPE 26 Ltda.		100.00		121,767		(19)
Gafisa SPE 27 Ltda.		100.00		15,160		1,215
Gafisa SPE 28 Ltda.		99.80		(1,297)		(498)
Gafisa SPE 30 Ltda.		99.80		15,891		8,010
Gafisa SPE 31 Ltda.		99.80		22,462		759
Gafisa SPE 35 Ltda.		99.80		2,666		2,714
Gafisa SPE 37 Ltda.		99.80		8,529		2,661
Gafisa SPE 39 Ltda.		99.80		5,682		4,423
Gafisa SPE 33 Ltda.		100.00		11,256		1,696
DIODON Participações		100.00		36,556		4,637
			139,785	306,647	23,351	51,144
			866,326	370,407	24,158	46,402
Other investments (*)			313,118			
Provision for loss on investments			6,026	21,659	(1,062)	
CPC adjustments						(13,647)
Total investment			1,185,470	392,066	23,096	32,755

(*) As a result of the setting up in January 2008 of a special partnership (SCP), the Company started to hold quotas in such partnership that totaled R$ 313,118 at December 31, 2008 (Note 11).

(b) Goodwill (negative goodwill) on acquisition of subsidiaries and deferred gain on partial sale of investments

	2008			2007
	Cost	**Accumulated amortization**	**Balance**	**Balance**

Goodwill				
AUSA	163,589	(10,733)	152,856	163,441
Cipesa	40,686		40,686	40,686
Other	5,740	(4,194)	1,546	3,273
	210,015	(14,927)	195,088	207,400

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			2008	2007
	Cost	Accumulated amortization	Balance	Balance
Negative goodwill				
Redevco	(31,235)	12,713	(18,522)	(32,223)
Income on partial sale of investment				
Tenda	(210,402)	41,008	(169,394)	

9 Loans and financing, net of Cross-Currency Interest Rate Swaps

		Parent company		Consolidated	
	Annual interest rate	2008	2007	2008	2007
Working capital					
Denominated in US$ (i)	7%	146,739	104,492	146,739	104,492
Denominated in Yen (i)	1.4%	166,818	99,364	166,818	99,364
Swaps - US$/CDI (ii)	US$ + 7%/104% CDI	(32,962)	(5,124)	(32,962)	(5,124)
Swaps Yen/CDI (ii)	Yen + 1.4%/105% CDI	(53,790)	(733)	(53,790)	(733)
Other	0.66% to 3.29% + CDI	211,096	5,856	435,730	136,078
		437,901	203,855	662,535	334,077
National Housing System (SFH)	TR + 6.2% to 11.4%	191,614	66,157	372,255	98,700
Downstream merger obligations	TR + 10% to 12.0%	8,107	13,311	8,810	13,311
Other	TR + 6.2%	4,167		4,576	2,702
		641,789	283,323	1,048,176	448,790
Current		317,236	37,758	447,503	68,357
Long-term		324,553	245,565	600,673	380,433

(i) Loans and financing classified at fair value through income (Note 16(a)(ii)).
(ii) Derivatives classified as financial assets at fair value through income (Note 16(a)(ii)).

Rates: CDI - Interbank Certificate of Deposit, at December 31, 2008 was 12.2%p. a. (2007 - 11.8% p.a., 2006 - 15% p.a.).
TR - Referential Rate, at December 31, 2008 was 1.62% p.a. (2007 - 1.44% p.a., 2006 - 1.99% p.a.)

Funding for working capital and for developments correspond to credit lines from financial institutions. The Company has contracted cross-currency interest rate swaps to cover the full amount of the working capital loans (Note 16). At December 31, 2008 and 2007, the Company elected to apply the fair value option and record both the loan and respective derivative instruments at fair value through income.

Downstream merger obligations correspond to debt assumed from former shareholders with maturities up to 2013.

The Company has financing agreements with the SFH, the resources from which are released to the Company as construction progresses.

Loans and financing are guaranteed by sureties of the investors, mortgage of the units, assignment of rights, receivables from clients and the proceeds from the sale of our properties. Mortgage receivables given in guarantee total R$ 2,484,149. The balance of deposits accounts pledged in guarantee totals R$ 76,928 on December 31, 2008 (Note 4).

Long-term installments as of December 31, 2008 mature as follows: R$ 345,021 in 2010, R$ 181,549 in 2011, R$ 40,548 in 2012 and R$ 33,555 in 2013.

10 Debentures

In September 2006, the Company issued its Second Debenture Placement Program, which allows it to place up to R$ 500,000 in non-convertible simple subordinated debentures secured by a general guarantee.

In June 2008, the Company issued its Third Debenture Placement Program, which allow it to place R$ 1,000,000 in simple debentures with a general guarantee maturing in two years.

Under the Second and Third Programs, the Company placed series of 24,000 and 25,000 series debentures, respectively, corresponding to R$ 240,000 and R$ 250,000, with the following features:

Program/issuances	**Amount**	**Annual remuneration**	**Maturity**	**2008**	**2007**
Second program/first issuance	240,000	CDI + 1.30%	September 2011	248,679	246,590
Third program/first issuance	250,000	107.20% CDI	June 2018	255,266	
				503,945	246,590
Current				61,945	6,590
Long-term				442,000	240,000

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The Company has restrictive covenants on debentures that limit its ability to perform certain actions, such as the issuance of debt and require the acceleration of maturity or refinancing of loans if the company does not fulfill these restrictive covenants. The first issuance of the Second Program and the first issuance of the Third Program of Debenture Distribution have cross restrictive covenants in which an event of default or acceleration of maturity of any debt above R$ 5 million and R$ 10 million, respectively, may require the Company to advance the payment of the first issuance of the Second Program of Debenture Distribution. The rates and minimum and maximum amounts required by these restrictive covenants at December 31, 2008 and 2007 are as follows:

	2008	**2007**
Second program first issuance		
Total debt, less SFH debt, less cash and banks does not exceed 75% of shareholders equity	35%	5%
Total receivables from clients, plus stock of completed units, is over 2.0 times total debt	3.3 times	3.5 times
Total debt, less cash and banks, is under R$ 1,0 billion	R$ 946.6 million	R$ 175 million
Third program first issuance		
Total debt, less SFH debt less cash and banks, does not exceed 75% of shareholders equity	35%	N/A
Total accounts receivable plus stock of completed units is over 2.2 times total debt	5.5 times	N/A

At December 31, 2008, the Company was in compliance with all debenture programs covenants during each period presented.

At December 31, 2008, the non current portions have the following maturities: R$ 96,000 in 2010, R$ 96,000 in 2011, R$ 125,000 in 2012, R$ 125,000 in 2013.

11 Other Liabilities

	Parent company		**Consolidated**	
	2008	**2007**	**2008**	**2007**
Obligation to venture partners (i)	300,000		300,000	
Current accounts related to	342,486	200,232		

real estate ventures				
Credit assignments	32,177	5,436	67,552	5,436
Acquisition of investments	25,296	48,521	30,875	48,521
Other accounts payable	38,237	10,984	89,263	19,099
Loans from real estate development partners (ii)				8,255
Allowance for losses on Investments	6,026	21,608		
	744,221	286,781	487,690	81,311
Current	434,039	274,825	97,931	68,368
Long-term	310,182	11,956	389,759	12,943

(i) In January 2008 the Company formed a special partnership (SCP) which main objective is the holding of interests in other companies, which, in turn, should have as its main objective the development and undertaking of real estate ventures. At December 31, 2008, the SCP s subscribed and paid-in capital amounted to R$ 304,040 (made up of 13,084,000 Class A quotas held by the Company and 300,000,000 Class B quotas held by other quotaholders). The capital will be preferably used in the acquisition of equity investments and in the increase in the capital of its investees. As a result of this transaction, due to prudence and considering that the decision whether to invest or not shall be jointly taken by all quotaholders and, therefore, it is made regardless of the Company s management individual decision, at December 31, 2008 it recorded an Investors account amounting to R$ 300,000, with final maturity on January 31, 2014. The SCP quotaholders are remunerated by minimum dividends substantially equivalent to the variation in the Interbank Deposit Certificate (CDI). The SCP s articles of association provides for the compliance with certain covenants by the Company, in its capacity of ostensible partner, which include the maintenance of minimum rates of net debt and receivables. At December 31, 2008, the Company was in compliance with the aforesaid clauses.

(ii) Loans with real estate partners relate to amounts due under current accounts agreement, which accrue financial charges of IGP-M plus 12% p.a.

12 Commitments and Provision for Contingencies

The Company and its subsidiaries are parties in lawsuits and administrative proceedings at several courts and government agencies that arise from the normal course of business, involving tax, labor, civil and other matters. Management, based on information provided by its legal counsel and analysis of the pending claims and, with respect to the labor claims, based on past experience regarding the amounts claimed, recognized a provision in an amount considered sufficient to cover the losses estimated for the lawsuits in progress.

The changes in the provision for contingencies are summarized below:

	Parent company	Consolidated
Balance at December 31, 2007	3,668	21,262
Payments	10,152	11,440
Reversals	(2,178)	(2,178)
New provision from Tenda acquisition		26,840
Judicial deposits	(2,518)	(3,834)
Balance at December 31, 2008	9,124	53,530
Long-term	9,124	35,963
Current		17,567

(a) Tax, labor and civil lawsuits

	Parent company		Consolidated	
	2008	**2007**	**2008**	**2007**
Labor claims	2,317	1,672	9,977	2,171
Civil lawsuits	9,325	1,996	27,779	2,323
Tax lawsuits			19,609	16,768
Judicial deposits	(2,518)		(3,834)	
	9,124	3,668	53,530	21,262

Our subsidiary AUSA is party in judicial lawsuits and administrative proceedings related to Excise Tax (IPI) and Value-added Tax on Sales and Services (ICMS) on two imports of aircraft in 2001 and 2005, respectively, under leasing agreements without purchase option. The chances of loss in the ICMS case are estimated by its legal counsel that is handling it as: (i) probable in regard to the principal and interest, and (ii) remote in regard to the fine for noncompliance with ancillary obligation. The amount of the contingency estimated by the legal counsel as a probable loss amounts to R$ 16,705, which was recorded in Provisions for contingencies as of December 31, 2008.

Furthermore, at December 31, 2008, the Company and its subsidiaries are aware of other lawsuits and risks, the outcome of which, based on the opinion of its legal counsel is a possible, but not probable loss, amounting to approximately R$ 67,736, and for which the Company's management believes that the recognition of a provision for losses is not necessary.

In September 2008, the bank accounts of Gafisa were frozen in the amount of R$ 10,583. Such decision was made in view of the inclusion of Gafisa in the defendant side of a foreclosure as it was considered the successor of Cimob Companhia Imobiliária S/A (Cimob) and the understanding that Cimob s net assets were reduced with the incorporation of Gafisa. The Company is appealing against such decision on the grounds that the claim lacks merit, in order to obtain the release of its funds and not to be held responsible for Cimob s debt. No provision has been recorded.

An amount of R$ 27,979 of the proceeds of the Company's initial public offering was withheld in an escrow deposit attached by court order to guarantee a writ of execution. The Company is appealing the decision and considers that the claim has no merit. No provision has been recorded based on the position of the Company's legal counsel.

(b) Commitments to complete developments

The Company is committed to deliver units to owners of land who exchange land for real estate units developed by the Company.

The Company is also committed to complete units sold and to comply with the requirements of the building regulations and licenses approved by the proper authorities. At December 31, 2008, the amount of budgeted cost to be incurred in ventures under construction totals R$ 2,465.

13 Obligations for purchase of land and advances from clients

	Parent company		Consolidated	
	2008	**2007**	**2008**	**2007**
Obligations for purchase of land	174,628	91,381	392,762	151,594
Advances from clients				
Development and services	27,739	18,662	90,363	72,125

Barter	158,133	158,133	169,658	169,658
	360,500	268,176	652,783	393,377
Current	250,942	211,447	421,584	290,193
Long-term	109,558	56,729	231,199	103,184

Acquisitions of new land were made for launching new developments by the Company, taking on commitments, represented by credits and barters for future real estate venture units.

14 Shareholders equity

(a) Capital

At December 31, 2008, the Company's capital was R$ 1,229,517 (2007 R$ 1,221,846), represented by 133,087,518 nominative Common shares without par value (2007 132,577,093 nominative Common shares without par value), 3,124,972 of which were treasury shares (2007 3,124,972 treasury shares).

In January 2007, upon the acquisition of 60% of AUSA arising from the merger of Catalufa, a capital increase of R$ 134,029 was approved through the issuance, for public subscription, of 6,358,116 new Common shares.

Additionally, the cancellation of 5,016,674 Common shares which had been held in treasury, amounting to R$ 28,976, was approved, without reduction to capital.

In March 2007, a capital increase of R$ 487,813 was approved through the issuance, for public subscription, of 18,761,992 new Common shares, without par value, at the issue price of R$ 26.00 per share, in compliance with the provisions of Article 170, paragraph 1 of Law No. 6,404/76.

In 2007, the capital increase of R$ 8,262, related to the stock option plan and the exercise of 961,563 Common shares, was approved.

Under the bylaws, as amended on January 8, 2007, the Board of Directors (Conselho de Administração) may increase share capital up to the limit of the authorized capital of 200,000,000 Common shares.

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On April 4, 2008, the distribution of dividends for 2007 was approved in the total amount of R$ 26,981, paid to shareholders on April 29, 2008.

In 2008, the capital increase of R$ 7,671, related to the stock option plan and the exercise of 510,425 Common shares, was approved.

The changes in the number of thousand shares are as follows:

	Common shares in thousands
December 31, 2006	103,370
Share issuance (AUSA acquisition)	6,359
Exercise of stock options	961
Public offering	18,762
December 31, 2007	129,452
Exercise of stock options	511
December 31, 2008	129,963

(b) Appropriation of net income for the year

Pursuant to the Company's bylaws, the net income for the year, after absorbing any accumulated losses, is appropriated as follows: (i) 5% to the legal reserve, up to 20% of paid-up capital, and (ii) 25% of the remaining balance for the payment of mandatory dividends to all shareholders.

For the year ended December 31, management s proposal of distribution (subject to approval by the Annual General Meeting) is as follows:

	2008	**2007**
Net income for the year, after accounting adjustments of Law No. 11,638/07		91,640
Effects of change of Law No. 11,638/07		21,963
Net income for the year	109,921	113,603
Legal reserve	(5,496)	(5,680)
	104,425	107,923

	2008	2007
Compulsory minimum dividends - 25%	(26,104)	(26,981)

Pursuant to Article 36 of the Company's bylaws, amended on March 21, 2007, the recognition of a statutory reserve became mandatory. In accordance with said article, the amount of such reserve may not exceed 71.25% of net income for the purpose of financing the expansion of the activities of the Company and its subsidiaries, including the subscription of capital increases or creation of new ventures, participation in consortiums or other forms of association for the achievement of the Company's purpose.

(c) Stock option plan

(i) Gafisa

Six stock option plans are offered by the Company. The first plan was launched in 2000 and is managed by a committee that periodically creates new stock option plans, determining their terms, which, among other things, (i) define the length of service that is required for employees to be eligible to the benefits of the plans (vesting requirements), (ii) select the employees that will be entitled to participate, and (iii) establish the purchase prices of the preferred shares to be exercised under the plans.

In order to be eligible for the grants (plans from 2000 to 2002), participant employees are required to contribute 10% of the value of total benefited options on the date the option is granted and, additionally, for each of the following five years, 18% of the price of the grant per year. The price of the grant is adjusted according to the variation in the IGP-M, plus annual interest from 3% to 6%. The stock option may be exercised in one to five years subsequent to the vesting period established in each plan. The shares are generally available to employees over a period of ten years after their contribution.

The Company and its subsidiaries record the cash receipt against a liability account to the extent the employees make advances for purchase of the shares during the vesting period. There was no advance payment for 2008 and 2007.

The Company and its subsidiaries may decide to issue new shares or transfer the treasury shares to the employees in accordance with the clauses established in the plans. The Company and its subsidiaries have the right of first refusal on shares issued under the plans, in the event of dismissals or retirement. In such case, the advances are returned to the employees, in certain circumstances, at an amount that correspond to the greater of the market value of the shares (as established in the rules of the plans) or the amount paid plus monetary correction based on the variation in the IGP-M and annual interest from 3% to 6%.

In 2008, the Company and its subsidiaries issued a new stock option plan. In order to become eligible for the grant, employees are required to use from 25% to 80% of their annual net bonus to exercise the options within thirty days from the program date.

The market value of each stock option granted is estimated at the vesting date using the Black-Scholes model for pricing options. The assumptions for recording stock option plans were as follows: expected volatility at 50.26% in 2008 and at 47.70% in 2007; expected dividend yield on shares at 0.63% in 2008 and at 0.33% in 2007; risk-free interest rate at 11.56% in 2008 and at 12.87 % in 2007; and expected average option term of 2.6 years in 2008 and 2007.

The changes in number of stock options and corresponding weighted average of exercise prices are as follows:

	2008		2007	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Options outstanding at the beginning of year	5,174,341	22.93	3,977,630	16.04
Options granted	2,145,793	31.81	2,320,599	30.36
Options exercised (i)	(441,123)	16.72	(858,582)	12.50
Options expired	(3,675)	20.55		
Options cancelled(ii)	(945,061)	20.55	(265,306)	18.61
Options outstanding at the end of year	5,930,275	26.14	5,174,341	25.82
Options exercisable at the end of the year	4.376.165	28.00	2.597.183	22.93

(i) In the years ended December 31, 2007 and 2008, the cash received for exercised options amounted to R$ 7,267 and R$ 7,150, respectively.

(ii) In the years ended December 31, 2007 and 2008, no option was cancelled due to the expiration of terms of stock option plans.

	Reais	
	2008	2007
Exercise price per share at the end of the year	7.86-39.95	6.75-34.33
Weighted average of exercise price at the option granting date	21.70	18.54
Weighted average of market price of share at the granting date	27.27	27.92
Market price of share at the end of the year	10.49	33.19

The options granted will confer to their holders the right to subscribe capital stock shares, after the periods from one to five years of employment in the Company (essential condition for exercising the option), and expire after ten years of the granting.

The Company recognized the amounts of R$ 22,203 in 2008 and R$ 16,498 in 2007 (Company), and the consolidated amounts of R$ 26,138 in 2008 and R$ 17,820 in 2007 recorded as operating expenses.

(ii) Tenda

The subsidiary Tenda has a stock option plan, approved at the Extraordinary General Meeting of June 3, 2008, in which the Board of Directors meeting on June 5, 2008, that the Board of Directors of Tenda can establish issuance programs until the maximum aggregate limit of 5% of total capital shares, taking into consideration in this total the dilution effect from the exercise of all granted options. The volume involved in the granting of stock options is limited to 3,000,000 shares. In 2008, 2,640,000 options were granted, of which 570,000 were cancelled. Options outstanding at the end of the year totaled 2,570,000.

The stock option program provides that the granted options may be exercised in three annual lots, each lot being equivalent to 33.33% of total granted option, and the first exercise being in May 2009. Options may be exercised in two periods of each year, from day 1 to 15 of May and November. The base exercise price of granted options was R$ 7.20 (seven Reais and twenty centavos) per share. When exercising the option in the three annual lots, the base price will be adjusted according to the market value of shares, based on the average price in trading sessions over the last 30 consecutive days before the commencement of each annual exercise period. The exercise price is adjusted according to a fixed table of values, according to the share value in the market, at the time of the two exercise periods for each annual lot.

The market price of Tenda shares at the granting date was R$ 11.60 and at December 31, 2008 it was R$ 1.16.

The market value of each option granted in 2008 was estimated at the granting date using the Black-Scholes model for pricing options, taking into consideration the following assumptions: expected volatility at 58%, expected dividend yield on shares at 0%, risk-free interest rate at 14.3% and expected average option term of 1.7 year. Tenda recorded in 2008 stock option plan expenses amounting to R$ 5,505.

(iii) AUSA

The subsidiary AUSA has three stock option plans, the first launched in 2007. The stock option plan of AUSA was approved at the Annual General Meeting of June 26, 2007 and at the Board of Directors meeting of this same date.

The changes in number of stock option and their corresponding weighted average exercise prices for the year are as follows:

	2008		2007	
	Number of options	**Weighted average exercise price - Reais**	**Number of options**	**Weighted average exercise price - Reais**
Options outstanding at the beginning of the year	1,474	6,522.92		
Options granted	720	7,474.93	1,474	6,522.92
Options cancelled	(56)	6,522.92		
Options outstanding at the end of the year	2,138	6,843.52	1,474	6,522.92

At December 31, 2008, 284 options exercisable (2007 - zero). The exercise prices per option at December 31, 2008 were from R$ 8,238.27 to R$ 8,376.26, whereas at December 31, 2007 it was R$ 7,077.80.

The market value of each option granted in 2008 was estimated at the granting date using the Black-Scholes model for pricing options, taking into consideration the following assumptions: expected volatility, calculated based on the volatility history of the sector s companies, at 38.23% in 2008 and 33.58% in 2007, expected dividend yield on shares at 0% in 2008 and 2007, risk-free interest rate at 11.36% in 2008 and 11.88% in 2007, and expected average option term of 2.3 years in 2008 and 2007.

AUSA recorded stock option plan expenses amounting to R$ 1,962 in 2008 and R$ 1,322 in 2007.

15 Deferred Taxes

	Parent company		**Consolidated**	
	2008	**2007**	**2008**	**2007**
Assets				
Temporary differences - Lalur	44,154	38,818	52,321	46,267
Net operating loss carryforwards	10,684	12,499	76,640	12,499
Tax credits from downstream mergers	6,227	9,341	21,611	9,341
Temporary differences - CPC	39,680	1,298	39,680	10,633
	100,745	61,956	190,252	78,740
Liabilities				
Negative goodwill	18,266		18,266	
Temporary differences - CPC	18,122		18,122	
Differences between income taxed on a cash basis and the amount recorded on the accrual bases	62,732	42,515	202,743	46,070
	99,120	42,515	239,131	46,070

The Company calculates its taxes based on the recognition of results proportionally to the receipt of the contracted sales, in accordance with the rules determined by the Federal Revenue Service (SRF) Instruction 84/79, which differs from the calculation of the accounting revenues based on the costs incurred versus estimated cost. The taxation will occur over an average period of four years, considering the term for the receipt of the sales and the completion of the corresponding construction.

At December 31, 2008, the Company had tax losses available for offset against future taxable income of R$ 161,291 (2007 - R$ 130,991), with corresponding tax benefits of R$ 54,838 (2007 - R$ 51,317).

The Company did not record a deferred income tax asset on the tax losses and social contribution tax loss carryforwards of its subsidiaries, which adopt the taxable income regime and do not have a history of taxable income for the past three years, except in subsidiary Tenda.

The projections of future taxable income consider estimates that are related, among other things, with the Company's performance and the behavior of the market in which it operates, as well as certain economic factors. The actual amounts could differ from these estimates.

Based on estimated future taxable income, the expected recovery profile of the income tax and social contribution net operating loss carryforwards is as follows:

	Parent company	**Consolidated**
2009	2,410	5,289
2010	2,773	33,192
2011	3,056	35,714
2012	2,129	2,129
Other	316	316
Total	10,684	76,640

The reconciliation of the statutory to effective tax rate is as follows:

		Consolidated
	2008	**2007**
Income before income taxes on income and statutory profit sharing	210,051	128,058
Tax expense at statutory rates - 34%	(71,417)	(43,540)
Net effect of jointly-controlled subsidiaries on the presumed tax regime	22,122	13,598
Tax losses recorded from prior years	3,946	6,124
Stock option plan	(10,088)	(6,059)
Deferred income tax prior to the acquisition date of subsidiary	12,419	
Other permanent differences	(379)	(497)
Income tax and social contribution (expense)	(43,397)	(30,372)

Additionally, the reconciliation of the effective tax rate in the parent company mainly arises from the equity in results and the use of tax losses recorded from prior years and used over the current year.

16 Financial instruments

The Company participates in operations involving financial instruments, all of which are recorded in the balance sheet, for the purposes of meeting its operating needs and reducing its exposure to credit, currency and interest rate risks. These risks are managed by control policies, specific strategies and determination of limits, as follows:

(a) Risk considerations

(i) Credit risk

The Company and its subsidiaries restrict their exposure to credit risks associated with banks and cash and cash equivalents, investing in highly-rated financial institutions in short-term securities.

With regards to accounts receivable, the Company restricts its exposure to credit risks through sales to a broad base of customers and ongoing credit analysis. Additionally, the Company has no history of losses from liens in the cases of default during the construction period.

At December 31, 2008 and 2007, the Company and its subsidiaries management, except for Tenda s, did not deem necessary the recognition of a provision to cover losses on the recovery of receivables related to real estate developments delivered. In the same period, there was no material concentration of credit risk associated with customers.

(ii) Currency risk

The Company participates in operations involving derivative financial instruments for the purposes of mitigating the effects of fluctuations in foreign exchange rates.

In the years ended December 31, 2008 and 2007, the amounts of R$ 80,895 and R$ 5,857 related to the net positive result from the cross-currency interest rate swap operations was recognized in Financial income (expenses) , allowing for the correlation between the effect of these operations with the fluctuation in foreign currencies in the Company's balance sheet.

The nominal value of the swap contracts was R$ 200,000 at December 31, 2008 and 2007. The gains (losses) of these operations at December 31, 2008 and 2007 are recorded in the balance sheet as follows (Note 9):

	Reais	**Percentage**		**Net unrealized gains (losses) from derivative Instruments**	
Rate swap contracts - (US Dollar and Yen for CDI)	**Nominal value**	**Original index**	**"Swap"**	**2008**	**2007**
Banco ABN Amro Real S.A.	100,000	Yen + 1.4	105 CDI	53,790	733
Banco Votorantim S.A.	100,000	US Dollar + 7	104 CDI	32,962	5,124
	200,000			86,752	5,857

The Company does not make sales denominated in foreign currency.

(iii) Interest rate risk

Interest accrues on loans and financing transactions (Note 9). Interest accrues on financial investments (Note 4). Accounts receivable from clients (Note 5) are subject to an interest rate of 12% per year, applied on a pro rata temporis basis.

Additionally, a significant portion of the balances maintained with related parties and with partners in the ventures are not subject to financial charges (Notes 7 and 11).

(b) Valuation of financial instruments

The main financial instruments receivable and payable and criteria for their valuation are as follows:

(i) Cash and cash equivalents

The market value of these assets does not significantly differ from the amounts presented in the financial statements (Note 4). The contract rates agreed reflect usual market conditions.

(ii) Loans and financing and debentures

Loans and financing are recorded based on the contractual interest rates of each operation, except for loans denominated in foreign currency, which are stated at fair value. Interest rate estimates for contracting operations with similar terms and amounts are used for the determination of market value. The terms and conditions of loans and financing and debentures obtained are presented in Notes 9 and 10. The fair value of the other loans and financing, recorded based on the contractual interest of each operation, does not significantly differ from the amounts presented in the financial statements.

(c) Sensitivity analysis

The sensitivity analysis of financial instruments is shown in the following chart, which describes the risks that could incur material losses for the Company, with the most likely scenario (Scenario I), according to management s evaluation. Additionally, other two scenarios are included, as provided for by CVM, through Instruction No. 475/08, for the purpose of showing stresses at 25% and 50%, respectively, of the risk factor that are taken into consideration (Scenarios II and III).

Votorantim swap risk factors - high of CDI (liability position) and appreciation of the Real x Dollar (asset position).

ABN Amro swap risk factors high of CDI (liability position) and appreciation of the Real x Yen (asset position).

Projection maturity on June 9, 2009	**R$/US$**	**CDI - %**
Scenario I Likely	2.42	11.67
Scenario II - Possible Stress at 25%	1.82	14.57
Scenario III - Remote Stress at 50%	1.21	17.47

Projection maturity on October 29, 2009	**R$/Yen**	**CDI - %**
Scenario I Expected	0.02767	12.30
Scenario II - Possible Stress at 25%	0.02076	15.34
Scenario III - Remote Stress at 50%	0.01384	18.39

At December 31, 2008, the Company calculated the scenario estimates of R$/US$ and R$/JPY quotations for the maturity dates of swaps. The hypothetical appreciations of Real against other currencies would produce the following impact:

Impact on exchange rate scenarios

				Scenario (*)
Transaction	**Risk**	**I**	**II**	**III**
Swap (asset position - US$)	Drop of Dollar	147,539	110,654	73,769
Debt denominated in US$	High of Dollar	146,739)	(110,054)	(73,370)
Net effect of US$ devaluation			600	399
Swap (asset position Yen)	Drop of Yen	168,516	126,387	84,258
Debt denominated in Yen	High of Yen	(166,818)	(125,113)	(83,409)
Net effect of Yen devaluation		1,698	1,274	849

(*) Scenarios I, II and III - Likely, Possible and Remote, respectively.

Impact on interest rate scenarios

				Scenario (*)
Transaction	**Risk**	**I**	**II**	**III**
Votorantim swap liability position balance in CDI on maturity date (June 9, 2009)	High of CDI	120,656	122,103	123,528
ABN Amro swap liability position balance in CDI on maturity date (October 29, 2009)	High of CDI	126,187	129,009	131,820

(*) Scenarios I, II and III Likely, Possible and Remote, respectively.

The source of the data used to determine the exchange rate adopted in the base scenarios was Brazilian Mercantile & Futures Exchange (Bolsa de Mercadorias de Futuro - BMF), because Gafisa believes that this is the most reliable and independent source, and which represents the market consensus on these quotations.

The US Dollar and Yen data were extracted from the BMF website at December 31, 2008 for the maturity dates.

BMF data on December 31, 2008	Quotation - %
R$/U$$ for maturity in June 2009	11.67
R$/JPY for maturity in October 2009	12.30

For interest rate data, Gafisa adopted the real rate until February 27, 2009 and used the CDI projection of BMF; base date February 27, 2009 for the maturity dates.

BMF data on February 27, 2009	CDI - %
Maturity in June 2009	11.67
Maturity in October 2009	12.30

17 Related parties

(a) Transactions with related parties

		Parent company		Consolidated	
	Current account	**2008**	**2007**	**2008**	**2007**
	Community developments and consortia				
A116	Alpha 4	1,148	265	1,148	265
A146	Consórcio Ezetec & Gafisa	11,032		11,032	
A166	Consórcio Eztec Gafisa		2,293		2,293
A175	Cond. Constr. Empres. Pinheiros	2,256	(86)	2,256	(86)
A195	Condomínio Parque da Tijuca	253	339	253	339
A205	Condomínio em Const. Barra Fir	(46)	(100)	(46)	(100)
A226	Civilcorp	187		187	
A255	Condomínio do Ed. Barra Premiu	105		105	
A266	Consórcio Gafisa Rizzo	4,219	(454)	4,219	(454)
A286	Evolução Chácara das Flores	7	7	7	7
A315	Condomínio Passo da Patria II	569	569	569	569
A395	Cond. Constr. Palazzo Farnese	(17)	(17)	(17)	(17)
A436	Alpha 3	733	546	733	546
A475	Condomínio Iguatemi	3	3	3	3
A486	Consórcio Quintas Nova Cidade	36	36	36	36
A506	Consórcio Ponta Negra	4,150	5,476	4,150	5,476
A536	Consórcio Sispar & Gafisa	5,763	1,198	5,763	1,198
A575	Cd. Advanced Ofs Gafisa-Metro	(396)	(130)	(396)	(130)
A606	Condomínio Acqua	(1,539)	(257)	(1,539)	(257)
A616	Cond. Constr. Living	7,067	(488)	7,067	(488)
A666	Consórcio Bem Viver	5	149	5	149
A795	Cond. Urbaniz. Lot. Quintas Rio	21	(73)	21	(73)
A815	Cond. Constr. Homem de Melo	74	11	74	11
A946	Consórcio OAS Gafisa - Garden	995	1,504	995	1,504
B075	Cond. de Constr. La Traviata		298		298

B125	Cond. em Constr. Lacedemonia	57	57	57	57
B226	Evolução New Place	(665)	(610)	(665)	(610)
B236	Consórcio Gafisa Algo	711	683	711	683
B256	Columbia Outeiro dos Nobres	(153)	(155)	(153)	(155)
B336	Evolução - Reserva do Bosque	5		5	

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	Current account	Parent company 2008	Parent company 2007	Consolidated 2008	Consolidated 2007
B346	Evolução - Reserva do Parque	122	118	122	118
B496	Consórcio Gafisa & Bricks	1,999	30	1,999	30
B525	Cond. Constr. Fernando Torres	135	135	135	135
B625	Cond. de Const. Sunrise Reside	55	18	55	18
B746	Evolução Ventos do Leste	159	160	159	160
B796	Consórcio Quatro Estações	(1,340)	(1,400)	(1,340)	(1,400)
B905	Cond. em Const. Sampaio Viana	951	951	951	951
B945	Cond. Constr. Monte Alegre	1,456	1,433	1,456	1,433
B965	Cond. Constr. Afonso de Freitas	1,674	1,672	1,674	1,672
B986	Consórcio New Point	1,476	1,413	1,476	1,413
C136	Evolução - Campo Grande	618	44	618	44
C175	Condomínio do Ed. Pontal Beach	43	98	43	98
C296	Consórcio OAS Gafisa - Garden	2,899	585	2,899	585
C565	Cond. Constr. Infra Panamby	(483)	(1,408)	(483)	(1,408)
C575	Condomínio Strelitzia	(851)	(762)	(851)	(762)
C585	Cond. Constr. Anthuriun	4,324	4,723	4,324	4,723
C595	Condomínio Hibiscus	2,766	2,869	2,766	2,869
C605	Cond. em Constr. Splendor	(1,848)	(1,933)	(1,848)	(1,933)
C615	Condomínio Palazzo	793	(1,055)	793	(1,055)
C625	Cond. Constr. Doble View	(1,620)	336	(1,620)	336
C635	Panamby - Torre K1	949	1,366	949	1,366
C645	Condomínio Cypris	(1,436)	(666)	(1,436)	(666)
C655	Cond. em Constr. Doppio Spazio	(2,400)	(1,739)	(2,400)	(1,739)
C706	Consórcio	5,261	2,063	5,261	2,063
D076	Consórcio Planc e Gafisa	717	115	717	115
D096	Consórcio Gafisa & Rizzo (SUSP)	1,532		1,532	
D886	Cons. Oas-Gafisa Horto Panamby	10,176	412	10,176	412
E336	Cons. Eztec Gafisa Pedro Luis	4,141		4,141	
E346	Consórcio Planc Boa Esperança	1,678		1,678	
E946	Consórcio Gafisa & GM	206		206	
F178	Consórcio Ventos do Leste	(1)	(1)	(1)	(1)
F198	Consórcio Quatro Estações 2				
S016	388000bairro Novo Cotia	2,640		2,640	
S026	Bairro Novo Camaçari	3,360		3,360	
S036	Bairro Novo Fortaleza	1,296		1,296	
S056	Bairro Novo Cia. Aeroporto	288		288	
C460	Cyrela Gafisa SPE Ltda.		3,384		3,384
F140	Soc. em Cta. de Particip. Gafisa		(878)		(878)
		78,315	23,147	78,315	23,147
	Gaf - Gafisa + Merged				
0010	Gafisa SPE 10 S.A.	(71,791)	(24,924)	(71,791)	(24,924)

0060	Gafisa Vendas I. Imob. Ltda.	2,384		2,384	
		(69,407)	(24,924)	(69,407)	(24,924)
	SPEs				
0030	FIT Resid. Empreend. Imob. Ltda.	(981)		11,421	
0040	Ville Du Soleil	1,968		1,968	
0050	Cipesa Empreendimentos Imobili.	252		(398)	
A020	Gafisa SPE 46 Empreend. Imobili.	(124)	(90)	31	(11)
A070	Gafisa SPE 40 Empr.Imob. Ltda.	1,963	784	1,242	806
A290	Blue II Plan. Prom e Venda Lt.	10,236		931	
A300	Saí Amarela S.A.	(1,055)	(1,056)	(838)	(902)
A320	Gafisa SPE-49 Empre. Imob. Ltda.	2,977	2,870	64	(2)

	Current account	Parent company 2008	Parent company 2007	Consolidated 2008	Consolidated 2007
A350	Gafisa SPE-35 Ltda.	7,558	7,560	(129)	(127)
A410	Gafisa SPE 38 Empr. Imob. Ltda.	8,427	8,054	109	198
A420	Lt Incorporadora SPE Ltda.	1,081	764	(527)	(93)
A490	Res. das Palmeiras Inc. SPE Lt.	751	641	1,246	657
A580	Gafisa SPE 41 Empr. Imob. Ltda.	14,275	13,108	1,534	293
A630	Dolce Vitabella Vita SPE S.A.	240	239	32	30
A640	Saira Verde Empreend. Imobil. Lt.	656	656	459	25
A680	Gafisa SPE 22 Ltda.	872	893	630	600
A730	Gafisa SPE 39 Empr. Imobil. Ltda.	7,482	7,593	(304)	(189)
A800	DV SPE SA	(578)	(580)	(571)	(574)
A870	Gafisa SPE 48 Empreend. Imobili.	1,606	5	1,677	123
A990	Gafisa SPE-53 Empre. Imob. Ltda.	47		(94)	1
B040	Jardim II Planej. Prom. Vda. Ltda.	8,713	8,359	(2,987)	(2,986)
B210	Gafisa SPE 37 Empreend. Imobil.	4,252	2,993	(398)	(137)
B270	Gafisa SPE-51 Empre. Imob. Ltda.	1,836	106	2,539	398
B430	Gafisa SPE 36 Empr. Imob. Ltda.	38,250	28,227	(1,165)	(353)
B440	Gafisa SPE 47 Empreend. Imobili.	595	3,059	594	17
B590	Sunplace SPE Ltda.	(191)	(191)	415	415
B630	Sunshine SPE Ltda.	1,954	3,308	1,615	1,401
B640	Gafisa SPE 30 Ltda.	3,950	3,789	(1,217)	(1,628)
B760	Gafisa SPE-50 Empr. Imob. Ltda.	(736)	(901)	(71)	169
B800	Tiner Campo Belo I Empr. Imobil.	9,767		6,699	
B830	Gafisa SPE-33 Ltda.	6,540	5,763	2,846	775
C010	Jardim I Planej. Prom. Vda. Ltda.	5,667	6,058	6,662	6,556
C070	Verdes Praças Inc. Imob. Spe. Lt.	(2,542)	(2,548)	(38)	(50)
C100	Gafisa SPE 42 Empr. Imob. Ltda.	1,520		221	2
C150	Península I SPE SA	(1,049)	(500)	(1,117)	(1,300)
C160	Península 2 SPE SA	6,653	8,053	1,815	881
C180	Blue I SPE Ltda.	1,296	849	74	9
C410	Gafisa SPE-55 Empr. Imob. Ltda.	448	2	(3)	1
C440	Gafisa SPE 32	(2,463)		(2,292)	
C460	Cyrela Gafisa SPE Ltda.	2,984		2,984	
C490	Unigafisa Partipações SCP			(8,368)	
C540	Villagio Panamby Trust SA	(778)	200	749	3,262
C550	Diodon Participações Ltda.	(5,697)		13,669	
C800	Gafisa SPE 44 Empreend. Imobili.	1,195	80	176	53
C850	Gafisa S.A.				
D100	Gafisa SPE 65 Empreend. Imob. Ltd.	969	1,029	84	128
D590	Gafisa SPE-72	253		254	
D620	Gafisa SPE 52 Empreend. Imob. Ltd.	3	3	1	2
D730	Gafisa SPE-32 Ltda.	2,220	1,665	2,220	909
E350	Gafisa SPE-71	1,084		1,135	
E410	Gafisa SPE-73	2,702		2,702	
E550	Gafisa SPE 69 Empreendimertos	3,012		162	
E560	Gafisa SPE 43 Empr. Imob. Ltda.	4	3		
E770	Gafisa SPE-74 Emp. Imob. Ltda.	1,367		(158)	

E780	Gafisa SPE 59 Empreend. Imob. Ltda.	2	2	1	1
E790	Gafisa SPE-67 Emp. Ltda.			1	
E970	Gafisa SPE 68 Empreendimertos	1		1	
E980	Gafisa SPE-76 Emp. Imob. Ltda.	2		1	
E990	Gafisa SPE-77 Emp. Imob. Ltda.	3,289		3,289	
F100	Gafisa SPE-78 Emp. Imob. Ltda.	58		1	
F110	Gafisa SPE-79 Emp. Imob. Ltda.	2		1	
F120	Gafisa SPE 70 Empreendimertos	5		(746)	
F130	Gafisa SPE 61 Empreendimento I	1		(13)	

		Parent company		Consolidated	
	Current account	**2008**	**2007**	**2008**	**2007**
F140	Soc. em Cta. de Particip. Gafisa	(878)		(878)	
F260	Gafisa SPE 75 Ltda.	59		1	
F270	Gafisa SPE 80 Ltda.	1		1	
F520	Gafisa SPE 85 Emp. Imob. Ltda.	(194)		15	
F580	Gafisa SPE 86	50		(59)	
F590	Gafisa SPE 81			1	
F600	Gafisa SPE 82			1	
F610	Gafisa SPE 83			1	
F620	Gafisa SPE 87			1	
F630	Gafisa SPE 88			1	
F640	Gafisa SPE 89			1	
F650	Gafisa SPE 90			1	
F660	Gafisa SPE 84	381		382	
L130	Gafisa SPE-77 Empre. Ltda.			(2,748)	
N030	Mario Covas SPE Empreendimento	45	45	(202)	19
N040	Imbui I SPE Empreendimento Imo.	1	1	1	1
N090	Acedio SPE Empreend. Imob. Ltda.	1	1	2	1
N120	Maria Inês SPE Empreend. Imob.	1	1	(2)	1
N230	Gafisa SPE 64 Empreendimento I	1	1	(50)	1
N250	Fit Jd. Botânico SPE Empr. Imob.	1	1		1
X100	Cipesa Empreendimentos Imobili.	6			
X200	Cipesa Empreendimentos Imobili.		(21)		(17)
0070	Bairro Novo Empreend. Imobil. SA		3,767		3,630
0080	Abv - Gardênia		(65)		(65)
0060	Gafisa Vendas I. Imob. Ltda.		1,858		(129)
C190	Blue II Plan. Prom. e Venda Lt.		608		(743)
C575	Condomínio Strelitzia		(8,074)		10,254
N010	FIT Roland Garros Empr. Imb. Ltd.		381		291
N070	FIT Resid. Empreend. Imob. Ltda.		30		(2,570)
N200	FIT 01 SPE Empreend. Imob. Ltda.				1
N210	FIT 02 SPE Empreend. Imob. Ltda.				1
N220	FIT 03 SPE Empreend. Imob. Ltda.				1
	Other		4		(4,739)
		154,266	109,387	47,291	15,299
	Third party works				
A053	Camargo Corrêa Des. Imob. S.A.	916	(16)	916	(16)
A103	Genesis Desenvol. Imob. S.A.	(216)	(277)	(216)	(277)
A213	Empr. Incorp. Boulevard SPE Lt.	56	56	56	56
A243	Cond. Const. Barra First Class	31	31	31	31
A833	Klabin Segall S.A.	532	532	532	532
A843	Edge Incorp. e Part. Ltda.	146	146	146	146
A853	Multiplan Plan. Particip. e Ad.	100	100	100	100

A933	Administ. Shopping Nova América	90	(11)	90	(11)
A973	Ypuã Empreendimentos Imobiliár.	4		4	
B053	Cond. Constr. Jd. Des. Tuiliere	(124)	(124)	(124)	(124)
B103	Rossi AEM Incorporação Ltda.	3	3	3	3
B293	Patrimônio Constr. e Empr. Ltda.	307	307	307	307
B323	Camargo Corrêa Des. Imob. S.A.	(762)		(762)	
B353	Condomínio Park Village	(107)	(115)	(107)	(115)
B363	Boulevard Jardins Empr. Incorp.	(89)	(623)	(89)	(623)
B383	Rezende Imóveis e Construções	809	802	809	802
B393	São José Constr. e Com. Ltda.	543	543	543	543
B403	Condomínio Civil Eldorado	276	276	276	276

		Parent company		Consolidated	
	Current account	**2008**	**2007**	**2008**	**2007**
B423	Tati Construtora Incorp. Ltda.	286	286	286	286
B693	Columbia Engenharia Ltda.	431	431	431	431
B753	Civilcorp Incorporações Ltda.	4		4	
B773	Waldomiro Zarzur Eng. Const. Lt.	1,801	1,801	1,801	1,801
B783	Rossi Residencial S.A.	431	431	431	431
B863	RDV 11 SPE Ltda.	(781)	(781)	(781)	(781)
B913	Jorges Imóveis e Administrações	1		1	
C273	Camargo Corrêa Des. Imob. S.A.	(1,071)		(1,071)	
C283	Camargo Corrêa Des. Imob. S.A.	(171)		(171)	
C433	Patrimônio Const. Empreend. Ltda.	155	155	155	155
D963	Alta Vistta Maceió (controle)	1		1	
D973	Forest Ville (OAS)	507		507	
D983	Garden Ville (OAS)	276		276	
E093	JTR - Jatiuca Trade Residence	(600)		(600)	
E103	Acquarelle (Controle)	1		1	
E133	RIV Pta Negra - Ed. Nice	163		163	
E313	Palm Ville (OAS)	185		185	
E323	Art. Ville (OAS)	180		180	
B713	Concord. Incorp. Imob. S/C Ltda.		11		11
B260	Guarapiranga - Lírio		446		446
	Other	34	1		(4)
		4,348	4,411	4,315	4,406
		167,522	112,021	60,511	17,928
	Balance reported in assets	510,008	312,253	60,511	17,928
	Balance reported in liabilities	(342,486)	(200,232)		
		167,522	112,021	60,511	17,928

Management compensation

The compensation of the Company s management members is as follows:

	2008	**2007**
Fees of Board of Directors	916	867
Fees of Board of Executive Officers	3,231	4,649
	4,147	5,516

18 Insurance

Gafisa S.A. and its subsidiaries maintain insurance policies against engineering risk, barter guarantee, guarantee for the completion of the work and civil liability related to unintentional personal damages caused to third parties and material damages to tangible assets, as well as against fire hazards, lightning strikes, electrical damages, natural disasters and gas explosion.

The contracted coverage is considered sufficient by management to cover possible risks involving its assets and/or responsibilities.

19 Segment Information

Starting in 2007, following the acquisition, formation and incorporation of AUSA, Fit Residencial, Bairro Novo and Tenda, respectively, the Company s management assesses segment information primarily on the basis of different business segments rather than geographic regions in Brazil.

The Company s chief executive officer, who is responsible for allocating funds among the businesses and monitoring their progress, uses economic present value data, which is derived from a combination of historical operating results and forecasted operating results. The Company provides below a measure of historical profit or loss, selected segment assets and other related information for each reporting segment.

This information is the basis of the internal data that is used by management to develop economic present value estimates and provided to the chief executive officer for making operating decisions, which include the allocation of resources among segments and segment performance. The information is derived from the statutory accounting records which are maintained in accordance with the Brazilian GAAP. The reporting segments do not separate operating expenses, total assets and depreciation. Revenues from no individual customer represented more than 10% of our net sales and/or services.

						2008
	Gafisa S.A. (i)	**Tenda (ii)**	**AUSA**	**Fit Residencial (iii)**	**Bairro Novo**	**Total**
Net operating revenue	1,214,562	163,897	249,586	78,467	33,892	1,740,404
Operating costs	(847,617)	(111,920)	(167,043)	(60,082)	(27,739)	(1,214,401)
Gross profit	366,945	51,976	82,543	18,386	6,153	526,003
Gross margin - %	30,2	31,7	33,1	23,4	18,2	30,2
Net income	103,650	15,685	21,081	(22,263)	(8,232)	109,921
Receivables from clients (current and long term)	1,377,690	565,576	174,096		1,183	2,118,545
Properties for sale	1,340,555	549,989	135,173		3,260	2,028,977
Other assets	915,646	428,465	39,585		7,640	1,391,336

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	Gafisa S.A. (i)	Tenda (ii)	AUSA	Fit Residencial (iii)	Bairro Novo	Total
						2008
Total assets	3,633,891	1,544,030	348,854		12,083	5,538,858

(i) Includes all subsidiaries, except Tenda, Alphaville Urbanismo S.A., Fit Residencial and Bairro Novo. (ii) Includes the result for the period of 10 months and 21 days of Fit Residencial. (iii) Includes the result for the period of 2 months and 10 days of Tenda.

	Gafisa S.A. (*)	AUSA	Fit Residencial	Bairro Novo	Total
					2007
Net operating revenue	1,004,418	192,700	7,169		1,204,287
Operating costs	(726,265)	(136,854)	(4,877)		(867,995)
Gross profit	278,153	55,846	2,292		336,292
Gross margin - %	27,7	29,0	32,0		27,9
Net income	91,941	14,994	(11,282)	(4,013)	91,640
Receivables from clients (current and long term)	873,229	96,718	1,698		971,645
Properties for sale	878,137	96,195	45,548	2,399	1,022,279
Other assets	922,200	56,727	26,349	5,585	1,010,861
Total assets	2,673,566	249,640	73,595	7,984	3,004,785

(*) Includes all subsidiaries, except Construtora Tenda S.A., Alphaville Urbanismo S.A., Fit Residencial and Bairro Novo.

20 Subsequent event

On February 27, 2009, Gafisa and Odebrecht Empreendimentos Imobiliários S.A. announced an agreement for the dissolution of the partnership entered into with Odebrecht Empreendimentos Imobiliários S.A. in Bairro Novo Empreendimentos Imobiliários S.A., terminating the Shareholders Agreement then effective between the partners. Therefore Gafisa is no longer a partner in Bairro Novo Empreendimentos Imobiliários S.A. The real estate ventures that were being conducted together by the parties started to be carried out separately, GAFISA in charge of developing the Bairro Novo Cotia real estate venture, whereas Odebrecht Empreendimentos Imobiliários S.A. in charge of the other ventures of the dissolved partnership, in addition to the operation of Bairro Novo Empreendimentos Imobiliários S.A.

SIGNATURE

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.

Date: June 1, 2009

Gafisa S.A.

By: /s/ Alceu Duílio Calciolari

Name: Alceu Duílio Calciolari
Title: Chief Financial Officer

FORWARD-LOOKING STATEMENTS

This press release may contain forward-looking statements. These statements are statements that are not historical facts, and are based on management's current view and estimates offuture economic circumstances, industry conditions, company performance and financial results. The words "anticipates", "believes", "estimates", "expects", "plans" and similar expressions, as they relate to the company, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends, the implementation of principal operating and financing strategies and capital expenditure plans, the direction of future operations and the factors or trends affecting financial condition, liquidity or results of operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will a ctually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.