

EMCORE CORP
Form 10-Q
February 09, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such

files). ☐ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of “large accelerated filer”, “accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one): ☐ Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company

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

The number of shares outstanding of the registrant’s no par value common stock as of February 4, 2010 was 81,741,138.

CAUTIONARY STATEMENT
FOR PURPOSES OF “SAFE HARBOR PROVISIONS”
OF THE PRIVATE SECURITIES LITIGATION ACT OF 1995

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Exchange Act of 1934. These forward-looking statements are largely based on our current expectations and projections about future events and financial trends affecting the financial condition of our business. Such forward-looking statements include, in particular, projections about our future results included in our Exchange Act reports, statements about our plans, strategies, business prospects, changes and trends in our business and the markets in which we operate. These forward-looking statements may be identified by the use of terms and phrases such as “anticipates”, “believes”, “can”, “could”, “estimates”, “expects”, “forecasts”, “intends”, “may”, “plans”, “targets”, “will”, and similar expressions or variations of these terms and similar phrases. Additionally, statements concerning future matters such as the development of new products, enhancements or technologies, sales levels, expense levels and other statements regarding matters that are not historical are forward-looking statements. Management cautions that these forward-looking statements relate to future events or our future financial performance and are subject to business, economic, and other risks and uncertainties, both known and unknown, that may cause actual results, levels of activity, performance or achievements of our business or our industry to be materially different from those expressed or implied by any forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include without limitation those discussed under Item 1A - Risk Factors in our Annual Report on Form 10-K for the fiscal year ended September 30, 2009. The cautionary statements should be read as being applicable to all forward-looking statements wherever they appear in this Quarterly Report and they should also be read in conjunction with the consolidated financial statements, including the related footnotes.

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

EMCORE Corporation
FORM 10-Q
For The Quarterly Period Ended December 31, 2009

TABLE OF CONTENTS

	PAGE
Part I Financial Information	
Item 1. Financial Statements	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	29
Item 3. Quantitative and Qualitative Disclosures About Market Risk	37
Item 4. Controls and Procedures	38
Part II Other Information	
Item 1. Legal Proceedings	39
Item 1A. Risk Factors	41
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	42
Item 3. Defaults Upon Senior Securities	42
Item 4. Submission of Matters to a Vote of Security Holders	42
Item 5. Other Information	42
Item 6. Exhibits	43
SIGNATURES	44

PART I.
ITEM I.FINANCIAL INFORMATION
Financial Statements

EMCORE CORPORATION
Condensed Consolidated Statements of Operations and Comprehensive Loss
For the three months ended December 31, 2009 and 2008
(in thousands, except loss per share)
(unaudited)

	For the Three Months Ended December 31,	
	2009	2008
Product revenue	\$ 40,939	\$ 51,554
Service revenue	1,462	2,502
Total revenue	42,401	54,056
Cost of product revenue	33,229	50,772
Cost of service revenue	1,168	1,695
Total cost of revenue	34,397	52,467
Gross profit	8,004	1,589
Operating expenses:		
Selling, general, and administrative	12,423	12,159
Research and development	7,513	8,110
Impairments	-	33,781
Total operating expenses	19,936	54,050
Operating loss	(11,932)	(52,461)
Other (income) expense:		
Interest income	(2)	(50)
Interest expense	116	195
Foreign exchange loss	232	472
Loss from financing derivative instrument	1,360	-
Impairment of investment	-	367
Total other expense	1,706	984
Net loss	\$ (13,638)	\$ (53,445)
Foreign exchange translation adjustment	79	108
Comprehensive loss	\$ (13,559)	\$ (53,337)

Edgar Filing: EMCORE CORP - Form 10-Q

Per share data:

Net loss per basic and diluted share	\$	(0.17)	\$	(0.69)
--------------------------------------	----	--------	----	--------

Weighted-average number of basic and diluted shares outstanding	81,113	77,816
---	--------	--------

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

EMCORE CORPORATION
Condensed Consolidated Balance Sheets
As of December 31, 2009 and September 30, 2009
(in thousands)
(unaudited)

	As of December 31, 2009	As of September 30, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,138	\$ 14,028
Restricted cash	4	1,521
Available-for-sale securities	1,350	1,350
Accounts receivable, net of allowance of \$6,640 and \$7,125, respectively	40,726	39,417
Inventory, net	31,454	34,221
Prepaid expenses and other current assets	4,550	4,712
Total current assets	93,222	95,249
Property, plant and equipment, net	52,719	55,028
Goodwill	20,384	20,384
Other intangible assets, net	12,424	12,982
Long-term restricted cash	163	163
Other non-current assets, net	720	753
Total assets	\$ 179,632	\$ 184,559

LIABILITIES and SHAREHOLDERS' EQUITY

Current liabilities:		
Borrowings from credit facility	\$ 10,678	\$ 10,332
Short-term debt	843	842
Accounts payable	28,632	24,931
Accrued expenses and other current liabilities	21,042	21,687
Total current liabilities	61,195	57,792
Warrant liability	1,132	-
Other long-term liabilities	103	104
Total liabilities	62,430	57,896

Commitments and contingencies

Shareholders' equity:

Preferred stock, \$0.0001 par, 5,882 shares authorized; no shares outstanding	-	-
Common stock, no par value, 200,000 shares authorized; 81,900 shares issued and 81,741 shares outstanding as of December 31, 2009;		
80,982 shares issued and 80,823 shares outstanding as of September 30, 2009	692,942	688,844
Accumulated deficit	(574,471)	(560,833)
Accumulated other comprehensive income	814	735
Treasury stock, at cost; 159 shares as of December 31, 2009 and September 30, 2009	(2,083)	(2,083)
Total shareholders' equity	117,202	126,663
Total liabilities and shareholders' equity	\$ 179,632	\$ 184,559

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

EMCORE CORPORATION
Condensed Consolidated Statements of Cash Flows
For the three months ended December 31, 2009 and 2008
(in thousands)
(unaudited)

	For the Three Months Ended December 31,	
	2009	2008
Cash flows from operating activities:		
Net loss	\$ (13,638)	\$ (53,445)
Adjustments to reconcile net loss to net cash used in operating activities:		
Impairments	-	33,781
Stock-based compensation expense	3,186	2,150
Depreciation and amortization expense	3,117	4,293
Provision for inventory	(378)	4,362
Provision for doubtful accounts	(434)	922
Provision for product warranty	340	-
Impairment of investment	-	366
Loss on disposal of equipment	-	97
Compensatory stock issuances	200	18
Loss from financing derivative instrument	1,360	-
Total non-cash adjustments	7,391	45,989
Changes in operating assets and liabilities:		
Accounts receivable	(1,004)	(1,938)
Inventory	3,143	(4,337)
Other assets	173	225
Accounts payable	3,682	(6,806)
Accrued expenses and other current liabilities	(987)	(832)
Total change in operating assets and liabilities	5,007	(13,688)
Net cash used in operating activities	(1,240)	(21,144)
Cash flows from investing activities:		
Purchase of plant and equipment	(87)	(597)
Investments in patents	(158)	-
Sale of available-for-sale securities	-	1,700
Release of restricted cash	1,517	27
Net cash provided by investing activities	\$ 1,272	\$ 1,130

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

EMCORE CORPORATION
Condensed Consolidated Statements of Cash Flows
For the three months ended December 31, 2009 and 2008
(in thousands)
(unaudited)

(Continued from previous page)	For the Three Months Ended December 31,	
	2009	2008
Cash flows from financing activities:		
Proceeds from borrowings from credit facility	\$ 58,227	\$ 15,443
Payments on borrowings from credit facility	(57,881)	-
Proceeds from borrowings on short-term debt	3	910
Payments on borrowings on short-term debt	(2)	-
Proceeds from exercise of stock options	-	32
Proceeds from employee stock purchase plan	505	613
Payments on capital lease obligations	(2)	-
Net cash provided by financing activities	850	16,998
Effect of foreign currency	228	107
Net increase (decrease) in cash and cash equivalents	1,110	(2,909)
Cash and cash equivalents at beginning of period	14,028	18,227
Cash and cash equivalents at end of period	\$ 15,138	\$ 15,318

SUPPLEMENTAL DISCLOSURE OF CASH FLOW
INFORMATION

Cash paid during the period for interest	\$ 76	\$ 132
Cash paid during the period for income taxes	\$ -	\$ -

NON-CASH INVESTING AND FINANCING ACTIVITIES

Acquisition of equipment under capital lease	\$ -	\$ -
Issuance of common stock under financing derivative instrument	\$ 228	\$ -

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

EMCORE Corporation
Notes to Consolidated Financial Statements

NOTE 1. Basis of Presentation

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

These statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim information, and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for annual financial statements. In the opinion of management, the interim financial statements reflect all normal adjustments that are necessary to provide a fair presentation of the financial results for the interim periods presented. Operating results for interim periods are not necessarily indicative of results that may be expected for an entire fiscal year. The condensed consolidated balance sheet as of September 30, 2009 has been derived from the audited consolidated financial statements as of such date. For a more complete understanding of the Company's financial position, operating results, risk factors and other matters, please refer to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2009.

We have evaluated subsequent events from December 31, 2009 through February 9, 2010, the date that these financial statements were issued.

Use of Estimates. The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as of the date of the financial statements, and the reported amounts of revenue and expenses during the reported period. The accounting estimates that require our most significant, difficult, and subjective judgments include:

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

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

Loss per Share. The Company's loss per share was calculated by dividing net loss applicable to common stock by the weighted average number of common stock shares outstanding for the period and it is presented in the accompanying consolidated statements of operations. For the three months ended December 31, 2009, and 2008, all stock options and warrants were excluded from the computation of diluted earnings per share since the Company incurred a net loss for these periods and any effect would have been anti-dilutive.

Liquidity and Capital Resources

As of December 31, 2009, cash, cash equivalents, available-for-sale securities and current restricted cash totaled approximately \$16.5 million.

The Company incurred a net loss of \$13.6 million for the three months ended December 31, 2009. The Company's operating results for future periods are subject to numerous uncertainties and it is uncertain if the Company will be able to reduce or eliminate its net losses for the foreseeable future. Although the Company experienced year-over-year revenue growth in most years, in fiscal 2009, the Company had not been able to sustain historical revenue growth rates due to material adverse changes in market and economic conditions.

In the event that management is not able to increase revenue and/or manage operating expenses in line with revenue forecasts, the Company may not be able to achieve profitability.

Historically, the Company has consumed cash from operations. During the three months ended December 31, 2009, the Company consumed cash from operations of approximately \$1.2 million and, over the last three quarters, has only consumed \$0.2 million in cash from operations due primarily to improved working capital management.

Management Actions and Plans

Historically, management has addressed liquidity requirements through a series of cost reduction initiatives, capital markets transactions, and the sale of assets. Management anticipates that the current recession in the United States and internationally may continue to impose formidable challenges for the Company's businesses in the near term.

Due to significant differences in operating strategy between the Company's Fiber Optics and Photovoltaics businesses, the Company's management and board of directors believes that they would provide greater value to shareholders if they were operated as two separate business entities.

In furtherance of this strategy, on February 3, 2010, the Company entered into a share purchase agreement to create a joint venture with Tangshan Caofeidian Investment Corporation ("TCIC"), a Chinese investment company located in the Caofeidian Industry Zone, Tangshan City, Hebei Province of China. The agreement provides for TCIC to purchase a sixty percent (60%) interest in the Company's Fiber Optics business (excluding its satellite communications and specialty photonics fiber optics product lines), which will be operated as a joint venture once the transaction is closed. The Fiber Optics businesses included in this transaction are the Company's telecom, enterprise, cable television (CATV), fiber-to-the-premises (FTTP), and video transport product lines. The Company will retain the satellite communications and specialty photonics fiber optics product lines as well as the satellite and terrestrial solar businesses. See Footnote 17 – Subsequent Event for additional information related to this new joint venture.

During fiscal 2009, management implemented a series of measures and continues to evaluate opportunities intended to align the Company's cost structure with its revenue forecasts. Such measures included several workforce reductions, temporary salary reductions, the elimination of executive and employee merit increases and bonuses for fiscal 2009, and the elimination or reduction of certain discretionary expenses. The Company has also significantly lowered its spending on capital expenditures and focused on improving the management of its working capital. During the last twelve months ended December 31, 2009, the Company monetized approximately \$25.5 million of inventory, generated \$16.9 million in cash from lowering its accounts receivable balances and achieved positive cash flow from operations during the quarters ended June 30, 2009 and September 30, 2009.

In fiscal 2010, the Company continues to remain focused on maximizing cash flow from operations while developing additional sources of liquidity.

On October 1, 2009, the Company entered into an equity line of credit arrangement with Commerce Court Small Cap Value Fund, Ltd. ("Commerce Court"). Upon issuance of a draw-down request by the Company, Commerce Court has committed to purchasing up to \$25 million worth of shares of the Company's common stock over the 24-month term of the purchase agreement, provided that the number of shares the Company may sell under the facility is limited to no more than 15,971,169 shares of common stock or that would result in the beneficial ownership of more than 9.9% of the then issued and outstanding shares of the Company's common stock.

Conclusion

We believe that our existing balances of cash, cash equivalents, and available-for-sale securities, together with the cash expected to be generated from operations, amounts expected to be available under our revolving credit facility with Bank of America and the equity line of credit agreement with Commerce Court will provide us with sufficient financial resources to meet our cash requirements for operations, working capital, and capital expenditures for the next 12 months. However, in the event of unforeseen circumstances, or unfavorable market or economic developments, we may have to raise additional funds by any one or a combination of the following: issuing equity, debt or convertible debt, or selling certain product lines and/or portions of our business. There can be no guarantee that we will be able to raise additional funds on terms acceptable to us, or at all. A significant contraction in the capital markets, particularly in the technology sector, may make it difficult for us to raise additional capital if or when it is required, especially if

we experience disappointing operating results. If adequate capital is not available to us as required, or is not available on favorable terms, our business, financial condition and results of operations may be adversely affected.

NOTE 2. Recent Accounting Pronouncements

ASC 105 – Generally Accepted Accounting Principles. On October 1, 2009, the Company adopted new authoritative guidance within ASC 105 which establishes the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”) as the sole source of authoritative accounting principles recognized by the FASB to be applied by all nongovernmental entities in the preparation of financial statements in conformity with GAAP. The adoption of this new guidance did not impact the Company’s results of operations or financial condition, but it revised the reference of accounting pronouncements within this Quarterly Report.

ASC 350 – Intangibles – Goodwill and Other. On October 1, 2009, the Company adopted new authoritative guidance within ASC 350 which amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets and the period of expected cash flows used to measure the fair value of intangible assets under ASC 805, Business Combinations. The adoption of this new guidance did not have any impact on the Company's results of operations or financial condition.

ASC 470 – Debt. On October 1, 2009, the Company adopted new authoritative guidance within ASC 470 that requires the proceeds from the issuance of certain convertible debt instruments to be allocated between a liability component (issued at a discount) and an equity component. The resulting debt discount is amortized over the period the convertible debt is expected to be outstanding as additional non-cash interest expense. The change in accounting treatment is effective for the Company beginning in fiscal 2010, and it is required to be applied retrospectively to prior periods. Management is currently assessing the potential impact upon adoption of this new guidance and expects it will have an effect on the Company's fiscal 2008 statement of operations, but it should not have any effect on the fiscal 2008 ending equity account balances or the fiscal 2009 financial statements.

ASC 605 – Revenue Recognition. In October 2009, the FASB issued new authoritative guidance on revenue recognition related to arrangements with multiple deliverables that will become effective in fiscal 2011, with earlier adoption permitted. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement can not be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. Management is currently assessing the potential impact that the adoption of this new guidance could have on the Company's financial statements.

ASC 805 – Business Combinations. On October 1, 2009, the Company adopted new authoritative guidance within ASC 805 which requires an acquirer to recognize the assets acquired, the liabilities assumed, including those arising from contractual contingencies, any contingent consideration, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the statement. It also requires the acquirer in a business combination achieved in stages (sometimes referred to as a step acquisition) to recognize the identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, at the full amounts of their fair values (or other amounts determined in accordance with this accounting principle). In addition, the accounting principle's requirement to measure the noncontrolling interest in the acquiree at fair value will result in recognizing the goodwill attributable to the noncontrolling interest in addition to that attributable to the acquirer. ASC 805 also requires the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. It also provides guidance on the impairment testing of acquired research and development intangible assets and assets that the acquirer intends not to use. ASC 805 applies prospectively to business combinations for which the acquisition date is on or after October 1, 2009, therefore, the adoption of ASC 805 did not have any impact on the Company's historical financial statements.

ASC 810 – Consolidation. – On October 1, 2009, the Company adopted new authoritative guidance within ASC 810 which establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. ASC 810 also changes the way the consolidated income statement is presented by requiring consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. ASC 810 requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated and requires expanded disclosures in the consolidated financial statements that

clearly identify and distinguish between the interests of the parent owners and the interests of the noncontrolling owners of a subsidiary. The adoption of this new guidance did not have any impact on the Company's results of operations or financial condition.

NOTE 3. Equity

Stock Options

The Company provides long-term incentives to eligible officers, directors, and employees in the form of stock options. Most of the stock options vest and become exercisable over four to five years and have a contractual life of ten years. The Company maintains two stock option plans: the 1995 Incentive and Non-Statutory Stock Option Plan ("1995 Plan") and the 2000 Stock Option Plan ("2000 Plan" and, together with the 1995 Plan, the "Option Plans"). The 1995 Plan authorizes the grant of stock options up to 2,744,118 shares of the Company's common stock. The 2000 Plan authorizes the grant of stock options up to 15,850,000 shares of the Company's common stock. As of December 31, 2009, no stock options were available for issuance under the 1995 Plan and 2,252,014 stock options were available for issuance under the 2000 Plan. Certain options under the Option Plans are intended to qualify as incentive stock options pursuant to Section 422A of the Internal Revenue Code. The Company issues new shares of common stock to satisfy the issuance of shares under the Option Plans.

The following table summarizes the activity under the Option Plans:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)
Outstanding as of September 30, 2009	10,788,174	\$ 4.85	
Granted	24,000	1.02	
Exercised	-	-	
Forfeited	(95,913)	3.37	
Cancelled	(762,494)	5.57	
Outstanding as of December 31, 2009	9,953,767	\$ 4.78	7.78
Exercisable as of December 31, 2009	3,625,721	\$ 5.92	5.92
Vested and expected to vest as of December 31, 2009	5,883,866	\$ 5.05	7.10

As of December 31, 2009, there was approximately \$5.5 million of total unrecognized compensation expense related to non-vested stock-based compensation arrangements granted under the Option Plans. This expense is expected to be recognized over an estimated weighted average life of 2.8 years.

Intrinsic value for stock options represents the “in-the-money” portion or the positive variance between a stock option’s exercise price and the underlying stock price. There were no stock options exercised during the three months ended December 31, 2009. The total intrinsic value related to stock options exercised during the three months ended December 31, 2008 totaled approximately \$10,000. The intrinsic value related to fully vested and expected to vest stock options as of December 31, 2009 totaled approximately \$11,000 and there was no intrinsic value related to exercisable stock options as of December 31, 2009.

Number of Stock Options Outstanding			Options Exercisable		
Exercise Price of Stock Options	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
<\$5.00	5,104,908	8.02	\$1.90	1,496,845	\$2.98
>=\$5.00 to <\$10.00	4,729,939	7.66	7.55	2,035,056	7.41
>\$10.00	118,920	2.64	18.53	93,820	20.47
TOTAL	9,953,767	7.78	\$4.78	3,625,721	\$5.92

Stock-based compensation expense is measured at the stock option grant date, based on the fair value of the award, and is recorded to cost of sales; sales, general, & administrative; and research and development expense based on individual employee's responsibility and function over the requisite service period. Management has made an estimate of expected forfeitures and is recognizing compensation expense only for those equity awards expected to vest. The effect of recording stock-based compensation expense was as follows:

(in thousands, except per share data)	For The Three Months Ended December 31,	
	2009	2008
Stock-based compensation expense by award type:		
Employee stock options	\$ 3,006	\$ 1,995
Employee stock purchase plan	180	155
Total stock-based compensation expense	\$ 3,186	\$ 2,150
Net effect on net loss per basic and diluted share	\$ (0.04)	\$ (0.02)

Surrender of Stock Options

On November 20, 2009, Mr. Markovich, the Company's Chief Financial Officer, voluntarily surrendered stock options exercisable into 475,000 shares of common stock. These stock options had an exercise price of \$5.57 and were granted to Mr. Markovich on August 18, 2008. Mr. Markovich received no consideration in exchange for the surrender of these stock options. The surrender of his non-vested stock options resulted in an immediate non-cash charge of \$1.3 million which was recorded in SG&A during the three months ended December 31, 2009. The expense was due to the acceleration of all unrecognized stock-based compensation expense associated with that specific stock option grant.

Valuation Assumptions

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option valuation model and the straight-line attribution approach using the following weighted-average assumptions. The option-pricing model requires the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock. The weighted-average grant date fair value of stock options granted during the three months ended December 31, 2009 and 2008 was \$1.02 and \$2.95, respectively.

Black-Scholes Weighted-Average Assumptions

For the Three Months
Ended December 31,

Stock Options

	2009	2008
Expected dividend yield	-%	-%
Expected stock price volatility	96.4%	92.4%
Risk-free interest rate	2.5%	3.5%
Expected term (in years)	3.8	6.1
Estimated pre-vesting forfeitures	32.6%	25.1%

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

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

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

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

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

Common Stock

The Company's Board of Directors has authorized a total of 200 million shares of common stock available for issuance.

Preferred Stock

The Company's Restated Certificate of Incorporation authorizes the Board of Directors to issue up to 5,882,352 shares of preferred stock upon such terms and conditions having such rights, privileges, and preferences as the Board of Directors may determine. As of December 31, 2009 and September 30, 2009, no shares of preferred stock were issued or outstanding.

Warrants

As of December 31, 2009, the Company had 3,000,003 warrants outstanding.

In October 2009, the Company entered into an equity line of credit arrangement and issued three warrants representing the right to purchase up to an aggregate of 1,600,000 shares of the Company's common stock. See Footnote 4 - Equity Facility, for additional information regarding this credit arrangement and warrants issued.

In February 2008, the Company also issued 1,400,003 warrants in conjunction with a private placement transaction. The warrants grant the holder the right to purchase one share of our common stock at a price of \$15.06 per share. The warrants are immediately exercisable and remain exercisable until February 20, 2013. Beginning two years after their issuance, the warrants may be called by the Company for a price of \$0.01 per underlying share if the closing price of its common stock has exceeded 150% of the exercise price for at least 20 trading days within a period of any 30 consecutive trading days and other certain conditions are met. In addition, in the event of certain fundamental transactions, principally the purchase of the Company's outstanding common stock for cash, the holders of the warrants may demand that the Company purchase the unexercised portions of their warrants for a price equal to the Black-Scholes Value of such unexercised portions as of the time of the fundamental transaction. Warrants issued to the investors were accounted for as an equity transaction with a value of \$9.8 million recorded to common stock.

Employee Stock Purchase Plan

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

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

	Number of Common Stock Shares	Purchase Price per Share of Common Stock
Amount of shares reserved for the ESPP	4,500,000	
Number of shares issued for calendar years 2000 through 2007	(1,123,857)	\$1.87 - \$40.93
Number of shares issued for calendar year 2008	(592,589)	\$0.88 - \$ 5.62
Number of shares issued for calendar year 2009	(1,073,405)	\$0.88 - \$ 0.92
Remaining shares reserved for the ESPP	1,710,149	

Future Issuances

Edgar Filing: EMCORE CORP - Form 10-Q

As of December 31, 2009, the Company had reserved a total of 16.9 million shares of its common stock for future issuances as follows:

	Number of Common Stock Shares Available
For exercise of outstanding common stock options	9,953,767
For future issuances to employees under the ESPP	1,710,149
For future common stock option awards	2,252,014
For future exercise of warrants	3,000,003
Total reserved	16,915,933

NOTE 4. Equity Facility

On October 1, 2009, the Company entered into a common stock purchase agreement (the “Purchase Agreement”) with Commerce Court Small Cap Value Fund, Ltd. (“Commerce Court”). The Purchase Agreement provides that upon certain terms and conditions, and the issuance of a draw-down request by the Company, Commerce Court has committed to purchasing up to \$25 million worth of shares of the Company’s common stock over the 24-month term of the Purchase Agreement; provided, however, in no event may the Company sell more than 15,971,169 shares of common stock under the Purchase Agreement, which is equal to one share less than twenty percent of the Company’s outstanding shares of common stock as of the closing date of the Purchase Agreement, less the number of shares of common stock the Company issued to Commerce Court on the closing date in partial payment of its commitment fee, or more shares that would result in the beneficial ownership or more than 9.9% of the then issued and outstanding shares of our common stock by Commerce Court.

As payment of a portion of Commerce Court’s fees in connection with the Purchase Agreement, the Company agreed to issue to Commerce Court upon the execution of the Purchase Agreement, 185,185 shares of common stock and three warrants representing the right to purchase up to an aggregate of 1,600,000 shares of common stock, as follows:

- a warrant, pursuant to which Commerce Court may purchase up to 666,667 shares of common stock at an exercise price of \$1.69, which is equal to 125% of the average of the volume weighted average price of common stock for the three trading days immediately preceding the execution date of the Purchase Agreement,
- a warrant, pursuant to which Commerce Court may purchase from up to 666,667 shares of common stock at an exercise price of \$2.02, which is equal to 150% of the average of the volume weighted average price of common stock for the three trading days immediately preceding the execution date of the Purchase Agreement, and
- a warrant, pursuant to which Commerce Court may purchase up to 266,666 shares of common stock at an exercise price of \$2.36, which is equal to 175% of the average of the volume weighted average price of common stock for the three trading days immediately preceding the execution date of the Purchase Agreement.

The warrants may be exercised at any time or from time to time between April 1, 2010 and April 1, 2015. The warrants may not be offered for sale, sold, transferred or assigned without our consent, in whole or in part, to any person other than an affiliate of Commerce Court. If after April 1, 2010, the Company’s common stock trades at a price greater than 140% of the exercise price of any warrant for a period of 10 consecutive trading days and the Company meets certain equity conditions, then the Company has the right to effect a mandatory exercise of such warrant.

From time to time over the term of the Purchase Agreement, and at the Company’s sole discretion, the Company may present Commerce Court with draw down notices to purchase common stock over a ten consecutive trading day period or such other period mutually agreed upon by the Company and Commerce Court (the “draw down period”) with each draw down subject to limitations based on the price of the Company’s common stock and a limit of the amount in the applicable fixed amount request, or 2.5% of the Company’s market capitalization at the time of such draw down, whichever is less.

The Company has the right to present Commerce Court with up to 24 draw down notices during the term of the Purchase Agreement, with only one such draw down notice allowed per draw down period with a minimum of five trading days required between each draw down period.

Once presented with a draw down notice, Commerce Court is required to purchase a pro rata portion of the shares on each trading day during the trading period on which the daily volume weighted average price for the common stock exceeds a threshold price determined by the Company for such draw down. The per share purchase price for these

shares will equal the daily volume weighted average price of the common stock on each date during the draw down period on which shares are purchased, less a discount of 5%. If the daily volume weighted average price of the common stock falls below the threshold price on any trading day during a draw down period, the Purchase Agreement provides that Commerce Court will not be required to purchase the pro-rata portion of shares of common stock allocated to that day. However, at its election, Commerce Court may buy the pro-rata portion of shares allocated to that day at the threshold price less the discount described above.

The Purchase Agreement also provides that, from time to time and at the Company's sole discretion, the Company may grant Commerce Court the right to exercise one or more options to purchase additional shares of common stock during each draw down period for an amount of shares specified by the Company based on the trading price of the common stock. Upon Commerce Court's exercise of such an option, the Company would sell to Commerce Court the shares of common stock subject to the option at a price equal to the greater of the daily volume weighted average price of the common stock on the day Commerce Court notifies the Company of its election to exercise its option or the threshold price for the option determined by the Company, less a discount calculated in the same manner as it is calculated in the draw down notice.

In addition to the issuance of shares of common stock to Commerce Court pursuant to the Purchase Agreement, a supplement to the Company's shelf registration statement filed with the SEC also covers the sale of those shares from time to time by Commerce Court to the public.

The Company paid \$45,000 of Commerce Court's attorneys' fees and expenses incurred by Commerce Court in connection with the preparation, negotiation, execution and delivery of the Purchase Agreement and related transaction documentation. The Company has also agreed to pay up to \$5,000 in certain fees and expenses incurred by Commerce Court in connection with any amendments, modifications or waivers of the Purchase Agreement, ongoing due diligence of our company and other transaction expenses associated with fixed requests made by the Company from time to time during the term of the Purchase Agreement, provided that the Company shall not be required to pay any reimbursement for any such expenses in any calendar quarter in which the Company provides a fixed request notice.

If the Company issues a draw down notice and fails to deliver the shares to Commerce Court on the applicable settlement date, and such failure continues for ten trading days, the Company has agreed to pay Commerce Court, at Commerce Court's option, liquidated damages in cash or restricted shares of common stock.

Upon each sale of common stock to Commerce Court under the Purchase Agreement, the Company has also agreed to pay Reedland Capital Partners, an Institutional Division of Financial West Group, a placement fee equal to 1% of the aggregate dollar amount of common stock purchased by Commerce Court.

Financial Impact

The Purchase Agreement meets all of the criteria of a financial derivative instrument in accordance with the accounting literature in ASC 815, Derivatives and Hedging. Derivative instruments should be measured initially at fair value; however, because the Purchase Agreement is based on the prevailing market price at a possible future transaction date, this variable-priced contract would not be expected to have a fair value other than zero. The warrants issued by the Company were classified as a liability since the warrants met the classification requirements for liability accounting in accordance with ASC 815.

Costs incurred to enter into this derivative instrument were expensed as incurred. During the three months ended December 31, 2009, the Company expensed the fair value of the common stock and warrants issued as a non-operating expense from a financing derivative instrument within the condensed consolidated statement of operations.

The fair value of the 185,185 shares of common stock issued was based on the closing price of \$1.23 per share on October 1, 2009, or \$0.2 million. The fair value of each warrant was estimated using the Black-Scholes option valuation model using the weighted-average assumptions set forth below. The option-pricing model requires the input of highly subjective assumptions, including the warrant's expected life and the price volatility of the underlying stock, as outlined below:

Black-Scholes Assumptions

As of October 1, 2009	Warrant 1	Warrant 2	Warrant 3	TOTAL
Grant date	10/1/09	10/1/09	10/1/09	
Stock price	\$1.23	\$1.23	\$1.23	
Exercise price	\$1.69	\$2.02	\$2.36	
Expected term	5.5 years	5.5 years	5.5 years	
Dividend yield	0%	0%	0%	
Volatility	95%	95%	95%	
Risk-free interest rate	2.2%	2.2%	2.2%	
Black-Scholes value	\$0.87	\$0.84	\$0.81	

Edgar Filing: EMCORE CORP - Form 10-Q

Number of warrants issued	666,667	666,667	266,666	1,600,000
Value of warrants	\$580,000	\$560,000	\$216,000	\$1,356,000

On October 1, 2009, the Company recorded \$1.4 million in non-operating expense related to the issuance of these warrants. The Company expects an impact to the consolidated statement of operations when it records an adjustment to fair value of the warrants at the end of each quarterly reporting period going forward.

As of December 31, 2009, the fair value of the warrants was estimated to be \$1.1 million and the Company recorded a gain of \$0.2 million on the change in fair value of the warrants since October 1, 2009. The fair value of each warrant was estimated using the following weighted-average assumptions:

Black-Scholes calculation

As of December 31, 2009	Warrant 1	Warrant 2	Warrant 3	TOTAL
Grant date	10/1/09	10/1/09	10/1/09	
Stock price	\$1.07	\$1.07	\$1.07	
Exercise price	\$1.69	\$2.02	\$2.36	
Expected term	5.25 years	5.25 years	5.25 years	
Dividend yield	0%	0%	0%	
Volatility	95%	95%	95%	
Risk-free interest rate	2.7%	2.7%	2.7%	
Black-Scholes value	\$0.73	\$0.70	\$0.67	
Number of warrants issued	666,667	666,667	266,666	1,600,000
Value of warrants	\$486,667	\$466,667	\$178,666	\$1,132,000

NOTE 5. Receivables

The components of accounts receivable consisted of the following:

(in thousands)	As of December 31, 2009	As of September 30, 2009
Accounts receivable	\$ 42,168	\$ 40,474
Accounts receivable – unbilled	5,198	6,068
Accounts receivable, gross	47,366	46,542
Allowance for doubtful accounts	(6,640)	(7,125)
Total accounts receivable, net	\$ 40,726	\$ 39,417

The Company records receivables from certain solar panel and solar power systems contracts using the percentage-of-completion method. The term of the contracts associated with this type of receivable usually exceed a period of one year. As of December 31, 2009, the Company had recorded \$13.0 million of accounts receivable using the percentage of completion method. Of this amount, \$8.5 million was invoiced and \$4.5 million was unbilled as of December 31, 2009. Unbilled accounts receivable represents revenue recognized but not yet billed or accounts billed after the period ended. Billings on contracts using the percentage-of-completion method usually occurs upon completion of predetermined contract milestones or other contract terms, such as customer approval. The allowance for doubtful accounts specifically related to receivables recorded using the percentage-of-completion method totaled \$2.5 million as of December 31, 2009. The allowance is based on the age of receivables and a specific identification

of receivables considered at risk of collection.

All of the Company's accounts receivable as of December 31, 2009 is expected to be collected within the next twelve months.

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

(in thousands)	For the Three Months Ended December	
	2009	2008
Balance at beginning of period	\$ 7,125	\$ 2,377
Provision adjustment – (recovery) expense	(434)	922
Write-offs - deductions against receivables	(51)	-
Balance at end of period	\$ 6,640	\$ 3,299

NOTE 6. Inventory

Inventory is stated at the lower of cost or market, with cost being determined using the standard cost method that includes material, labor, and manufacturing overhead costs. The components of inventory consisted of the following:

(in thousands)	As of December 31, 2009	As of September 30, 2009
Raw materials	\$ 28,237	\$ 27,607
Work-in-process	7,057	6,496
Finished goods	7,374	9,998
Inventory, gross	42,668	44,101
Less: valuation allowance	(11,214)	(9,880)
Total inventory, net	\$ 31,454	\$ 34,221

The following table summarizes the changes in the valuation allowance accounts:

(in thousands)	For the Three Months Ended December 31,	
	2009	2008
Balance at beginning of period	\$ 9,880	\$ 12,625
Provision adjustment – (recovery) expense	(378)	5,507
Adjustments against inventory or provisions	1,712	(780)
Balance at end of period	\$ 11,214	\$ 17,352

NOTE 7. Property, Plant, and Equipment

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

(in thousands)	As of December 31, 2009	As of September 30, 2009
Land	\$ 1,502	\$ 1,502
Building and improvements	34,922	34,922
Equipment	98,711	98,693
Furniture and fixtures	3,065	3,065
Computer hardware and software	2,655	2,660
Leasehold improvements	1,055	1,094
Construction in progress	3,144	3,031
Property, plant and equipment, gross	145,054	144,967

Less: accumulated depreciation and amortization	(92,335)	(89,939)
Total property, plant and equipment, net	\$ 52,719	\$ 55,028

As of December 31, 2009 and September 30, 2009, the Company did not have any significant capital lease agreements.

Depreciation expense was \$2.4 million and \$3.1 million for the three months ended December 31, 2009 and 2008, respectively.

NOTE 8. Goodwill

As of September 30, 2009, the Company performed an impairment test on its goodwill based on revised operational and cash flow forecasts. The impairment testing indicated that no impairment existed and that fair value exceeded carrying value by approximately 40%. As of December 31, 2009, the Company performed an annual impairment test on its goodwill of \$20.4 million related to its Photovoltaics reporting unit and the Company believes the carrying amount of the goodwill is not impaired. There were no events or change in circumstances that would more likely than not reduce the fair value of the Photovoltaics reporting unit below its carrying amount. However, if there is further erosion of the Company's market capitalization or the Photovoltaics reporting unit is unable to achieve its projected cash flows, management may be required to perform additional impairment tests of its remaining goodwill. The outcome of these additional tests may result in the Company recording goodwill impairment charges.

NOTE 9. Intangible Assets

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

(in thousands)	As of December 31, 2009			As of September 30, 2009		
	Gross Assets	Accumulated Amortization	Net Assets	Gross Assets	Accumulated Amortization	Net Assets
Fiber Optics	\$ 24,522	\$ (12,993)	\$ 11,529	\$ 24,494	\$ (12,341)	\$ 12,153
Photovoltaics	1,589	(694)	895	1,459	(630)	829
Total	\$ 26,111	\$ (13,687)	\$ 12,424	\$ 25,953	\$ (12,971)	\$ 12,982

The Company believes the carrying amount of its long-lived assets and intangible assets as of December 31, 2009 are recoverable. However, if there is further erosion of the Company's market capitalization or the Company is unable to achieve its projected cash flows, management may be required to perform impairment tests of its remaining long-lived assets and intangible assets. The outcome of these tests may result in the Company recording impairment charges.

Amortization expense related to intangible assets is generally included in SG&A on the consolidated statements of operations. Amortization expense was \$0.7 million and \$1.1 million for the three months ended December 31, 2009 and 2008, respectively.

Based on the carrying amount of the intangible assets as of December 31, 2009, the estimated future amortization expense is as follows:

(in thousands)	Estimated Future Amortization Expense
Nine months ended September 30, 2010	\$ 2,133
Fiscal year ended September 30, 2011	2,463
Fiscal year ended September 30, 2012	2,139
Fiscal year ended September 30, 2013	1,804
Fiscal year ended September 30, 2014	1,269
Thereafter	2,616
Total future amortization expense	\$ 12,424

NOTE 10. Accrued Expenses and Other Current Liabilities

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

(in thousands)	As of December 31, 2009	As of September 30, 2009
Compensation-related	\$ 4,521	\$ 5,861
Warranty	4,417	4,287
Loss on firm commitments	-	3,821
Professional fees	2,046	1,839
Royalty	2,113	1,937
Self insurance	1,431	1,272
Deferred revenue and customer deposits	3,858	886
Income and other taxes	685	625
Accrued program loss	15	51
Restructuring accrual	342	395
Other	1,614	713
Total accrued expenses and other current liabilities	\$ 21,042	\$ 21,687

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

(in thousands)	For the Three Months Ended December 31,	
	2009	2008
Balance at beginning of period	\$ 4,287	\$ 4,640
Provision adjustment – expense (recovery)	340	(133)
Utilization of warranty accrual	(210)	(395)
Balance at end of period	\$ 4,417	\$ 4,112

NOTE 11. Restructuring Charges

In accordance with ASC 420, Exit or Disposal Cost Obligations, restructuring charges include costs associated with the integration of business acquisitions and overall cost-reduction efforts, all of which are generally included in SG&A on the consolidated statements of operations.

Restructuring charges consisted of the following:

(in thousands)	For the Three Months Ended December 31,	
	2009	2008

Edgar Filing: EMCORE CORP - Form 10-Q

Employee severance-related expense	\$	8	\$	617
Other restructuring-related expense		-		-
Total restructuring charges	\$	8	\$	617

The following table sets forth changes in the severance and restructuring-related accrual accounts:

(in thousands)	Severance-related Accrual	Restructuring-related Accrual	Total
Balance as of September 30, 2009	\$ 226	\$ 395	\$ 621
Additional accruals	8	-	8
Cash payments or otherwise settled	(223)	(53)	(276)
Balance as of December 31, 2009	\$ 11	\$ 342	\$ 353

NOTE 12. Debt

Line of Credit

In September 2008, the Company closed a \$25 million asset-backed revolving credit facility with Bank of America which can be used for working capital, letters of credit and other general corporate purposes. Subsequently, the credit facility was amended resulting in a reduction in the total loan availability to \$14 million. The credit facility matures in September 2011 and is secured by virtually all of the Company's assets. The credit facility is subject to a borrowing base formula based on eligible accounts receivable and provides for prime-based borrowings.

As of December 31, 2009, the Company had a \$10.7 million prime rate loan outstanding, with an interest rate of 8.25%, and approximately \$2.9 million in outstanding standby letters of credit under this credit facility.

The facility is also subject to certain financial covenants. On February 8, 2010, the Company and Bank of America entered into a Sixth Amendment to the Company's revolving asset-backed credit facility, which (a) permits the Company to enter into foreign exchange hedging transactions pursuant to a separate facility with the bank, provided that available amounts under such facility shall be deducted from the maximum revolving loan limit under this facility; and (b) resets the EDITDA financial covenant for the first quarter of fiscal 2010 to place the Company in compliance with that covenant.

Short-term Debt

In December 2008, the Company borrowed \$0.9 million from UBS Securities that is collateralized with \$1.4 million of auction rate preferred securities. The average interest rate on the loan is approximately 1.4% and the term of the loan is dependent upon the timing of the settlement of the auction rate securities with UBS Securities which is expected to occur by June 2010 at 100% par value.

Letters of credit

As of December 31, 2009, the Company had 8 standby letters of credit issued and outstanding which totaled approximately \$3.1 million, of which \$2.9 million was issued against the Company's credit facility with Bank of America and the remaining \$0.2 million in standby letters of credit are collateralized with other financial institutions and are listed on the Company's balance sheet as restricted cash.

NOTE 13. Commitments and Contingencies

The Company leases certain land, facilities, and equipment under non-cancelable operating leases. The leases typically provide for rental adjustments for increases in base rent (up to specific limits), property taxes, insurance and general property maintenance that would be recorded as rent expense. Net facility and equipment rent expense under such leases totaled approximately \$0.7 million and \$0.6 million for the three months ended December 31, 2009 and 2008, respectively.

Estimated future minimum rental payments under the Company's non-cancelable operating leases with an initial or remaining term of one year or more as of December 31, 2009 are as follows:

(in thousands)	Estimated Future Minimum Lease Payments
Nine months ended September 30, 2010	\$ 1,444
Fiscal year ended September 30, 2011	1,814
Fiscal year ended September 30, 2012	1,072
Fiscal year ended September 30, 2013	799
Fiscal year ended September 30, 2014	76
Thereafter	2,699
Total minimum lease payments	\$ 7,904

Legal Proceedings

The Company is subject to various legal proceedings and claims that are discussed below. The Company is also subject to certain other legal proceedings and claims that have arisen in the ordinary course of business and which have not been fully adjudicated. The Company does not believe it has a potential liability related to current legal proceedings and claims that could individually, or in the aggregate, have a material adverse effect on its financial condition, liquidity or results of operations. However, the results of legal proceedings cannot be predicted with certainty. Should the Company fail to prevail in any legal matters or should several legal matters be resolved against the Company in the same reporting period, then the operating results of that particular reporting period could be materially adversely affected. In the past, the Company settled certain matters that did not individually, or in the aggregate, have a material impact on the Company's results of operations.

a) Intellectual Property Lawsuits

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

We have, from time to time, exchanged correspondence with third parties regarding the assertion of patent or other intellectual property rights in connection with certain of our products and processes. Additionally, on September 11, 2006, we filed a lawsuit against Optium Corporation, currently part of Finisar Corporation (Optium) in the U.S. District Court for the Western District of Pennsylvania for patent infringement of certain patents associated with our Fiber Optics segment. In the suit, the Company and JDS Uniphase Corporation (JDSU) allege that Optium is infringing on U.S. patents 6,282,003 and 6,490,071 with its Prisma II 1550nm transmitters. On March 14, 2007, following denial of a motion to add additional claims to its existing lawsuit, the Company and JDSU filed a second patent suit in the same court against Optium alleging infringement of JDSU's patent 6,519,374 ("the '374 patent"). On March 15, 2007, Optium filed a declaratory judgment action against the Company and JDSU. Optium sought in this litigation a declaration that certain products of Optium do not infringe the '374 patent and that the patent is invalid, but the District Court dismissed the action on January 3, 2008 without addressing the merits. The '374 patent is assigned to JDSU and licensed to the Company.

On December 20, 2007, the Company was served with a complaint in another declaratory relief action which Optium had filed in the Federal District Court for the Western District of Pennsylvania. This action seeks to have U.S. patents 6,282,003 and 6,490,071 declared invalid or unenforceable because of certain conduct alleged to have occurred in connection with the grant of these patents. These allegations are substantially the same as those brought by Optium by motion in the Company's own case against Optium, which motion had been denied by the Court. On August 11, 2008, both actions pending in the Western District of Pennsylvania were consolidated before a single judge, and a trial date of October 19, 2009 was set. On February 18, 2009, the Company's motion for a summary judgment dismissing Optium's declaratory relief action was granted, and on March 11, 2009, the Company was notified that Optium intended to file an appeal of this order. In October 2009 the consolidated matters were tried before a jury, which found that all patents asserted against Optium were valid, that all claims asserted were infringed, and that such infringement by Optium was willful where willfulness was asserted. The jury awarded EMCORE and JDSU monetary damages totaling approximately \$3.4 million.

b) Avago-related Litigation

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

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

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

The Company intends to vigorously defend against the allegations of all of the Avago complaints.

c) Green and Gold related litigation

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

On or about February 12, 2009, a second purported stockholder class action (Mueller v. EMCORE Corporation et al., Case No. 1:09cv 133 (D.N.M.)) (the "Mueller Class Action") was filed in the United States District Court for the District of New Mexico against the same defendants named in the Prissert Class Action, based on substantially the same facts and circumstances, containing substantially the same allegations and seeking substantially the same relief. Plaintiffs in both class actions have moved to consolidate the matters into a single action, and several alleged EMCORE shareholders have moved to be appointed lead class plaintiff of the to-be consolidated action. Selection of a lead plaintiff in this matter is currently pending before the Court.

On January 23, 2009, Plaintiff James E. Stearns filed a purported stockholder derivative action (the "Stearns Derivative Action") on behalf of the Company against certain of its present and former directors and officers (the "Individual

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

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

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

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

d) Securities Matters

- SEC Communications. On or about August 15, 2008, the Company received a letter from the Denver office of the Enforcement Division of the Securities and Exchange Commission wherein it sought the Company's voluntary production of documents relating to, among other things, the Company's business relationship with Green and Gold Energy, Inc., its licensees, and the Photovoltaics segment backlog the Company reported to the public. Since that time, the Company has provided documents to the staff of the SEC and met with the staff on December 12, 2008 to address this matter. On June 10, 2009, the SEC staff requested that the Company voluntarily provide documentary backup for certain information presented at the December 2008 meeting, which was provided on July 17, 2009, and arrange for a telephone interview with one former employee, which has been completed. On August 24, 2009, in a telephone call with the Company's counsel, the staff posed certain questions relating to the material provided on July 17, 2009, which were answered via the production of additional information and documentation on October 9, 2009.
- NASDAQ Communication. On or about November 13, 2008, the Company received a letter from the NASDAQ Listings Qualifications group (“NASDAQ”) concerning the Company's removal of \$79 million in backlog attributable to GGE which the Company announced on August 8, 2008 and the remaining backlog exclusive of GGE. The Company advised NASDAQ that it would cooperate with its inquiry. To date, the Company has received three additional requests for information from NASDAQ (the latter 2 of which requested updates on the SEC matter). The Company has complied with each of NASDAQ's requests. In early November 2009 the NASDAQ orally requested to be advised of developments in the SEC matter.

As of December 31, 2009 and the filing date of this Quarterly Report on Form 10-Q, no amounts have been accrued for any litigation item discussed above since no estimate of loss can be made at this time.

See Footnote 17 – Subsequent Event for additional commitments and contingencies related to the Tangshan agreements announced on February 3, 2010.

NOTE 14. Income Taxes

During the three months ended December 31, 2009 and 2008, there were no material increases or decreases in unrecognized tax benefits and management does not anticipate any material increases or decreases in the amounts of unrecognized tax benefits over the next twelve months. As of December 31, 2009, the Company had approximately \$0.2 million of interest and penalties accrued as tax liabilities on the balance sheet.

A reconciliation of the beginning and ending amount of unrecognized gross tax benefits is as follows:

(in thousands)

Balance as of September 30, 2009	\$	374
Subtractions based on tax positions related to the current year		(17)
Subtractions for tax positions of prior years		(19)
Balance as of December 31, 2009	\$	338

The Company files income tax returns in the U.S. federal, state, and local jurisdictions and, currently, no federal, state, and local income tax returns are under examination. The following tax years remain open to income tax examination for each of the more significant jurisdictions where the Company is subject to income taxes: after fiscal year 2006 for U.S. federal; after fiscal year 2005 for the state of California and after fiscal year 2006 for the state of New Mexico.

NOTE 15. Segment Data and Related Information

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

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

Segment Revenue (in thousands)		For the Three Months Ended December 31,			
		2009		2008	
		Revenue	% of Revenue	Revenue	% of Revenue
Fiber Optics	\$	25,608	60%	\$ 39,166	72%
Photovoltaics		16,793	40	14,890	28
Total revenue	\$	42,401	100%	\$ 54,056	100%

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

Geographic Revenue (in thousands)		For the Three Months Ended December 31,			
		2009		2008	
		Revenue	% of Revenue	Revenue	% of Revenue
United States	\$	34,361	81%	\$ 31,715	58%
Asia		6,196	15	19,208	36
Europe		1,277	3	2,797	5
Other		567	1	336	1
Total revenue	\$	42,401	100%	\$ 54,056	100%

Edgar Filing: EMCORE CORP - Form 10-Q

The following table sets forth our significant market sectors, defined as product line sales that represented greater than 10% of total consolidated revenue, by reporting segment.

Significant Market Sectors As a percentage of total consolidated revenue	For the Three Months Ended	
	December 31, 2009	2008
Fiber Optics – related:		
Cable Television Products	21%	14%
Parallel Optical Transceiver / Cable Products	10%	-
Enterprise Products	-	15%
Telecom Optical Products	-	14%
Photovoltaics – related:		
Satellite Solar Power Generation	38%	26%

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

Significant Customers As a percentage of total consolidated revenue	For the Three Months Ended December 31,	
	2009	2008
Fiber Optics – related customer: Cisco Systems, Inc.	14%	17%
Photovoltaics – related customer: Loral Space & Communications	15%	14%

The following table sets forth operating losses attributable to each of the Company's reporting segments and Corporate division.

Statement of Operations Data (in thousands)		For the Three Months Ended December 31,	
		2009	2008
Operating loss:			
Fiber Optics segment	\$	(8,407)	\$ (48,423)
Photovoltaics segment		(3,525)	(4,035)
Corporate division		-	(3)
Operating loss	\$	(11,932)	\$ (52,461)

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

Segment Depreciation and Amortization (in thousands)		For the Three Months Ended December 31,	
		2009	2008
Fiber Optics segment	\$	1,764	\$ 2,852
Photovoltaics segment		1,353	1,441
Total depreciation and amortization	\$	3,117	\$ 4,293

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

Long-lived Assets (in thousands)		As of September 30, 2009
	As of December 31, 2009	

Edgar Filing: EMCORE CORP - Form 10-Q

Fiber Optics segment	\$	35,676	\$	37,399
Photovoltaics segment		49,027		50,169
Corporate division		824		826
Total long-lived assets	\$	85,527	\$	88,394

NOTE 16. Fair Value Accounting

ASC 820, Fair Value Measurements and Disclosures, establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

- Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.
- Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

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

(in thousands)	As of December 31, 2009			
	Quoted Prices in Active Markets for Identical Assets [Level 1]	Significant Other Observable Remaining Inputs [Level 2]	Significant Unobservable Inputs [Level 3]	Total
Assets				
Money market fund deposits	\$ 15,138	\$ -	\$ -	\$ 15,138
Restricted fund deposits	167	-	-	167
Asset-backed auction rate securities	-	1,350	-	1,350
Total assets measured at fair value	\$ 15,305	\$ 1,350	\$ -	\$ 16,655
Liabilities				
Warrants	\$ -	\$ 1,132	\$ -	\$ 1,132

The following table provides the Company's financial assets and liabilities, measured and recorded at fair value on a recurring basis, as presented on our Condensed Consolidated Balance Sheet:

(in thousands)		As of December 31, 2009	
		Significant Other	

Edgar Filing: EMCORE CORP - Form 10-Q

	Quoted Prices in Active Markets for Identical Assets	Observable Remaining Inputs	Significant Unobservable Inputs	Total
	[Level 1]	[Level 2]	[Level 3]	
Assets				
Cash and cash equivalents	\$ 15,138	\$ -	\$ -	\$ 15,138
Restricted cash	4	-	-	4
Available-for-sale securities, non current	-	1,350	-	1,350
Long-term restricted cash	163	-	-	163
Total assets measured at fair value	\$ 15,305	\$ 1,350	\$ -	\$ 16,655
Liabilities				
Warrant liability	\$ -	\$ 1,132	\$ -	\$ 1,132

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

The Company classifies items in Level 2 if the investments are valued using observable inputs to quoted market prices, benchmark yields, reported trades, broker/dealer quotes or alternative pricing sources with reasonable levels of price transparency. These investments could include: government agencies, corporate bonds, commercial paper, and auction rate securities.

The Company did not hold financial assets and liabilities which were valued using unobservable inputs as of December 31, 2009.

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

In February 2008, the FASB issued authoritative guidance, which delayed the effective date of ASC 820 for all non-financial assets and non-financial liabilities that are not re-measured at fair value on a recurring basis (at least annually). The guidance was effective for the Company beginning October 1, 2009 and it did not have an impact on our consolidated financial position, results of operations or cash flows in the three months ended December 31, 2009.

NOTE 17. Subsequent Event

On February 3, 2010, the Company entered into a share purchase agreement to create a joint venture with Tangshan Caofeidian Investment Corporation ("TCIC"), a Chinese investment company located in the Caofeidian Industry Zone, Tangshan City, Hebei Province of China.

The agreement provides for TCIC to purchase a sixty percent (60%) interest in the Company's Fiber Optics business (excluding its satellite communications and specialty photonics fiber optics product lines), which will be operated as a joint venture once the transaction is closed. The Fiber Optics businesses included in this transaction are the Company's telecom, enterprise, cable television (CATV), fiber-to-the-premises (FTTP), and video transport product lines. The Company will retain the satellite communications and specialty photonics fiber optics product lines as well as the satellite and terrestrial solar businesses.

The new joint venture entity will be named EMCORE Fiber Optics, Limited ("EFO"), and will be a newly formed corporation organized in Hong Kong. The agreement provides for TCIC to pay the Company \$27.75 million in cash, subject to adjustment based on the net asset value of the business as of the closing date, and also to provide \$27 million of additional debt financing to EFO subsequent to the closing, with \$18 million to be funded within 90 days of closing and \$9 million to be funded within 90 days of the first anniversary of the closing. The Company will be providing 50% of its equity interest in EFO as collateral for this indebtedness. In addition, the agreement provides for the Company to provide \$3 million of additional debt financing to EFO after the closing, with \$2 million to be funded within 5 business days of the closing and \$1 million to be funded within 90 days of the first anniversary of the closing.

The agreement is subject to the approval of both the Company's board of directors and the board of directors of TCIC, and the closing of the transaction is subject to material conditions, including regulatory and governmental approvals in the U.S. and China. If US regulatory approvals are not obtained, the Company will be obligated to pay a termination fee of \$2,775,000 to TCIC.

The parties also executed a Shareholders Agreement to provide for operation of EFO following closing. The terms of the Shareholders Agreement provide that TCIC shall have the right to elect three of EFO's five directors of EFO, as well as to designate the Chairman of the Board and the Chief Financial Officer. The Company will have the right to elect the remaining two directors and to nominate the Chief Executive Officer. The Company also has the right to approve certain key corporate matters (including modifications of EFO's governing documents, changes in equity and corporate structure, mergers, acquisitions and dispositions, the incurring of indebtedness, and the annual business plan and budget) through supermajority voting requirements on the Board (subject to certain deadlock provisions). The Shareholders' Agreement also imposes certain restrictions on the parties' abilities to transfer their interest in EFO.

It is expected that the Company's Executive Chairman and Chairman of the Board, Mr. Reuben F. Richards, Jr. will resign his position as the Company's Executive Chairman effective as of the closing of the transaction to assume the role of CEO for EFO. In addition, the agreement provides for certain other Company senior executives and the employees currently working for the transferred product lines to be offered positions with EFO. The agreement further contemplates that the Company's President and CEO, Dr. Hong Q. Hou, will also serve as a director of EFO, providing strategic and operational oversight to the joint venture.

Tangshan Caofeidian Investment Corporation has nominated Dr. Yi Li as Chairman of the Board for EFO and TCIC will name a CFO to EFO subsequent to the closing.

Over the next several years, the joint venture is expected to focus on developing a high volume, low cost manufacturing infrastructure and a local customer support organization to better serve the expanding customer base in China and worldwide. TCIC has committed to providing additional funding support for the JV's future strategic growth through acquisitions.

In conjunction with the establishment of the joint venture, the Company and TCIC also entered into a supplemental agreement pursuant to which the Company agreed to establish its China terrestrial concentrator photovoltaics (CPV) manufacturing and operations base in the Caofeidian Industry Zone. The agreement includes a commitment by TCIC to provide the Company with the equivalent of \$3.3 million in RMB denominated loans, tax and rent incentives and assistance in developing the Company's solar power business in China.

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

Business Overview

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

Management Summary

Due to significant differences in operating strategy between the Company's Fiber Optics and Photovoltaics businesses, the Company's management and board of directors believes that they would provide greater value to shareholders if they were operated as two separate business entities.

In furtherance of this strategy, on February 3, 2010, the Company entered into a share purchase agreement to create a joint venture with Tangshan Caofeidian Investment Corporation ("TCIC"), a Chinese investment company located in the Caofeidian Industry Zone, Tangshan City, Hebei Province of China. The agreement provides for TCIC to purchase a sixty percent (60%) interest in the Company's Fiber Optics business (excluding its satellite communications and specialty photonics fiber optics product lines), which will be operated as a joint venture once the transaction is closed. The Fiber Optics businesses included in this transaction are the Company's telecom, enterprise, cable television (CATV), fiber-to-the-premises (FTTP), and video transport product lines. The Company will retain the satellite communications and specialty photonics fiber optics product lines as well as the satellite and terrestrial solar businesses. In the Notes to the Condensed Consolidated Financial Statements, see Footnote 17 – Subsequent Event for additional information related to this new joint venture.

During fiscal 2009, management implemented a series of measures and continues to evaluate opportunities intended to align the Company's cost structure with its revenue forecasts. Such measures included several workforce reductions, temporary salary reductions, the elimination of executive and employee merit increases and bonuses for fiscal 2009, and the elimination or reduction of certain discretionary expenses. The Company has also significantly lowered its spending on capital expenditures and focused on improving the management of its working capital. During the last twelve months ended December 31, 2009, the Company monetized approximately \$25.5 million of inventory, generated \$16.9 million in cash from lowering its accounts receivable balances and achieved positive cash flow from operations during the quarters ended June 30, 2009 and September 30, 2009.

In fiscal 2010, the Company continues to remain focused on maximizing cash flow from operations while developing additional sources of liquidity.

Quarter Highlights

On October 1, 2009, the Company entered into an equity line of credit arrangement with Commerce Court Small Cap Value Fund, Ltd. ("Commerce Court"). Upon issuance of a draw-down request by the Company, Commerce Court has committed to purchasing up to \$25 million worth of shares of the Company's common stock over the 24-month term of the purchase agreement, provided that the number of shares the Company may sell under the facility is limited to no more than 15,971,169 shares of common stock or that would result in the beneficial ownership of more than 9.9% of the then issued and outstanding shares of the Company's common stock.

On November 12, 2009, the Company announced that it was awarded a contract by Dutch Space of Leiden, The Netherlands to manufacture, test, and deliver solar panels to power the Cygnus™ spacecraft being developed by Orbital Sciences Corporation (NYSE: ORB) for NASA's Commercial Resupply Service (CRS) project. With all options exercised the total value of the contract would be in excess of \$15 million. Under the CRS project, Orbital will carry out eight pressurized space cargo missions beginning in early 2011 and running through 2015 to provide a U.S.-produced and-operated automated cargo delivery service to the International Space Station. An initial demonstration flight will be carried out as part of NASA's Commercial Orbital Transportation Services (COTS) project, which provided NASA incentives for developing the commercial launch services industry. The solar panels to be delivered to Dutch Space will use EMCORE's ZTJ solar cells. With a sunlight-to-electricity conversion efficiency of 30%, the ZTJ solar cell is one of the highest performance space qualified multi-junction solar cell available in the world today. Production of the solar panels will take place at the Company's state-of-the-art manufacturing facilities located in Albuquerque, New Mexico.

On December 23, 2009, the Company announced that Sherman McCorkle was elected to join its Board of Directors as a Class B independent director. Sherman McCorkle is a native New Mexican and has been deeply involved in the New Mexico business community for most of his career. He is President and Chief Executive Officer of Technology Ventures Corporation (TVC), an Albuquerque-based organization that assists start up companies in developing and commercializing technologies from research universities and the national laboratories. Prior to joining TVC as President & CEO in 1993, Mr. McCorkle served as CEO & President of Sunwest Credit Services Corporation Commencing in 1988. In 1977, he co-founded and was Charter Director of Plus Systems Incorporated, the original platform that enabled national and international electronic banking and ATM systems. In addition, Mr. McCorkle is a co-founder and Charter Director of New Mexico Bank and Trust and First Community Bank.

Order Backlog

As of December 31, 2009, the Company had a consolidated order backlog of approximately \$61.2 million, a \$1.4 million, or 2%, decrease from a \$62.6 million order backlog reported as of the end of the preceding quarter. On a segment basis, the quarter-end Photovoltaics order backlog totaled \$42.3 million, a \$5.4 million, or 11%, decrease from \$47.7 million reported as of the end of the preceding quarter with the decrease due primarily to the rescheduling of a portion of a major customer's backlog beyond the twelve month backlog reporting horizon. The quarter-end Fiber Optics order backlog totaled \$18.9 million, a \$3.9 million, or 26% increase from \$14.9 million reported as of the end of the preceding quarter. Order backlog is defined as purchase orders or supply agreements accepted by the Company with expected product delivery and / or services to be performed within the next twelve months.

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

Critical Accounting Policies

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as of the date of the financial statements, and the reported amounts of revenue and expenses during the reported period.

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

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

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

A listing and description of the Company's critical accounting policies includes:

Accounts Receivable. The Company regularly evaluates the collectibility of its accounts receivable and accordingly maintains allowances for doubtful accounts for estimated losses resulting from the inability of our customers to meet their financial obligations to us. The allowance is based on the age of receivables and a specific identification of receivables considered at risk of collection. The Company classifies charges associated with the allowance for doubtful accounts as SG&A expense. If the financial condition of our customers were to deteriorate, impacting their ability to pay us, additional allowances may be required.

Inventory. Inventory is stated at the lower of cost or market, with cost being determined using the standard cost method. The Company reserves against inventory once it has been determined that conditions exist that may not allow the inventory to be sold for its intended purpose or the inventory is determined to be excess or obsolete based on the Company's forecasted future revenue. The charge related to inventory reserves is recorded as a cost of revenue. The majority of the inventory write-downs are related to estimated allowances for inventory whose carrying value is in excess of net realizable value and on excess raw material components resulting from finished product obsolescence. In most cases where the Company sells previously written down inventory, it is typically sold as a component part of a finished product. The finished product is sold at market price at the time resulting in higher average gross margin on such revenue. The Company does not track the selling price of individual raw material components that have been previously written down or written off, since such raw material components usually are only a portion of the resultant finished products and related sales price. The Company evaluates inventory levels at least quarterly against sales forecasts on a significant part-by-part basis, in addition to determining its overall inventory risk. We have incurred, and may in the future incur charges to write-down our inventory.

Goodwill. Goodwill represents the excess of the purchase price of an acquired business over the fair value of the identifiable assets acquired and liabilities assumed. As required by ASC 350, Intangibles - Goodwill and Other, the Company evaluates its goodwill for impairment on an annual basis, or whenever events or changes in circumstances indicate that the carrying value of a reporting unit may exceed its fair value. Management has elected December 31st as the annual assessment date. Circumstances that could trigger an interim impairment test include but are not limited to: a significant adverse change in the market value of the Company's common stock, the business climate or legal factors; an adverse action or assessment by a regulator; unanticipated competition; loss of key personnel; the likelihood that a reporting unit or significant portion of a reporting unit will be sold or otherwise disposed; results of testing for recoverability of a significant asset group within a reporting unit; and recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit.

In performing goodwill impairment testing, the Company determines the fair value of each reporting unit using a weighted combination of a market-based approach and a discounted cash flow ("DCF") approach. The market-based approach relies on values based on market multiples derived from comparable public companies. In applying the DCF approach, management forecasts cash flows over the remaining useful life of its primary asset using assumptions of current economic conditions and future expectations of earnings. This analysis requires the exercise of significant judgment, including judgments about appropriate discount rates based on the assessment of risks inherent in the amount and timing of projected future cash flows. The derived discount rate may fluctuate from period to period as it is based on external market conditions. All of these assumptions are critical to the estimate and can change from period to period. Updates to these assumptions in future periods, particularly changes in discount rates, could result in different results of goodwill impairment tests.

Valuation of Long-lived Assets. Long-lived assets consist primarily of property, plant, and equipment and intangible assets. Because most of the Company's long-lived assets are subject to amortization, the Company reviews these assets for impairment in accordance with the provisions of ASC 360, Property, Plant, and Equipment. As part of internal control procedures, the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Our impairment testing of long-lived assets consists of determining whether the carrying amount of the long-lived asset (asset group) is recoverable, in other words, whether the sum of the future undiscounted cash flows expected to result from the use and eventual disposition of the asset (asset group) exceeds its carrying amount. The determination of the existence of impairment involves judgments that are subjective in nature and may require the use of estimates in forecasting future results and cash flows related to an asset or group of assets. In making this determination, the Company uses certain assumptions, including estimates of future cash flows expected to be generated by these assets, which are based on additional assumptions such as asset utilization, the length of service that assets will be used in our operations, and estimated salvage values.

Product Warranty Reserves. The Company provides its customers with limited rights of return for non-conforming shipments and warranty claims for certain products. In accordance with ASC 450, Contingencies, the Company makes estimates of product warranty expense using historical experience rates as a percentage of revenue and accrues estimated warranty expense as a cost of revenue. We estimate the costs of our warranty obligations based on our historical experience of known product failure rates, use of materials to repair or replace defective products and service delivery costs incurred in correcting product issues. In addition, from time to time, specific warranty accruals may be made if unforeseen technical problems arise. Should our actual experience relative to these factors differ from our estimates, we may be required to record additional warranty reserves. Alternatively, if we provide more reserves than we need, we may reverse a portion of such provisions in future periods.

Revenue Recognition. Revenue is recognized upon shipment, provided persuasive evidence of a contract exists, (such as when a purchase order or contract is received from a customer), the price is fixed, the product meets its specifications, title and ownership have transferred to the customer, and there is reasonable assurance of collection of the sales proceeds. In those few instances where a given sale involves post shipment obligations, formal customer acceptance documents, or subjective rights of return, revenue is not recognized until all post-shipment conditions have been satisfied and there is reasonable assurance of collection of the sales proceeds. The majority of our products have shipping terms that are free on board (“FOB”) or free carrier alongside (“FCA”) shipping point, which means that the Company fulfills its delivery obligation when the goods are handed over to the freight carrier at our shipping dock. This means the buyer bears all costs and risks of loss or damage to the goods from that point. In certain cases, the Company ships its products cost insurance and freight (“CIF”). Under this arrangement, revenue is recognized under FCA shipping point terms, but the Company pays (and bills the customer) for the cost of shipping and insurance to the customer's designated location. The Company accounts for shipping and related transportation costs by recording the charges that are invoiced to customers as revenue, with the corresponding cost recorded as cost of revenue. In those instances where inventory is maintained at a consigned location, revenue is recognized only when our customer pulls product for its use and title and ownership have transferred to the customer. Revenue from time and material contracts is recognized at the contractual rates as labor hours and direct expenses are incurred. The Company also generates service revenue from hardware repairs and calibrations that is recognized as revenue upon completion of the service. Any cost of warranties and remaining obligations that are inconsequential or perfunctory are accrued when the corresponding revenue is recognized.

- Distributors - The Company uses a number of distributors around the world and recognizes revenue upon shipment of product to these distributors. Title and risk of loss pass to the distributors upon shipment, and our distributors are contractually obligated to pay the Company on standard commercial terms, just like our other direct customers. The Company does not sell to its distributors on consignment and, except in the event of product discontinuance, does not give distributors a right of return.
- Solar Panel and Solar Power Systems Contracts - The Company records revenues from certain solar panel and solar power systems contracts using the percentage-of-completion method. Revenue is recognized in proportion to actual costs incurred compared to total anticipated costs expected to be incurred for each contract. Such contracts require estimates to determine the appropriate cost and revenue recognition. The Company uses all available information in determining dependable estimates of the extent of progress towards completion, contract revenues, and contract costs. Estimates are revised as additional information becomes available. If estimates of costs to complete long-term contracts indicate a loss, a provision is made for the total loss anticipated.
- Government R&D Contracts - R&D contract revenue represents reimbursement by various U.S. government entities, or their contractors, to aid in the development of new technology. The applicable contracts generally provide that the Company may elect to retain ownership of inventions made in performing the work, subject to a non-exclusive license retained by the U.S. government to practice the inventions for governmental purposes. The R&D contract funding may be based on a cost-plus, cost reimbursement, or a firm fixed price arrangement. The amount of funding under each R&D contract is determined based on cost estimates that include both direct and indirect costs. Cost-plus funding is determined based on actual costs plus a set margin. As we incur costs under cost reimbursement type contracts, we record revenue. Contract costs include material, labor, special tooling and test equipment, subcontracting costs, as well as an allocation of indirect costs. An R&D contract is considered complete when all significant costs have been incurred, milestones have been reached, and any reporting obligations to the customer have been met. Government contract revenue is primarily recognized as service revenue.

The Company also has certain cost-sharing R&D arrangements. Under such arrangements in which the actual costs of performance are split between the U.S. government and the Company on a best efforts basis, no revenue is recorded and the Company's R&D expense is reduced for the amount of the cost-sharing receipts.

The U.S. government may terminate any of our government contracts at their convenience as well as for default based on our failure to meet specified performance measurements. If any of our government contracts were to be terminated for convenience, we generally would be entitled to receive payment for work completed and allowable termination or cancellation costs. If any of our government contracts were to be terminated for default, generally the U.S. government would pay only for the work that has been accepted and can require us to pay the difference between the original contract price and the cost to re-procure the contract items, net of the work accepted from the original contract. The U.S. government can also hold us liable for damages resulting from the default.

Stock-Based Compensation. The Company uses the Black-Scholes option-pricing model and the straight-line attribution approach to determine the fair-value of stock-based awards in accordance with ASC 718, Compensation. The option-pricing model requires the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock. The Company's expected term represents the period that stock-based awards are expected to be outstanding and is determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior as influenced by changes to the terms of its stock-based awards. The expected stock price volatility is based on the Company's historical stock prices.

The above listing is not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by U.S. GAAP. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result. For a complete discussion of our accounting policies, recently adopted accounting pronouncements, and other required U.S. GAAP disclosures, we refer you to the accompanying footnotes to the Company's consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2009.

Results of Operations

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

STATEMENT OF OPERATIONS DATA	For the Three Months Ended December 31,	
	2009	2008
Revenue	100.0%	100.0%
Cost of revenue	81.1	97.1
Gross profit	18.9	2.9
Operating expenses:		
Selling, general, and administrative	29.3	22.5
Research and development	17.7	15.0
Impairments	-	62.5
Total operating expenses	47.0	100.0
Operating loss	(28.1)	(97.1)
Other (income) expense:		
Interest income	-	(0.1)
Interest expense	0.3	0.4
Foreign exchange loss	0.5	0.9
Loss from financing derivative instrument	3.2	-
Impairment of investment	-	0.6
Total other expense	4.0	1.8
Net loss	(32.2)%	(98.9)%

Comparison of the Three Months Ended December 31, 2009 and 2008

Revenue:

Revenue for the three months ended December 31, 2009 was \$42.4 million, a decrease of \$11.6 million, or 22%, from \$54.0 million reported in the same period last year.

On a segment basis, revenue for the Fiber Optics segment was \$25.6 million, a decrease of \$13.6 million, or 35%, from \$39.2 million reported in the same period last year. The decrease in Fiber Optics revenue was primarily due to a significant drop in demand from our customers due to the very unfavorable macroeconomic environment as well as continued pressure on selling prices as we compete to maintain or increase our market share positions. For the three months ended December 31, 2009, the Fiber Optics segment represented 60% of the Company's consolidated revenue compared to 72% in the same period last year.

Revenue for the Photovoltaics segment was \$16.8 million, an increase of \$1.9 million, or 13%, from \$14.9 million reported in the same period last year. In the first quarter of fiscal 2010, the Photovoltaics segment experienced a 30% increase in revenue from satellite solar power products offset by a decrease in revenue from terrestrial concentrated photovoltaic (CPV) products. For the three months ended December 31, 2009, the Photovoltaics segment represented

40% of the Company's consolidated revenue compared to 28% in the same period last year.

Gross Profit:

For the three months ended December 31, 2009, the consolidated gross profit was \$8.0 million, an increase of \$6.4 million from \$1.6 million in gross profit reported in the same period last year. For the three months ended December 31, 2009, the consolidated gross margin was 18.9% compared to a 2.9% gross margin reported in the same period last year. This represents the Company's best gross profit performance since the quarter ended June 30, 2008.

Fiber Optics gross margin for the three months ended December 31, 2009 was 16.7%, an increase from a negative 1.1% gross margin reported in the same period last year. The improvement in Fiber Optics gross margin was due primarily to higher gross margins in the Company's CATV product lines, as well as, lower inventory excess and obsolescence charges when compared to the prior year. As indicated in our prior year filings, the Company recorded \$5.3 million of inventory and product warranty expense which adversely affected gross margin.

Photovoltaics gross margin for the three months ended December 31, 2009 was 22.1%, an increase from 13.6% gross margin reported in the same period last year. The significant increase in Photovoltaics gross margin was primarily due to increased sales of higher margin satellite solar power products along with improved manufacturing yields on certain satellite solar panel contracts.

Operating Expenses:

Sales, general, and administrative expenses for the three months ended December 31, 2009 totaled \$12.4 million, a \$0.3 million increase from \$12.1 million reported in the same period last year. During the quarter, the Company incurred \$1.3 million of non-cash stock-based compensation expense from the forfeiture of stock options. Also, the Company incurred legal expense of approximately \$4.2 million related to patent litigation and other corporate legal charges. Last year, SG&A included \$0.8 million of additional provision for bad debt in the Photovoltaics segment, primarily related to receivables from the sale of terrestrial solar power products, \$0.6 million related to severance and restructuring charges, and \$0.6 million of patent litigation and other corporate-related legal expense. As a percentage of revenue, SG&A expenses were 29.3%, an increase from 22.5% in the same period last year.

Research and development expenses for the three months ended December 31, 2009 totaled \$7.5 million, a decrease of \$0.6 million, or 7%, from \$8.1 million reported in the same period last year. As a percentage of revenue, R&D expenses were 17.7%, an increase from 15.0% in the same period last year.

Impairments:

As disclosed last year, the Company performed its annual goodwill impairment test as of December 31, 2008 and, based on that analysis, determined that goodwill related to its Fiber Optics segment was fully impaired. As a result, the Company recorded a non-cash impairment charge of \$31.8 million in the first quarter of fiscal 2009 and the Company's balance sheet no longer reflects any goodwill associated with its Fiber Optics segment. During the first fiscal quarter of 2009, the Company also recorded a \$1.9 million non-cash impairment charge related to certain intangible assets acquired from Intel Corporation that were subsequently abandoned.

Consolidated operating expenses for the three months ended December 31, 2009 totaled \$19.9 million, a decrease of \$34.1 million from \$54.0 million reported in the same period last year, with the variance primarily due to the impairment charge discussed above.

Operating loss:

For the three months ended December 31, 2009, the consolidated operating loss was \$11.9 million, a decrease of \$40.5 million from an operating loss of \$52.4 million reported in the same period last year, with the variance primarily due to the impairment charge discussed above. This represents the Company's best operating performance since the quarter ended June 30, 2008.

Loss from financing derivative instrument.

On October 1, 2009, the Company entered into an equity line of credit arrangement that met all the criteria of a financial derivative instrument in accordance with the accounting literature in ASC 815, Derivatives and Hedging. Costs incurred to enter into this derivative instrument were expensed as incurred. During the three months ended December 31, 2009, the Company expensed the fair value of the common stock and warrants issued of approximately \$1.4 million as a non-operating expense from a financing derivative instrument. In the Notes to the Condensed Consolidated Financial Statements, see Footnote 4 for a description of the terms and details related to the financial impact of the equity facility.

Impairment of investment.

In April 2008, the Company invested approximately \$1.5 million in Lightron Corporation, a Korean company that is publicly traded on the Korean Stock Market. The Company initially accounted for this investment as an available-for-sale security. Due to the decline in the market value of this investment and the expectation of non-recovery of this investment beyond its current market value, the Company recorded a \$0.5 million “other than temporary” impairment loss on this investment as of September 30, 2008 and another \$0.4 million “other than temporary” impairment loss on this investment as of December 31, 2008. During the quarter ended March 31, 2009, the Company sold its interest in Lightron Corporation, via several transactions, for a total of \$0.5 million in cash. The Company recorded a gain on the sale of this investment of approximately \$21,000, after consideration of impairment charges recorded in previous periods, and the Company also recorded a foreign exchange loss of \$0.1million due to the conversion from Korean Won to U.S. dollars.

Foreign exchange.

The Company recognizes gains and losses on foreign currency exchange primarily due to the Company’s operations in Spain, the Netherlands and China.

Net Loss:

For the three months ended December 31, 2009, the consolidated net loss was \$13.6 million, a decrease of \$39.8 million from \$53.4 million reported in the same period last year, with the variance primarily due to the impairment charge discussed above. The net loss per share for the three months ended December 31, 2009 was \$0.17, a decrease of \$0.52 per share, from a net loss of \$0.69 per share reported in the same period last year.

Liquidity and Capital Resources

As of December 31, 2009, cash, cash equivalents, available-for-sale securities and current restricted cash totaled approximately \$16.5 million.

The Company incurred a net loss of \$13.6 million for the three months ended December 31, 2009. The Company's operating results for future periods are subject to numerous uncertainties and it is uncertain if the Company will be able to reduce or eliminate its net losses for the foreseeable future. Although the Company experienced year-over-year revenue growth in most years, in fiscal 2009, the Company had not been able to sustain historical revenue growth rates due to material adverse changes in market and economic conditions. If management is not able to increase revenue and/or manage operating expenses in line with revenue forecasts, the Company may not be able to achieve profitability.

Historically, the Company has consumed cash from operations. During the three months ended December 31, 2009, the Company consumed cash from operations of approximately \$1.2 million and, over the last three quarters, has only consumed \$0.2 million in cash from operations due primarily to improved working capital management.

We believe that our existing balances of cash, cash equivalents, and available-for-sale securities, together with the cash expected to be generated from operations, amounts expected to be available under our revolving credit facility with Bank of America and the equity line of credit agreement with Commerce Court will provide us with sufficient financial resources to meet our cash requirements for operations, working capital, and capital expenditures for the next 12 months.

In the event of unforeseen circumstances, or unfavorable market or economic developments, we may have to raise additional funds by any one or a combination of the following: issuing equity, debt or convertible debt, or selling certain product lines and/or portions of our business. There can be no guarantee that we will be able to raise additional funds on terms acceptable to us, or at all. A significant contraction in the capital markets, particularly in the technology sector, may make it difficult for us to raise additional capital if or when it is required, especially if we experience disappointing operating results. If adequate capital is not available to us as required, or is not available on favorable terms, our business, financial condition and results of operations may be adversely affected.

Cash Flow

Cash Used for Operations

For the three months ended December 31, 2009, net cash used by operating activities totaled approximately \$1.2 million, which represents a decrease of \$19.9 million from \$21.1 million in cash used by operating activities for the three months ended December 31, 2008.

For the three months ended December 31, 2009, the \$1.2 million cash usage was primarily due to the Company's net loss of \$13.6 million offset by a net decrease in certain components of working capital. The net decrease in certain components of working capital was primarily due to a \$3.7 million increase in accounts payable, a \$3.1 million

decrease in inventory, and a \$0.2 million decrease in other assets offset by a \$1.0 million increase in accounts receivable and a decrease of \$1.0 million in accrued expenses and other liabilities. Significant non-cash adjustments used to reconcile net loss to net cash used in operating activities included \$3.2 million related to stock-based compensation expense, \$3.1 million related to depreciation and amortization expense, and \$1.4 million related to a loss from a financing derivative instrument.

For the three months ended December 31, 2008, the \$21.1 million cash usage was primarily due to the Company's net loss of \$53.4 million and a net increase in certain components of working capital of approximately \$13.7 million. The net increase in certain components of working capital was primarily due to a \$6.8 million decrease in accounts payable, a \$4.3 million increase in inventory, a \$1.9 million increase in accounts receivable, and a \$0.8 million decrease in accrued expenses and other current liabilities. Significant non-cash adjustments used to reconcile net loss to net cash used in operating activities included \$33.8 million in impairment of goodwill within the Fiber Optics segment, \$4.4 million related to an increase in inventory provisions, \$4.3 million related to depreciation and amortization expense, \$2.1 related to stock-based compensation expense, and \$0.9 million related to an increase in the provision for doubtful accounts.

Net Cash Provided by Investing Activities

For the three months ended December 31, 2009, net cash provided by investing activities totaled \$1.3 million, which represents an increase of \$0.2 million from \$1.1 million in cash provided by investing activities for the three months ended December 31, 2008.

For the three months ended December 31, 2009, the \$1.3 million in net cash provided by investing activities was primarily due to from the release of restricted cash of \$1.5 million offset by \$0.2 million in capital expenditures and patent investments.

For the three months ended December 31, 2008, the \$1.1 million in net cash provided by investing activities was primarily due to \$1.7 million received from the sale of available-for-sale securities offset by \$0.6 million in capital expenditures.

Net Cash Provided by Financing Activities

For the three months ended December 31, 2009, net cash provided by financing activities totaled \$0.9 million, which represents a decrease of \$16.1 million from \$17.0 million in cash provided by financing activities for the three months ended December 31, 2008.

For the three months ended December 31, 2009, the \$0.9 million in net cash provided by financing activities consisted of \$0.3 million in net borrowings under the Company's credit facility with Bank of America and \$0.5 million in proceeds from the Company's employee stock purchase plan.

For the three months ended December 31, 2008, the \$17.0 million in net cash provided by financing activities consisted of \$15.4 million in net borrowings under the Company's credit facility with Bank of America, \$0.9 million in net borrowing with UBS, and \$0.6 million in proceeds from the Company's employee stock purchase plan.

Contractual Obligations and Commitments

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

(in thousands)

For the Fiscal Years Ended September 30,

	Total	2010	2011 to 2012	2013 to 2014	2015 and later
Operating lease obligations	\$ 7,904	\$ 1,444	\$ 2,886	\$ 875	\$ 2,699
Line of credit	10,678	10,678	-	-	-
Short-term debt	843	843	-	-	-
Purchase obligations	23,480	23,420	60	-	-
Total contractual obligations and commitments	\$ 42,905	\$ 36,385	\$ 2,946	\$ 875	\$ 2,699

Interest expense is not included in the contractual obligations and commitments table above since it is insignificant to the Company's financial statements.

Operating leases

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

Line of Credit

In September 2008, the Company closed a \$25 million asset-backed revolving credit facility with Bank of America which can be used for working capital, letters of credit and other general corporate purposes. Subsequently, the credit facility was amended resulting in a reduction in the total loan availability to \$14 million. The credit facility matures in September 2011 and is secured by virtually all of the Company's assets. The credit facility is subject to a borrowing base formula based on eligible accounts receivable and provides for prime-based borrowings.

Edgar Filing: EMCORE CORP - Form 10-Q

As of December 31, 2009, the Company had a \$10.7 million prime rate loan outstanding, with an interest rate of 8.25%, and approximately \$2.9 million in outstanding standby letters of credit under this credit facility.

The facility is also subject to certain financial covenants. On February 8, 2010, the Company and Bank of America entered into a Sixth Amendment to the Company's revolving asset-backed credit facility, which (a) permits the Company to enter into foreign exchange hedging transactions pursuant to a separate facility with the bank, provided that available amounts under such facility shall be deducted from the maximum revolving loan limit under this facility; and (b) resets the EDITDA financial covenant for the first quarter of fiscal 2010 to place the Company in compliance with that covenant.

Short-term Debt

In December 2008, the Company borrowed \$0.9 million from UBS Securities that is collateralized with \$1.4 million of auction rate preferred securities. The average interest rate on the loan is approximately 1.4% and the term of the loan is dependent upon the timing of the settlement of the auction rate securities with UBS Securities which is expected to occur by June 2010 at 100% par value.

Letters of credit

As of December 31, 2009, the Company had 8 standby letters of credit issued and outstanding which totaled approximately \$3.1 million, of which \$2.9 million was issued against the Company's credit facility with Bank of America and the remaining \$0.2 million in standby letters of credit are collateralized with other financial institutions and are listed on the Company's balance sheet as restricted cash.

Other

In February 2010, the Company's 2000 Stock Option Plan is scheduled to expire. Management is currently developing a new 10-year equity compensation plan, which may include both stock options and other forms of equity compensation.

Segment Data and Related Information

In the Notes to the Condensed Consolidated Financial Statements, see Footnote 15 for disclosures related to business segment revenue, geographic revenue, significant customers, and operating loss by business segment.

Recent Accounting Pronouncements

In the Notes to the Condensed Consolidated Financial Statements, see Footnote 2 for disclosures related to recent accounting pronouncements.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to financial market risks, including changes in currency exchange rates and interest rates. We do not use derivative financial instruments for speculative purposes.

Currency Exchange Rates. The United States dollar is the functional currency for the Company's consolidated financials. The functional currency of the Company's Spanish subsidiary is the Euro and for the China subsidiary it is the Yuan Renminbi. The financial statements of these entities are translated to United States dollars using period end rates for assets and liabilities, and the weighted average rate for the period for all revenue and expenses. During the normal course of business, the Company is exposed to market risks associated with fluctuations in foreign currency exchange rates, primarily the Euro. To reduce the impact of these risks on the Company's earnings and to increase the predictability of cash flows, the Company uses natural offsets in receipts and disbursements within the applicable currency as the primary means of reducing the risk. Some of our foreign suppliers may adjust their prices (in \$US) from time to time to reflect currency exchange fluctuations, and such price changes could impact our future financial condition or results of operations. The Company does not currently hedge its foreign currency exposure and does not believe that fluctuations of currency exchange rates will have a material impact to the Company's financial statements.

Credit Market Conditions

Recently, the U.S. and global capital markets have been experiencing turbulent conditions, particularly in the credit markets, as evidenced by tightening of lending standards, reduced availability of credit, and reductions in certain asset values. This could impact the Company's ability to obtain additional funding through financing or asset sales.

ITEM 4.

Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed under the Securities Exchange Act of 1934 (the "Act") is recorded, processed, summarized and reported within the specified time periods and accumulated and communicated to management, including its Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Accounting Officer), as appropriate, to allow timely decisions regarding required disclosure.

Management, under the supervision and with the participation of its Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Accounting Officer), evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Act), as of the end of the period covered by this report. Based on that evaluation, management concluded that, as of that date, the Company's disclosure controls and procedures were effective at the reasonable assurance level.

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

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the three months ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations on the Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any,

within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

The Company is subject to various legal proceedings and claims that are discussed below. The Company is also subject to certain other legal proceedings and claims that have arisen in the ordinary course of business and which have not been fully adjudicated. The Company does not believe it has a potential liability related to current legal proceedings and claims that could individually, or in the aggregate, have a material adverse effect on its financial condition, liquidity or results of operations. However, the results of legal proceedings cannot be predicted with certainty. Should the Company fail to prevail in any legal matters or should several legal matters be resolved against the Company in the same reporting period, then the operating results of that particular reporting period could be materially adversely affected. In the past, the Company settled certain matters that did not individually, or in the aggregate, have a material impact on the Company's results of operations.

a) Intellectual Property Lawsuits

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

We have, from time to time, exchanged correspondence with third parties regarding the assertion of patent or other intellectual property rights in connection with certain of our products and processes. Additionally, on September 11, 2006, we filed a lawsuit against Optium Corporation, currently part of Finisar Corporation (Optium) in the U.S. District Court for the Western District of Pennsylvania for patent infringement of certain patents associated with our Fiber Optics segment. In the suit, the Company and JDS Uniphase Corporation (JDSU) allege that Optium is infringing on U.S. patents 6,282,003 and 6,490,071 with its Prisma II 1550nm transmitters. On March 14, 2007, following denial of a motion to add additional claims to its existing lawsuit, the Company and JDSU filed a second patent suit in the same court against Optium alleging infringement of JDSU's patent 6,519,374 ("the '374 patent"). On March 15, 2007, Optium filed a declaratory judgment action against the Company and JDSU. Optium sought in this litigation a declaration that certain products of Optium do not infringe the '374 patent and that the patent is invalid, but the District Court dismissed the action on January 3, 2008 without addressing the merits. The '374 patent is assigned to JDSU and licensed to the Company.

On December 20, 2007, the Company was served with a complaint in another declaratory relief action which Optium had filed in the Federal District Court for the Western District of Pennsylvania. This action seeks to have U.S. patents 6,282,003 and 6,490,071 declared invalid or unenforceable because of certain conduct alleged to have occurred in connection with the grant of these patents. These allegations are substantially the same as those brought by Optium by motion in the Company's own case against Optium, which motion had been denied by the Court. On August 11, 2008, both actions pending in the Western District of Pennsylvania were consolidated before a single judge, and a trial date of October 19, 2009 was set. On February 18, 2009, the Company's motion for a summary judgment dismissing Optium's declaratory relief action was granted, and on March 11, 2009, the Company was notified that Optium intended to file an appeal of this order. In October 2009 the consolidated matters were tried before a jury, which found that all patents asserted against Optium were valid, that all claims asserted were infringed, and that such infringement by Optium was willful where willfulness was asserted. The jury awarded EMCORE and JDSU monetary damages totaling approximately \$3.4 million.

b) Avago-related Litigation

On July 15, 2008, the Company was served with a complaint filed by Avago Technologies and what appear to be affiliates thereof in the United States District Court for the Northern District of California, San Jose Division (Avago

Technologies U.S., Inc., et al., Emcore Corporation, et al., Case No.: C08-3248 JW). In this complaint, Avago asserts claims for breach of contract and breach of express warranty against Venture Corporation Limited (one of the Company's customers) and asserts a tort claim for negligent interference with prospective economic advantage against the Company.

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

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

The Company intends to vigorously defend against the allegations of all of the Avago complaints.

c) Green and Gold related litigation

On December 23, 2008, Plaintiffs Maurice Prissert and Claude Prissert filed a purported stockholder class action (the “Prissert Class Action”) pursuant to Federal Rule of Civil Procedure 23 allegedly on behalf of a class of Company shareholders against the Company and certain of its present and former directors and officers (the “Individual Defendants”) in the United States District Court for the District of New Mexico captioned, Maurice Prissert and Claude Prissert v. EMCORE Corporation, Adam Gushard, Hong Q. Hou, Reuben F. Richards, Jr., David Danzilio and Thomas Werthan, Case No. 1:08cv1190 (D.N.M.). The Complaint alleges that Company and the Individual Defendants violated certain provisions of the federal securities laws, including Section 10(b) of the Securities Exchange Act of 1934, arising out of the Company’s disclosure regarding its customer Green and Gold Energy (“GGE”) and the associated backlog of GGE orders with the Company’s Photovoltaics business segment. The Complaint in the Class Action seeks, among other things, an unspecified amount of compensatory damages and other costs and expenses associated with the maintenance of the Action.

On or about February 12, 2009, a second purported stockholder class action (Mueller v. EMCORE Corporation et al., Case No. 1:09cv 133 (D.N.M.)) (the “Mueller Class Action”) was filed in the United States District Court for the District of New Mexico against the same defendants named in the Prissert Class Action, based on substantially the same facts and circumstances, containing substantially the same allegations and seeking substantially the same relief. Plaintiffs in both class actions have moved to consolidate the matters into a single action, and several alleged EMCORE shareholders have moved to be appointed lead class plaintiff of the to-be consolidated action. Selection of a lead plaintiff in this matter is currently pending before the Court.

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

On March 11, 2009, Plaintiff Gary Thomas filed a second purported shareholder derivative action (the “Thomas Derivative Action”; together with the Stearns Derivative Action, the “Derivative Actions”) in the U.S. District Court for the District of New Mexico against the Company and certain of the Individual Defendants (Gary Thomas, derivatively on behalf of EMCORE Corporation v. Thomas J. Russell, Robert Bogomolny, Charles Scott, John Gillen, Reuben F. Richards, Jr., Hong Q. Hou, and EMCORE Corporation, Case No. 1:09-cv-00236, (D.N.M.)). The Thomas Derivative Action makes the same allegations as the Stearns Derivative Action and seeks essentially the same relief.

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

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

d) Securities Matters

- SEC Communications. On or about August 15, 2008, the Company received a letter from the Denver office of the Enforcement Division of the Securities and Exchange Commission wherein it sought the Company's voluntary production of documents relating to, among other things, the Company's business relationship with Green and Gold Energy, Inc., its licensees, and the Photovoltaics segment backlog the Company reported to the public. Since that time, the Company has provided documents to the staff of the SEC and met with the staff on December 12, 2008 to address this matter. On June 10, 2009, the SEC staff requested that the Company voluntarily provide documentary backup for certain information presented at the December 2008 meeting, which was provided on July 17, 2009, and arrange for a telephone interview with one former employee, which has been completed. On August 24, 2009, in a telephone call with the Company's counsel, the staff posed certain questions relating to the material provided on July 17, 2009, which were answered via the production of additional information and documentation on October 9, 2009.
-

- NASDAQ Communication. On or about November 13, 2008, the Company received a letter from the NASDAQ Listings Qualifications group ("NASDAQ") concerning the Company's removal of \$79 million in backlog attributable to GGE which the Company announced on August 8, 2008 and the remaining backlog exclusive of GGE. The Company advised NASDAQ that it would cooperate with its inquiry. To date, the Company has received three additional requests for information from NASDAQ (the latter 2 of which requested updates on the SEC matter). The Company has complied with each of NASDAQ's requests. In early November 2009 the NASDAQ orally requested to be advised of developments in the SEC matter.

As of December 31, 2009 and the filing date of this Quarterly Report on Form 10-Q, no amounts have been accrued for any litigation item discussed above since no estimate of loss can be made at this time.

ITEM 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended September 30, 2009, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us also may materially adversely affect our business, financial condition and/or operating results.

Our agreement for the sale of a majority of our fiber optics assets and the creation of a joint venture in China is subject to the satisfaction of material conditions. A failure of the transaction to close would likely have material adverse effect on the Company.

Our agreement with TCIC for the sale of a majority interest in our telecom, enterprise, CATV, FTTP and video transport product lines is subject to the approval of our and TCIC's boards of directors, which means that, until these approvals are obtained, the agreement would not be enforceable by either party against the other. In addition, the closing of the transaction is subject to the satisfaction of material conditions, including regulatory and government approvals in the U.S. and China. In the event these conditions are not satisfied, we may be unable to consummate the transaction, and, if U.S. regulatory approvals are not obtained, the Company will be liable for the payment of a \$2,775,000 termination fee to TCIC.

The Company has also agreed to relocate its China CPV manufacturing and operations base to the Caofeidian Industry Zone. It is uncertain whether this operation can be successfully relocated, and failure to successfully do so may have an adverse impact on these operations as well as other aspects of the Company's CPV business, which may be dependent on these operations.

A failure to close the joint venture transaction for any reason may have a material adverse effect on the Company. Our relationships or credibility with customers could suffer if transition arrangements for the joint venture transactions are planned but not implemented due to a failure to close. In addition, we would not realize the expected benefits under the terms of the joint venture arrangement, and, because we are restricted by the stock purchase agreement from conducting the business of the joint venture assets in ways other than the ordinary course during the pendency of the closing, we would not have had the opportunity to pursue other strategic transactions involving those assets.

If the joint venture transaction is consummated, the successful implementation of the joint venture will be subject to additional risks and uncertainties that may have an adverse material effect on the joint venture's performance. If the joint venture is not successful, the Company may suffer losses under its obligation to provide debt financing to the joint venture.

If the transaction is closed, the implementation of the joint venture transaction will also be subject to additional risks and uncertainties. The assets included in the transaction will need to be transitioned to the joint venture, and in some cases will be relocated geographically to the Caofeidian Industry Zone in China, which may lead to unexpected cost and could result in business interruptions or other adverse consequences to the business. A failure by the joint venture to retain key employees may also have an adverse material effect on the business and performance of the joint venture. Because we will share ownership and management of the joint venture, the management of these risks will not be entirely within our control.

In addition, the Company has agreed to make \$3.0 million in additional debt financing available to the joint venture following the closing, and to pledge 50% of its interest in the joint venture as collateral for the \$27.0 million in working capital loans to the joint venture to be arranged by TCIC. The Company will likely suffer losses of these amounts if the joint venture is unable to repay its debts.

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

(a) Not Applicable

(b) Not Applicable

(c) Not Applicable

ITEM 3. Defaults upon Senior Securities

Not Applicable

ITEM 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the three months ended December 31, 2009.

ITEM 5. Other Information

Tangshan Agreements

On February 3, 2010, the Company entered into a share purchase agreement to create a joint venture with Tangshan Caofeidian Investment Corporation (“TCIC”), a Chinese investment company located in the Caofeidian Industry Zone, Tangshan City, Hebei Province of China.

The agreement provides for TCIC to purchase a sixty percent (60%) interest in the Company’s Fiber Optics business (excluding its satellite communications and specialty photonics fiber optics product lines), which will be operated as a joint venture once the transaction is closed. The Fiber Optics businesses included in this transaction are the Company’s telecom, enterprise, cable television (CATV), fiber-to-the-premises (FTTP), and video transport product lines. The Company will retain the satellite communications and specialty photonics fiber optics product lines as well as the satellite and terrestrial solar businesses.

The new joint venture entity will be named EMCORE Fiber Optics, Limited (“EFO”), and will be a newly formed corporation organized in Hong Kong. The agreement provides for TCIC to pay the Company \$27.75 million in cash, subject to adjustment based on the net asset value of the business as of the closing date, and also to provide \$27 million of additional debt financing to EFO subsequent to the closing, with \$18 million to be funded within 90 days of closing and \$9 million to be funded within 90 days of the first anniversary of the closing. The Company will be providing 50% of its equity interest in EFO as collateral for this indebtedness. In addition, the agreement provides for the Company to provide \$3 million of additional debt financing to EFO after the closing, with \$2 million to be funded within 5 business days of the closing and \$1 million to be funded within 90 days of the first anniversary of the closing.

The agreement is subject to the approval of both the Company’s board of directors and the board of directors of TCIC, and the closing of the transaction is subject to material conditions, including regulatory and governmental approvals in the U.S. and China. If US regulatory approvals are not obtained, the Company will be obligated to pay a termination fee of \$2,775,000 to TCIC.

The parties also executed a Shareholders Agreement to provide for operation of EFO following closing. The terms of the Shareholders Agreement provide that TCIC shall have the right to elect three of EFO's five directors of EFO, as well as to designate the Chairman of the Board and the Chief Financial Officer. The Company will have the right to elect the remaining two directors and to nominate the Chief Executive Officer. The Company also has the right to approve certain key corporate matters (including modifications of EFO's governing documents, changes in equity and corporate structure, mergers, acquisitions and dispositions, the incurring of indebtedness, and the annual business plan and budget) through supermajority voting requirements on the Board (subject to certain deadlock provisions). The Shareholders' Agreement also imposes certain restrictions on the parties' abilities to transfer their interest in EFO.

It is expected that the Company's Executive Chairman and Chairman of the Board, Mr. Reuben F. Richards, Jr. will resign his position as the Company's Executive Chairman effective as of the closing of the transaction to assume the role of CEO for EFO. In addition, the agreement provides for certain other Company senior executives and the employees currently working for the transferred product lines to be offered positions with EFO. The agreement further contemplates that the Company's President and CEO, Dr. Hong Q. Hou, will also serve as a director of EFO, providing strategic and operational oversight to the joint venture.

Tangshan Caofeidian Investment Corporation has nominated Dr. Yi Li as Chairman of the Board for EFO and TCIC will name a CFO to EFO subsequent to the closing.

Over the next several years, the joint venture is expected to focus on developing a high volume, low cost manufacturing infrastructure and a local customer support organization to better serve the expanding customer base in China and worldwide. TCIC has committed to providing additional funding support for the JV's future strategic growth through acquisitions.

In conjunction with the establishment of the joint venture, the Company and TCIC also entered into a supplemental agreement pursuant to which the Company agreed to establish its China terrestrial concentrator photovoltaics (CPV) manufacturing and operations base in the Caofeidian Industry Zone. The agreement includes a commitment by TCIC to provide the Company with the equivalent of \$3.3 million in RMB denominated loans, tax and rent incentives and assistance in developing the Company's solar power business in China.

Line of Credit

On February 8, 2010, the Company and Bank of America entered into a Sixth Amendment to the Company's revolving asset-backed credit facility, which (a) permits the Company to enter into foreign exchange hedging transactions pursuant to a separate facility with the bank, provided that available amounts under such facility shall be deducted from the maximum revolving loan limit under this facility; and (b) resets the EDITDA financial covenant for the first quarter of fiscal 2010 to place the Company in compliance with that covenant.

ITEM 6. Exhibits

Exhibit Description Number

- 10.1* Share Purchase Agreement, dated February 3, 2010, by and among Tangshan Caofeidian Investment Corporation and EMCORE Corporation.
- 10.2* Shareholders Agreement, dated February 3, 2010, by and among Tangshan Caofeidian Investment Corporation and EMCORE Corporation.
- 10.3* Supplemental Agreement, dated February 3, 2010, by and among Tangshan Caofeidian Investment Corporation and EMCORE Corporation.
- 10.4* Sixth Amendment to the Loan and Security Agreement with Bank of America, N.A., dated February 8, 2010.
- 31.1* Certificate of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated February 9, 2010.

- 31.2* Certificate of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, dated February 9, 2010.
- 32.1* Certificate of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated February 9, 2010.
- 32.2* Certificate of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated February 9, 2010.

* Filed herewith

SIGNATURES

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

EMCORE CORPORATION

Date: February 9, 2010

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

Chief Executive Officer
(Principal Executive Officer)

Date: February 9, 2010

By: /s/ John M. Markovich
John M. Markovich

Chief Financial Officer
(Principal Financial and Accounting Officer)