

EMCORE CORP
Form 10-Q
November 01, 2007

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

FORM 10-Q

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

For the quarterly period ended: March 31, 2007

Commission File Number: 0-22175

EMCORE Corporation

(Exact name of Registrant as specified in its charter)

New Jersey

(State or other jurisdiction of incorporation or organization)

22-2746503

(IRS Employer Identification No.)

10420 Research Road SE, Albuquerque, NM 87123

(Address of principal executive offices)

(505) 332-5000

(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
 Large accelerated filer Accelerated filer Non-accelerated filer

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

The number of shares outstanding of the registrant's no par value common stock as of October 19, 2007 was 51,218,629.

EMCORE Corporation
FORM 10-Q
For the Quarterly Period Ended March 31, 2007
TABLE OF CONTENTS

| | | PAGE |
|--------------------------|--|-------------|
| <u>PART I.</u> | <u>FINANCIAL INFORMATION</u> | |
| <u>ITEM 1.</u> | <u>FINANCIAL STATEMENTS.</u> | 3 |
| <u>ITEM 2.</u> | <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u> | 31 |
| <u>ITEM 3.</u> | <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u> | 47 |
| <u>ITEM 4.</u> | <u>CONTROLS AND PROCEDURES</u> | 47 |
| <u>PART II.</u> | <u>OTHER INFORMATION</u> | |
| <u>ITEM 1.</u> | <u>LEGAL PROCEEDINGS</u> | 50 |
| <u>ITEM 1A.</u> | <u>RISK FACTORS</u> | 53 |
| <u>ITEM 2.</u> | <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u> | 53 |
| <u>ITEM 3.</u> | <u>DEFAULTS UPON SENIOR SECURITIES</u> | 53 |
| <u>ITEM 4.</u> | <u>SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS</u> | 53 |
| <u>ITEM 5.</u> | <u>OTHER INFORMATION</u> | 53 |
| <u>ITEM 6.</u> | <u>EXHIBITS</u> | 53 |
| <u>SIGNATURES</u> | | 54 |

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

EMCORE CORPORATION
Condensed Consolidated Statements of Operations
For the three and six months ended March 31, 2007 and 2006
(in thousands, except per share data)
(unaudited)

| | Three Months Ended March 31, (As restated) (1) 2007 | | Six Months Ended March 31, (As restated) (1) 2007 | |
|---|--|------------|--|-------------|
| Revenue | \$ 39,838 | \$ 36,115 | \$ 78,512 | \$ 71,844 |
| Cost of revenue | 32,716 | 28,248 | 65,880 | 57,629 |
| Gross profit | 7,122 | 7,867 | 12,632 | 14,215 |
| Operating expenses: | | | | |
| Selling, general and administrative | 13,143 | 10,652 | 25,681 | 17,706 |
| Research and development | 7,550 | 4,734 | 14,177 | 9,007 |
| Total operating expenses | 20,693 | 15,386 | 39,858 | 26,713 |
| Operating loss | (13,571) | (7,519) | (27,226) | (12,498) |
| Other (income) expenses: | | | | |
| Interest income | (1,169) | (246) | (2,820) | (576) |
| Interest expense | 1,260 | 1,359 | 2,522 | 2,656 |
| Loss from convertible notes exchange offer | - | - | - | 1,078 |
| Gain from insurance proceeds | (357) | - | (357) | - |
| Equity in net loss of unconsolidated affiliates | - | 547 | - | 182 |
| Total other (income) expenses | (266) | 1,660 | (655) | 3,340 |
| Loss from continuing operations | (13,305) | (9,179) | (26,571) | (15,838) |
| Discontinued operations: | | | | |
| Income (loss) from discontinued operations | - | 170 | - | (44) |
| Gain on disposal of discontinued operations, net of tax | - | 2,012 | - | 2,012 |
| Income from discontinued operations | - | 2,182 | - | 1,968 |
| Net loss | \$ (13,305) | \$ (6,997) | \$ (26,571) | \$ (13,870) |
| Per share data: | | | | |
| Basic and diluted per share data: | | | | |
| Loss from continuing operations | \$ (0.26) | \$ (0.18) | \$ (0.52) | \$ (0.32) |
| Income from discontinued operations | - | 0.04 | - | 0.04 |

| | | | | | | | | |
|---|----|--------|----|--------|----|--------|----|--------|
| Net loss | \$ | (0.26) | \$ | (0.14) | \$ | (0.52) | \$ | (0.28) |
| Weighted-average number of basic and diluted shares outstanding | | 50,947 | | 49,410 | | 50,911 | | 48,789 |

(1) See Note 18 “Restatement of the Condensed Consolidated Financial Statements” in Notes to the Condensed Consolidated Financial Statements.

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

Table of Contents

EMCORE CORPORATION
Condensed Consolidated Balance Sheets
As of March 31, 2007 and September 30, 2006
(in thousands)
(unaudited)

| | As of March 31, 2007 | As of September 30, 2006 |
|--|-------------------------------------|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 28,824 | \$ 22,592 |
| Restricted cash | 1,158 | 738 |
| Marketable securities | 48,425 | 101,375 |
| Accounts receivable, net | 36,445 | 27,387 |
| Receivables, related parties | 332 | 453 |
| Notes receivable | 1,500 | 3,000 |
| Inventory, net | 27,243 | 23,252 |
| Prepaid expenses and other current assets | 4,408 | 4,518 |
| Total current assets | 148,335 | 183,315 |
| Property, plant and equipment, net | 54,236 | 55,186 |
| Goodwill | 40,460 | 40,447 |
| Other intangible assets, net | 3,476 | 4,293 |
| Investments in unconsolidated affiliates | 14,855 | 981 |
| Long-term receivables, related parties | - | 82 |
| Other non-current assets, net | 2,870 | 3,243 |
| Total assets | \$ 264,232 | \$ 287,547 |
| LIABILITIES and SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 19,033 | \$ 20,122 |
| Accrued expenses and other current liabilities | 21,768 | 22,082 |
| Convertible subordinated notes, current portion | 11,428 | 11,428 |
| Total current liabilities | 52,229 | 53,632 |
| Convertible subordinated notes | 84,613 | 84,516 |
| Total liabilities | 136,842 | 138,148 |
| Commitments and contingencies (Note 16) | | |
| Shareholders' equity: | | |
| Preferred stock, \$0.0001 par, 5,882 shares authorized, no shares outstanding | - | - |
| Common stock, no par value, 100,000 shares authorized, 51,146 shares issued and 50,987 outstanding at March 31, 2007; 50,962 shares issued and 50,803 shares | 440,900 | 436,338 |

| | | |
|--|------------|------------|
| outstanding at September 30, 2006 | | |
| Accumulated deficit | (311,427) | (284,856) |
| Treasury stock, at cost; 159 shares | (2,083) | (2,083) |
| Total shareholders' equity | 127,390 | 149,399 |
| Total liabilities and shareholders' equity | \$ 264,232 | \$ 287,547 |

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

Table of Contents

EMCORE CORPORATION
Condensed Consolidated Statements of Cash Flows
For the six months ended March 31, 2007 and 2006
(in thousands)
(unaudited)

| | Six Months Ended | |
|--|-------------------------|-------------|
| | March 31, | |
| | (As | |
| | restated) | |
| | (1) | |
| | 2007 | 2006 |
| Cash flows from operating activities: | | |
| Net loss | \$ (26,571) | (13,870) |
| Adjustments to reconcile net loss to net cash used for operating activities: | | |
| Gain on disposal of discontinued operations | - | (2,012) |
| Loss from discontinued operations | - | 44 |
| Stock-based compensation expense | 3,670 | 2,311 |
| Depreciation and amortization expense | 4,880 | 6,361 |
| Accretion of loss from convertible subordinated notes exchange offer | 98 | 67 |
| Loss from convertible subordinated notes exchange offer | - | 1,078 |
| Provision for doubtful accounts | 266 | 13 |
| Equity in net loss of unconsolidated affiliates | - | 182 |
| Compensatory stock issuances | 412 | 369 |
| Forgiveness of shareholders' notes receivable | 82 | 2,613 |
| Reduction of note receivable due for services received | 261 | 260 |
| Total non-cash adjustments | 9,669 | 11,286 |
| Changes in operating assets and liabilities, net of effect of acquisitions: | | |
| Accounts receivable | (9,323) | (954) |
| Receivables, related parties | - | 157 |
| Inventory | (3,992) | (2,133) |
| Prepaid expenses and other current assets | 111 | 525 |
| Other assets | (281) | (319) |
| Accounts payable | (1,090) | 129 |
| Accrued expenses and other current liabilities | (644) | (4,611) |
| Total change in operating assets and liabilities | (15,219) | (7,206) |
| Net cash used for operating activities of continuing operations | (5,550) | 4,080 |
| Net cash used for operating activities of discontinued operations | - | (959) |
| Net cash used for operating activities | (32,121) | (10,749) |
| Cash flows from investing activities: | | |
| Purchase of plant and equipment | (2,731) | (1,203) |
| Proceeds from insurance recovery | 362 | - |
| Proceeds from K2 Optronics | - | 500 |
| Investment in unconsolidated affiliate | (13,873) | - |
| Proceeds from employee notes receivable | 121 | - |

| | | |
|---|----------|---------|
| Proceeds from notes receivable | 1,500 | - |
| Purchase of business, net of cash acquired | - | 610 |
| Funding of restricted cash | (420) | (98) |
| Purchase of marketable securities | (22,150) | (350) |
| Sale of marketable securities | 75,100 | 10,850 |
| Investing activities of discontinued operations | - | (1,552) |
| Net cash provided by investing activities | 37,909 | 8,757 |

(1) See Note 18 “Restatement of the Condensed Consolidated Financial Statements” in Notes to the Condensed Consolidated Financial Statements.

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

Table of Contents

EMCORE CORPORATION
Condensed Consolidated Statements of Cash Flows
For the six months ended March 31, 2007 and 2006
(in thousands)
(unaudited)

(Continued from previous page)

| | Six Months Ended March 31, | |
|--|---------------------------------------|-------------|
| | 2007 | 2006 |
| Cash flows from financing activities: | | |
| Payments on capital lease obligations | \$ (32) | \$ (82) |
| Proceeds from exercise of stock options | 274 | 5,385 |
| Proceeds from employee stock purchase plan | 202 | 326 |
| Convertible debt/equity issuance costs | - | (114) |
| Net cash provided by financing activities | 444 | 5,515 |
| | | |
| Net increase in cash and cash equivalents | 6,232 | 3,523 |
| Cash and cash equivalents, beginning of period | 22,592 | 19,525 |
| Cash and cash equivalents, end of period | \$ 28,824 | \$ 23,048 |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

| | | |
|--|----------|----------|
| Cash paid during the period for interest | \$ 2,421 | \$ 2,580 |
| Cash paid for income taxes | \$ 2,351 | \$ - |

NON-CASH INVESTING AND FINANCING ACTIVITIES:

| | | |
|---|------|----------|
| Acquisition of property and equipment under capital leases | \$ - | \$ 126 |
| Issuance of common stock in conjunction with acquisitions | \$ - | \$ 6,460 |
| Manufacturing equipment received in lieu of earn-out proceeds from disposition of discontinued operations | \$ - | \$ 2,012 |

(1) See Note 18 "Restatement of the Condensed Consolidated Financial Statements" in Notes to the Condensed Consolidated Financial Statements.

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

Table of Contents

EMCORE Corporation
Notes to Condensed Consolidated Financial Statements
(unaudited)

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 material 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, all information considered necessary for a fair presentation of the financial statements has been included. 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, 2006 has been derived from the audited consolidated financial statements as of such date. For a more complete understanding of EMCORE's financial position, operating results, risk factors and other matters, please refer to EMCORE's Annual Report on Form 10-K for the fiscal year ended September 30, 2006.

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 at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. 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. EMCORE's reported financial position or results of operations may be materially different under changed conditions or when using different estimates and assumptions. In the event that estimates or assumptions prove to differ from actual results, adjustments are made in subsequent periods to reflect more current information.

For the three and six-month periods ended March 31, 2007, options representing 3,224,884 shares of common stock were excluded from the diluted earnings per share calculations. For the three and six-month periods ended March 31, 2006, warrants representing 14,796 shares of common stock and options representing 4,530,247 shares of common stock were excluded from the diluted earnings per share calculations. These options and warrants, along with the Company's convertible subordinated notes, were not included in the computation of diluted earnings per share in the periods as the Company incurred a net loss for the period and any effect would have been anti-dilutive.

Mr. Scott T. Massie, an Executive Vice President and Chief Operating Officer of the Company, resigned and left the Company on December 29, 2006. Dr. Hong Q. Hou was appointed as President and Chief Operating Officer and was elected to the Company's Board of Directors. The Company also reported that Mr. Reuben F. Richards will continue to serve as Chief Executive Officer until the Company's Annual Meeting in 2008, at which time he will become Executive Chairman of the Board of Directors and Dr. Thomas J. Russell, the current Chairman, will become Chairman Emeritus and Lead Director. The Board of Directors has offered Dr. Hong Q. Hou the position of Chief Executive Officer after Mr. Richards becomes Chairman.

NOTE 2. Recent Accounting Pronouncements

SAB 108 - In September 2006, the SEC issued Staff Accounting Bulletin (“SAB”) 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*. SAB 108 provides guidance on how prior year misstatements should be considered when quantifying misstatements in current year financial statements for purposes of determining whether the current year’s financial statements are materially misstated. SAB 108 is effective for fiscal years ending after November 15, 2006. Although the Company will continue to evaluate the application of SAB 108, management does not currently believe that this pronouncement will have a material impact on the Company’s results of operations or financial position.

SFAS 157 - In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standard (“SFAS”) 157, *Fair Value Measurements*, which defines fair value, provides a framework for measuring fair value, and expands the disclosures required for fair value measurements. SFAS 157 applies to other accounting pronouncements that require fair value measurements; it does not require any new fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and is required to be adopted by the Company on October 1, 2008. Although the Company will continue to evaluate the application of SFAS 157, management does not currently believe adoption of this pronouncement will have a material impact on the Company’s results of operations or financial position.

Table of Contents

SFAS 159 - In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115*. The fair value option permits entities to choose to measure eligible financial instruments at fair value at specified election dates. The entity will report unrealized gains and losses on the items on which it has elected the fair value option in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007 and is required to be adopted by the Company on October 1, 2008. The Company is currently evaluating the effect of adopting SFAS 159, but does not expect it to have a material impact on its consolidated results of operations or financial condition.

FIN 48 - In June 2006, the FASB issued Interpretation No. 48 (“FIN 48”), *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 applies to all tax positions related to income taxes subject to SFAS 109, *Accounting for Income Taxes*. Differences between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption should be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. FIN 48 is effective for fiscal years beginning after December 15, 2006 and was required to be adopted by the Company on October 1, 2007. EMCORE does not believe the adoption of FIN 48 will have a material impact on its financial statements.

EITF 06-3 - In March 2006, FASB’s Emerging Issues Task Force (“EITF”) issued No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement*. The pronouncement requires a policy be adopted to present externally imposed taxes on revenue-producing transactions on either a gross or net basis. Gross or net presentation may be elected for each different type of tax, but similar taxes should be presented consistently. Taxes within the scope of this issue would include taxes that are imposed on a revenue transaction between a seller and a customer. EITF 06-3 is effective for interim and annual financial periods beginning after December 15, 2006 and was required to be adopted by the Company on January 1, 2007. We adopted EITF 06-3 by presenting externally imposed taxes on revenue-producing transactions on a net basis, and it has not had a material impact on our financial statements.

NOTE 3. Equity

Stock Options

EMCORE has stock option plans to provide long-term incentives to eligible employees, officers, and directors in the form of stock options. Most of the stock options vest and become exercisable over four to five years and have ten year terms. EMCORE maintains two incentive stock option plans: the 2000 Stock Option Plan (“2000 Plan”), and the 1995 Incentive and Non-Statutory Stock Option Plan (“1995 Plan” and, together with the 2000 Plan, the “Option Plans”). The 1995 Plan authorizes the grant of options to purchase up to 2,744,118 shares of EMCORE's common stock. The 2000 Plan authorizes the grant of options to purchase up to 9,350,000 shares of EMCORE's common stock. As of March 31, 2007, no options were available for issuance under the 1995 Plan and 1,292,796 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.

Table of Contents

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, 2006 | 6,232,535 | \$ 5.49 | |
| Granted | 659,900 | 5.11 | |
| Exercised | (86,484) | 2.33 | |
| Expired | (13,970) | 4.75 | |
| Forfeited | (285,000) | 11.40 | |
| Cancelled | (424,598) | 5.37 | |
| Outstanding as of March 31, 2007 | 6,082,383 | \$ 5.23 | 7.25 |
| Expected to vest as of March 31, 2007 | 2,661,091 | \$ 5.49 | 8.49 |
| Exercisable as of March 31, 2007 | 2,922,038 | \$ 4.95 | 5.91 |
| Non-vested as of March 31, 2007 | 3,160,345 | \$ 5.49 | 8.48 |

As of March 31, 2007 there was \$11.7 million of total unrecognized compensation expense related to non-vested share-based compensation arrangements granted under the Option Plans. This expense is expected to be recognized over an estimated weighted-average life of 3.1 years. The total intrinsic value of options exercised during the three and six months ended March 31, 2007 was \$0 million and \$0.2 million, respectively, and \$5.2 million and \$5.8 million for the three and six months ended March 31, 2006, respectively. The aggregate intrinsic value of fully vested share options as of March 31, 2007 was \$4.1 million.

On October 1, 2005, EMCORE adopted SFAS 123(R), *Share-Based Payment (revised 2004)*, using the modified prospective application transition method, which establishes accounting for stock-based awards exchanged for employee services. Accordingly, stock-based compensation expense is measured at grant date, based on the fair value of the award, over the requisite service period.

As required by SFAS 123(R), 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 during the three and six month periods ended March 31, 2007 and 2006 was as follows (in thousands, except per share data):

| | Three Months Ended March 31, 2007 | | Six Months Ended March 31, 2006 | |
|--|---|-----------|---------------------------------------|-----------|
| Stock-based compensation expense by award type: | | | | |
| Employee stock options | \$ 1,344 | \$ 718 | \$ 3,670 | \$ 2,057 |
| Employee stock purchase plan | - | 288 | - | 410 |
| Total stock-based compensation expense | \$ 1,344 | \$ 1,006 | \$ 3,670 | \$ 2,467 |
| Net effect on net loss per basic and diluted share | \$ (0.03) | \$ (0.02) | \$ (0.07) | \$ (0.05) |

Valuation Assumptions

EMCORE estimated the fair value of stock options using a Black-Scholes model. The fair value of each 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 weighted-average grant-date fair value of stock options granted during the three and six months ended March 31, 2007 was \$3.70 and \$3.99, respectively, and \$6.44 and \$6.11 for the three and six months ended March 31, 2006, respectively.

Table of Contents

| Black-Scholes Weighted-Average Assumptions | For the six months ended March 31, 2007 |
|---|--|
| Expected dividend yield | 0% |
| Expected stock price volatility | 95.0% |
| Risk-free interest rate | 4.6% |
| Expected term (in years) | 5.8 |
| Estimated pre-vesting forfeitures | 19.3% |

Expected Dividend Yield: The Black-Scholes valuation model calls for a single expected dividend yield as an input. EMCORE 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 EMCORE's historical stock prices.

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

Expected Term: EMCORE's expected term represents the period that EMCORE'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, EMCORE considers voluntary termination behavior as well as future workforce reduction programs.

Preferred Stock

EMCORE's certificate of incorporation authorizes the Board of Directors to issue up to 5,882,352 shares of preferred stock of EMCORE upon such terms and conditions having such rights, privileges and preferences as the Board of Directors may determine.

Warrants

EMCORE does not have any outstanding warrants as of March 31, 2007.

Employee Stock Purchase Plan

In fiscal 2000, EMCORE adopted an Employee Stock Purchase Plan (ESPP). The ESPP provides employees of EMCORE 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 for EMCORE'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. In November 2006, the Company suspended the ESPP due to its review of historical stock option granting practices. The number of shares of common stock available for issuance under the ESPP is 2,000,000 shares.

Table of Contents

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

| | Number of Common Stock Shares Issued | Purchase Price per Common Stock Share |
|--|---|--|
| Amount of shares reserved for the ESPP | 2,000,000 | |
| Number of shares issued in calendar years 2000 through 2003 | (398,159) | \$ 1.87 - \$40.93 |
| Number of shares issued in June 2004 for first half of calendar year 2004 | (166,507) | \$ 2.73 |
| Number of shares issued in December 2004 for second half of calendar year 2004 | (167,546) | \$ 2.95 |
| Number of shares issued in June 2005 for first half of calendar year 2005 | (174,169) | \$ 2.93 |
| Number of shares issued in December 2005 for second half of calendar year 2005 | (93,619) | \$ 3.48 |
| Number of shares issued in June 2006 for first half of calendar year 2006 | (123,857) | \$ 6.32 |
| Remaining shares reserved for the ESPP as of March 31, 2007 | 876,143 | |

Future Issuances

As of March 31, 2007, EMCORE has reserved a total of 20,268,252 shares of its common stock for future issuances as follows:

| | Number of Common Stock Shares Available |
|---|--|
| For exercise of outstanding common stock options | 6,082,383 |
| For conversion of subordinated notes | 12,016,930 |
| For future issuances to employees under the ESPP plan | 876,143 |
| For future common stock option awards | 1,292,796 |
| Total reserved | 20,268,252 |

NOTE 4. Sale of GELcore Investment

On August 31, 2006, EMCORE sold its 49% membership interest in GELcore, LLC for \$100.0 million to General Electric Corporation, which prior to the transaction owned the remaining 51% membership interest in GELcore. For the three and six months ended March 31, 2006, EMCORE recognized a loss of \$0.4 million and income of \$0.2 million, respectively, related to GELcore, which was recorded as a component of other income and expenses.

NOTE 5. Acquisitions**K2 Optronics, Inc.**

On January 12, 2006, EMCORE entered into an Agreement and Plan of Merger (“Merger Agreement”) with K2 Optronics, Inc. (“K2”), a privately-held company located in Sunnyvale, CA and EMCORE Optoelectronics Acquisition Corporation, a wholly owned subsidiary of EMCORE (“Merger Sub”). Pursuant to the Merger Agreement, EMCORE acquired K2 in a transaction in which Merger Sub merged with and into K2, with K2 becoming a wholly owned subsidiary of EMCORE. EMCORE, an investor in K2, paid approximately \$4.1 million in EMCORE common stock, and paid approximately \$0.7 million in transaction-related expenses, to acquire the remaining part of K2 that EMCORE did not already own. Prior to the transaction EMCORE owned a 13.6% equity interest in K2 as a result of a \$1.0 million investment that EMCORE made in K2 in October 2004. In addition, K2 was a supplier to EMCORE of analog external cavity lasers for CATV applications. In connection with the merger, EMCORE issued a total of 548,688 shares of EMCORE common stock, no par value, (based on a 20-trading day weighted average price), to K2’s shareholders.

Table of Contents

Including EMCORE's initial \$1.0 million investment in K2, the purchase price was allocated as follows:

(in thousands)

K2 Optronics, Inc. Acquisition

| | |
|---|----------|
| Net purchase price | \$ 5,135 |
| Historical net liabilities acquired | 872 |
| Excess purchase price allocated to goodwill | \$ 6,007 |

Historical net assets acquired in the acquisition were as follows:

| | |
|-------------------------------------|----------|
| Current assets | \$ 1,374 |
| Fixed assets | 388 |
| Intellectual property | 583 |
| Current liabilities | (2,412) |
| Debt | (805) |
| Historical net liabilities acquired | \$ (872) |

Force, Inc.

On December 18, 2005, EMCORE entered into an Asset Purchase Agreement with Force, Inc., a privately-held company located in Christiansburg, Virginia. In connection with the asset purchase, EMCORE issued 240,000 shares of EMCORE common stock, no par value, with a market value of \$1.6 million at the measurement date and paid \$0.5 million in cash. The acquisition included Force's fiber optic transport and video broadcast products, technical and engineering staff, certain assets and intellectual properties and technologies. The purchase price was allocated as follows:

(in thousands)

Force, Inc. Acquisition

| | |
|---|----------|
| Net purchase price | \$ 2,125 |
| Historical net assets acquired | (985) |
| Excess purchase price allocated to goodwill | \$ 1,140 |

Historical net assets acquired in the acquisition were as follows:

| | |
|--------------------------------|---------|
| Current assets | \$ 450 |
| Inventory | 570 |
| Fixed assets | 60 |
| Intellectual property | 1,075 |
| Current liabilities | (1,170) |
| Historical net assets acquired | \$ 985 |

Table of Contents**Phasebridge, Inc.**

On November 8, 2005, EMCORE entered into an Asset Purchase Agreement with Phasebridge, Inc., a privately-held company located in Pasadena, California. In connection with the asset purchase and based on a closing price of \$5.46, EMCORE issued 128,205 shares of EMCORE common stock, no par value, that were valued in the transaction at \$0.7 million. The acquisition included Phasebridge's products, technical and engineering staff, certain assets, and intellectual properties and technologies. The purchase price was allocated as follows:

(in thousands)

Phasebridge, Inc. Acquisition

| | | |
|---|----|-------|
| Net purchase price | \$ | 700 |
| Historical net assets acquired | | (678) |
| Excess purchase price allocated to goodwill | \$ | 22 |

Historical net assets acquired in the acquisition were as follows:

| | | |
|--------------------------------|----|------|
| Current Assets | \$ | 39 |
| Fixed Assets | | 127 |
| Intangible Assets | | 603 |
| Current Liabilities | | (91) |
| Historical net assets acquired | \$ | 678 |

All of these transactions were accounted for as purchases in accordance with SFAS 141, *Business Combinations*; therefore, the tangible assets acquired were recorded at fair value on the acquisition date. These acquisitions were not significant on a pro-forma basis, and therefore, pro-forma financial statements have not been presented. The operating results of the businesses acquired are included in the accompanying consolidated statement of operations from the date of acquisition. All of these acquired businesses are part of EMCORE's Fiber Optics operating segment.

NOTE 6. Marketable Securities

Investments in securities with remaining maturities in excess of three months, which are held for purposes of funding our current operations are classified as available for sale and reported as short-term marketable securities in the condensed consolidated balance sheets. The investments consist primarily of auction rate securities, which have interest rates that reset generally every 7 to 35 days. There were no unrealized holding gains or losses on the marketable securities as of March 31, 2007 and September 30, 2006 and the fair value of these securities was \$48.4 million and \$101.4 million at March 31, 2007 and September 30, 2006, respectively.

NOTE 7. Discontinued Operations and Restructuring Charges**Discontinued Operations**

On August 18, 2006, EMCORE completed the sale of the assets of its Electronic Materials & Device ("EMD") division, including inventory, fixed assets, and intellectual property, pursuant to an Asset Purchase Agreement, dated July 19,

2006 (Purchase Agreement), between EMCORE, IQE, plc, a public limited company organized under the laws of the United Kingdom, and IQE RF, LLC, a New Jersey limited liability company and a wholly owned subsidiary of IQE. Under the terms of the Purchase Agreement, EMCORE sold the EMD division to IQE for \$16.0 million, consisting of \$13.0 million in cash and \$3.0 million in the form of a secured promissory note of IQE, guaranteed by IQE's affiliates. The note was completely repaid in fiscal 2007, via four quarterly installments at an annual interest rate of 7.5%. In accordance with the provisions of SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, EMCORE's financial statements have been reclassified to reflect the EMD division as a discontinued operation for all prior periods presented. EMD revenues from operations for the three and six months ended March 31, 2006 were \$5.0 million and \$9.2 million, respectively. For the three months ended March 31, 2006 income from operations related to EMD was \$0.2 million and losses from operations for the six months ended March 31, 2006 were \$44,000.

Table of Contents

In November 2003, EMCORE sold its TurboDisc capital equipment business in an asset sale to a subsidiary of Veeco Instruments Inc. (“Veeco”). In March 2006, EMCORE received manufacturing equipment valued at \$2.0 million as a final earn-out payment from Veeco in connection with Veeco’s second year of net sales of TurboDisc products, which was recognized as a gain on disposal of discontinued operations for the three and six months ended March 31, 2006.

Restructuring Charges

As EMCORE has acquired businesses and consolidated them into its existing operations, EMCORE has incurred charges associated with the transition and integration of those activities. Expenses recognized as restructuring charges include costs associated with the integration of several business acquisitions and EMCORE’s overall cost-reduction efforts. Restructuring charges are included in SG&A. The charges recognized in fiscal year 2006 were primarily related to our Photovoltaics operating segment. Fiscal 2007 charges relate to our Fiber Optics operating segment. These restructuring efforts are expected to be completed in calendar year 2008. Costs incurred and expected to be incurred consist of the following:

| <i>(in thousands)</i> | Amount Incurred in Three-Month Period | Cumulative Amount Incurred to Date | Amount Expected in Future Periods | Total Amount Expected to be Incurred |
|-------------------------------|--|---|--|---|
| One-time termination benefits | \$ 512 | \$ 1,085 | \$ 2,353 | \$ 3,438 |
| Contract termination Costs | - | 295 | 344 | 639 |
| Other associated costs | 3 | 3,005 | 467 | 3,472 |
| Total restructuring charges | \$ 515 | \$ 4,385 | \$ 3,164 | \$ 7,549 |

The following table sets forth changes in the accrual for restructuring charges:

| <i>(in thousands)</i> | |
|---|--------|
| Balance at September 30, 2006 | \$ 256 |
| Increase in liability due to restructuring of corporate headquarters | 932 |
| Costs paid or otherwise settled | (369) |
| Balance at March 31, 2007 | \$ 819 |

NOTE 8. Investments

In April 2005, EMCORE divested product technology focused on gallium nitride-based power electronic devices for the power device industry. The divestiture resulted in a new company, Velox Semiconductor Corporation (“Velox”) and EMCORE contributed intellectual property and equipment for a 19.2% ownership stake in Velox. During fiscal 2006, EMCORE reduced its voting percentage and relinquished its Velox Board seat, and its right to a Velox Board seat. As a result of these modifications, EMCORE reported its investment in Velox under the cost method of accounting for the three and six months ended March 31, 2007. Previously, under the equity method of accounting, EMCORE recognized losses of \$0.2 million and \$0.3 million, for the three and six months ended March 31, 2006, respectively, which were recorded as a component of other income and expenses. Under the cost method of accounting, the Velox investment is carried at cost and adjusted only for other-than-temporary declines in fair value, distribution of earnings and additional investments. As of March 31, 2007, EMCORE’s net investment in Velox amounted to approximately

\$1.0 million.

On November 29, 2006, EMCORE invested \$13.5 million, and incurred \$0.4 million in transaction costs, in WorldWater & Solar Technologies Corporation (“WorldWater”), a leader in solar electric engineering, water management solutions and solar energy installations and products. This investment represents EMCORE’s first tranche of its intended \$18.0 million investment, in return for convertible preferred stock and warrants of WorldWater, equivalent to approximately 31% equity ownership in WorldWater, or approximately 26.5% on a fully diluted basis. In connection with the investment, EMCORE received two seats on WorldWater's Board of Directors. EITF 02-14, *Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock*, provides guidance on whether an investor should apply the equity method of accounting to investments other than common stock. In accordance with EITF 02-14, although the investment in WorldWater gives us the ability to exercise significant influence over the operating and financial policies of the investee, since the investment does not qualify as in-substance common stock the equity method of accounting is not appropriate. In-substance common stock is an investment in an entity that has risk and reward characteristics that are substantially similar to the entity’s common stock. The risk and reward characteristics of our investment are not substantially similar to WorldWater’s common stock because our investment’s liquidation preference is considered substantive. Therefore, we are accounting for the investment in WorldWater under the cost method of accounting and evaluating it for other-than-temporary impairment each reporting period. As of March 31, 2007, our net investment in WorldWater amounted to approximately \$13.9 million. See Note 19 - Subsequent Events for discussion of an additional strategic investment in WorldWater.

Table of Contents**NOTE 9. Receivables**

The components of accounts receivable consisted of the following:

| <i>(in thousands)</i> | As of March 31, 2007 | As of September 30, 2006 |
|---------------------------------|-------------------------------------|---|
| Accounts receivable | \$ 31,942 | \$ 25,597 |
| Accounts receivable – unbilled | 5,176 | 2,342 |
| Accounts receivable, gross | 37,118 | 27,939 |
| Allowance for doubtful accounts | (673) | (552) |
| Total accounts receivable, net | \$ 36,445 | \$ 27,387 |

Receivables from related parties consisted of the following:

| <i>(in thousands)</i> | As of March 31, 2007 | As of September 30, 2006 |
|--|-------------------------------------|---|
| Current assets: | | |
| Velox investment-related | \$ 332 | \$ 332 |
| Employee loans | - | 121 |
| Subtotal | 332 | 453 |
| Long-term assets: | | |
| Employee loans | - | 82 |
| Total receivables from related parties | \$ 332 | \$ 535 |

Employee Loans

From time to time, prior to July 2002, EMCORE loaned money to certain of its executive officers and directors. Pursuant to due authorization of EMCORE's Board of Directors, EMCORE loaned \$85,000 to Mr. Werthan, the former Chief Financial Officer in December 1995. This loan does not bear interest and provided for offset of the loan via bonuses payable to Mr. Werthan over a period of up to 25 years. As discussed in Note 19 – Subsequent Events, in connection with Mr. Werthan's resignation in February 2007 and pursuant to the terms of his promissory note, the Board of Directors forgave the remaining portion of his outstanding loan that totaled \$82,000. Mr. Werthan was responsible for the personal taxes related to the loan forgiveness.

The remaining related party receivable balance approximately \$121,000 as of September 30, 2006 relates to multiple interest bearing loans from EMCORE to an officer (who is not an executive officer) that were made during 1997 through 2000 and were payable on demand. These loans, including accrued interest, were paid back to the Company

in December 2006.

15

Table of Contents**NOTE 10. Inventory, net**

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:

| <i>(in thousands)</i> | As of March 31, 2007 | As of September 30, 2006 |
|-----------------------|-------------------------------------|---|
| Raw materials | \$ 18,820 | \$ 14,990 |
| Work-in-process | 5,990 | 6,074 |
| Finished goods | 10,400 | 8,660 |
| Inventory, gross | 35,210 | 29,724 |
| Less: reserves | (7,967) | (6,472) |
| Total inventory, net | \$ 27,243 | \$ 23,252 |

We establish provisions for excess and obsolete inventories after evaluation of historical sales and usage, current economic trends, market conditions, product rationalization, forecasted sales, product lifecycles, and current inventory levels. This evaluation requires us to make estimates regarding future events in an industry where rapid technological changes are prevalent. It is possible that increases in inventory reserves may be required in the future if there is a decline in market conditions or if changes in expected product lifecycles occur. Alternatively, if market conditions improve or product lifecycles extend, we may have greater success in selling inventory that had previously been written down. In either event, the actual value of our inventory may be higher or lower and recognition of such difference will affect our cost of sales in a future period.

NOTE 11. Property, Plant, and Equipment, net

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

| <i>(in thousands)</i> | As of March 31, 2007 | As of September 30, 2006 |
|---|-------------------------------------|---|
| Land | \$ 1,502 | \$ 1,502 |
| Building and improvements | 40,251 | 40,035 |
| Equipment | 72,919 | 64,275 |
| Furniture and fixtures | 5,519 | 5,362 |
| Leasehold improvements | 2,624 | 2,696 |
| Construction in progress | 2,330 | 8,553 |
| Property, plant and equipment, gross | 125,145 | 122,423 |
| Less: accumulated depreciation and amortization | (70,909) | (67,237) |
| Total property, plant and equipment, net | \$ 54,236 | \$ 55,186 |

As of March 31, 2007 and September 30, 2006, EMCORE did not have any significant capital lease agreements.

16

Table of Contents**NOTE 12. Goodwill and Intangible Assets, net**

The following table sets forth changes in the carrying value of goodwill by reportable segment:

| <i>(in thousands)</i> | Fiber Optics | Photovoltaics | Total |
|----------------------------------|-------------------------|----------------------|--------------|
| Balance as of September 30, 2006 | \$ 20,063 | \$ 20,384 | \$ 40,447 |
| Acquisition – earn-out payments | 13 | - | 13 |
| Balance as of March 31, 2007 | \$ 20,076 | \$ 20,384 | \$ 40,460 |

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

| <i>(in thousands)</i> | As of March 31, 2007 | | | As of September 30, 2006 | | |
|-------------------------|-----------------------------|-------------------------------------|-------------------|---------------------------------|-------------------------------------|-------------------|
| | Gross Assets | Accumulated Amortization | Net Assets | Gross Assets | Accumulated Amortization | Net Assets |
| Fiber Optics: | | | | | | |
| Patents | \$ 705 | \$ (281) | \$ 424 | \$ 579 | \$ (218) | \$ 361 |
| Ortel acquired IP | 3,274 | (2,676) | 598 | 3,274 | (2,394) | 880 |
| JDSU acquired IP | 1,040 | (413) | 627 | 1,040 | (314) | 726 |
| Alvesta acquired IP | 193 | (167) | 26 | 193 | (148) | 45 |
| Molex acquired IP | 558 | (391) | 167 | 558 | (335) | 223 |
| Phasebridge acquired IP | 603 | (355) | 248 | 603 | (244) | 359 |
| Force acquired IP | 1,075 | (374) | 701 | 1,075 | (227) | 848 |
| K2 acquired IP | 583 | (197) | 386 | 583 | (126) | 457 |
| Subtotal | 8,031 | (4,854) | 3,177 | 7,905 | (4,006) | 3,899 |
| Photovoltaics: | | | | | | |
| Patents | 504 | (205) | 299 | 382 | (162) | 220 |
| Tecstar acquired IP | 1,900 | (1,900) | - | 1,900 | (1,726) | 174 |
| Subtotal | 2,404 | (2,105) | 299 | 2,282 | (1,888) | 394 |
| Total | \$ 10,435 | \$ (6,959) | \$ 3,476 | \$ 10,187 | \$ (5,894) | \$ 4,293 |

Based on the carrying amount of the intangible assets, and assuming no future impairment of the underlying assets, the estimated future amortization expense is as follows:

(in thousands)

Period ending:

| | |
|---|--------|
| Six-month period ended September 30, 2007 | \$ 624 |
| Year ended September 30, 2008 | 1,071 |
| Year ended September 30, 2009 | 765 |
| Year ended September 30, 2010 | 653 |

| | |
|-----------------------------------|----------|
| Year ended September 30, 2011 | 191 |
| Thereafter | 172 |
| Total future amortization expense | \$ 3,476 |

Goodwill represents the excess of the purchase price of an acquired business or assets over the fair value of the identifiable assets acquired and liabilities assumed. Intangible assets consist primarily of intellectual property that has been internally developed or purchased. Purchased intangible assets include existing and core technology, trademarks and trade names, and customer base and contracts. Intangible assets are amortized using the straight-lined method over estimated useful lives ranging from one to fifteen years.

EMCORE evaluates its goodwill and intangible assets for impairment on an annual basis, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Circumstances that could trigger an impairment test include but are not limited to: a significant adverse change in 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. The determination as to whether a write-down of goodwill or intangible assets is necessary involves significant judgment based on the short-term and long-term projections of the future performance of the operating segment to which the goodwill or intangible assets are attributed. As of December 31, 2006, and 2005, EMCORE tested for impairment of its goodwill and intangible assets. In accordance with Statement of Financial Accounting Standard (“SFAS”) No. 142, *Goodwill and Other Intangible Assets*, the fair value of the reporting units was determined by using a valuation technique based on each reporting unit’s multiples of revenues. Based on that analysis, we determined that the carrying amount of the reporting units did not exceed their fair value.

Table of Contents**NOTE 13. Accrued Expenses and Other Current Liabilities**

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

| <i>(in thousands)</i> | As of March 31, 2007 | As of September 30, 2006 |
|--|----------------------------|-----------------------------------|
| Compensation-related | \$ 6,476 | \$ 6,973 |
| Interest | 1,830 | 1,830 |
| Warranty | 1,043 | 1,074 |
| Professional fees | 3,172 | 2,529 |
| Royalty | 474 | 535 |
| Self insurance | 722 | 784 |
| Deferred revenue and customer deposits | 475 | 324 |
| Tax-related | 3,755 | 4,418 |
| Litigation-related | 700 | 700 |
| Other | 3,121 | 2,915 |
| Total accrued expenses and other current liabilities | \$ 21,768 | \$ 22,082 |

Product Warranty Reserves. EMCORE provides its customers with limited rights of return for non-conforming shipments and warranty claims for certain products. In accordance with SFAS No. 5, *Accounting for Contingencies*, EMCORE 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 failures. 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.

NOTE 14. Convertible Subordinated Notes

In May 2001, EMCORE issued \$175.0 million aggregate principal amount of its 5% convertible subordinated notes due in May 2006 ("2006 Notes"). In December 2002, EMCORE purchased \$13.2 million principal amount of the 2006 Notes at prevailing market prices for an aggregate of approximately \$6.3 million, resulting in a gain of approximately \$6.6 million after netting unamortized debt issuance costs of approximately \$0.3 million. In February 2004, EMCORE exchanged approximately \$146.0 million, or 90.2%, of its remaining 2006 Notes for approximately \$80.3 million aggregate principal amount of new 5% Convertible Senior Subordinated Notes due May 15, 2011 ("2011 Notes") and approximately 7.7 million shares of EMCORE common stock. Interest on the 2011 Notes is payable in arrears semiannually on May 15 and November 15 of each year. The notes were convertible into EMCORE common stock at a conversion price of \$8.06 per share, subject to adjustment under customary anti-dilutive provisions. They also are redeemable should EMCORE's common stock price reach \$12.09 per share. As a result of this transaction, EMCORE reduced debt by approximately \$65.7 million, and recorded a gain from early debt extinguishment of approximately \$12.3 million.

In November 2005, EMCORE exchanged \$14.4 million aggregate principal amount of the 2006 Notes for \$16.6 million aggregate principal amount of newly issued Convertible Senior Subordinated Notes due May 15, 2011 ("New 2011 Notes") pursuant to an Exchange Agreement ("Agreement") with Alexandra Global Master Fund Ltd. ("Alexandra"). The terms of the New 2011 Notes are identical in all material respects to the 2011 Notes. The New 2011 Notes are ranked pari passu with the existing 2011 Notes. The New 2011 Notes will be convertible at any time prior to maturity, unless previously redeemed or repurchased by EMCORE, into the shares of EMCORE common stock, no par value, at the conversion rate of 124.0695 shares of common stock per \$1,000 principal amount. The effective conversion rate was \$8.06 per share of common stock, subject to adjustment under customary anti-dilutive provisions. They also are redeemable should EMCORE's common stock price reach \$12.09 per share. As a result of this transaction, EMCORE recognized approximately \$1.1 million in the first quarter of fiscal 2006. EMCORE will also incur an additional expense of approximately \$1.1 million over the life of the subordinated notes issued to Alexandra, which will be charged as interest expense. Furthermore, the 2006 Notes exchanged by Alexandra represented approximately 91.4% of the \$15.8 million total amount of existing 2006 Notes outstanding at the time of the transaction. EMCORE paid the remaining \$1.4 million of 2006 Notes on the May 15, 2006 maturity date. See Note 19 - Subsequent Events for recent modifications to the convertible subordinated notes and April 2007 note settlement.

Table of Contents

For the three months ended March 31, 2007 and 2006, interest expense relating to the notes approximated \$1.3 million and \$1.4 million, respectively, and \$2.5 million and \$2.7 million, respectively, for the six months ended March 31, 2007 and 2006, respectively.

The \$2.3 million of costs incurred in connection with the issuance of the 2006 Notes, 2011 Notes and the New 2011 Notes were capitalized and are being amortized to SG&A expense on a straight-line basis for over the remaining life of the notes which approximates the charge using the implied interest method. Issuance costs related to the notes, net of amortization, was \$1.2 million and \$1.1 million as of March 31, 2007 and September 30, 2006, respectively. The unamortized portions of the issuance costs are included in "Prepaid expenses and other assets" on the condensed consolidated balance sheets.

NOTE 15. Employee Benefit Plans

EMCORE has a Savings Plan that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the Savings Plan, participating employees may defer a portion of their pretax earnings, up to the Internal Revenue Service annual contribution limit. All employer contributions are made in EMCORE's common stock. For the three and six months ended March 31, 2007, EMCORE contributed approximately \$0.3 million and \$0.5 million, respectively, in common stock to the Savings Plan, compared to \$0.3 million and \$0.4 million for the three and six months ended March 31, 2006, respectively.

NOTE 16. Commitments and Contingencies

EMCORE leases certain land, facilities, and equipment under non-cancelable operating leases. The leases 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 amounted to approximately \$0.4 million and \$0.6 million for the three months ended March 31, 2007 and 2006 respectively, and \$0.8 million and \$1.1 million for the six months ended March 31, 2007 and 2006, respectively.

As of March 31, 2007, EMCORE had six standby letters of credit issued totaling approximately \$1.2 million.

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, the operating results of a particular reporting period could be materially adversely affected. The Company settled certain matters during 2007 that did not individually or in the aggregate have a material impact on the Company's results of operations.

Shareholder Derivative Litigation Relating to Historical Stock Option Practices

On February 1, 2007, Plaintiff Lewis Edelstein filed a purported stockholder derivative action (the "Federal Court 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 United States District Court for the District of New Jersey, Edelstein v. Brodie, et. al., Case No. 3:07-cv-00596-FLW-JJH (D.N.J.). On May 22, 2007, Plaintiffs Kathryn

Gabaldon and Michael Sackrison each filed a purported stockholder derivative action against the Individual Defendants, and the Company as nominal defendant, in the Superior Court of New Jersey, Somerset County, Gabaldon v. Brodie, et. al., Case No. 3:07-cv-03185-FLW-JJH (D.N.J.) and Sackrison v. Brodie, et. al., Case No. 3:07-cv-00596-FLW-JJH (D.N.J.) (collectively, the “State Court Actions”).

Table of Contents

Both the Federal Court Action and the State Court Actions alleged, using essentially identical contentions that the Individual Defendants engaged in improprieties and violations of law in connection with the Company's historical issuances of stock options. Each of the actions seeks the same relief on behalf of the Company, including, among other things, damages, equitable relief, corporate governance reforms, an accounting, rescission, restitution and costs and disbursements of the lawsuit. On July 10, 2007, the State Court Actions were removed to the United States District Court for the District of New Jersey.

On September 26, 2007, the plaintiff in the Federal Court Action signed an agreement in principle with the Individual Defendants and the Company to settle that litigation in accordance with the Memorandum of Understanding (the "MOU") filed as Exhibit 10.10 to this Annual Report on Form 10-K. That same day, the plaintiffs in the State Court Actions advised the Federal Court that the settlement embodied in the MOU would also constitute the settlement of the State Court Actions.

The MOU provides that the Company will adhere to certain policies and procedures relating to the issuance of stock options, stock trading by directors, officers and employees, the composition of its Board of Directors, and the functioning of the Board's Audit and Compensation Committees. The MOU also provides for the payment of \$700,000 relating to plaintiff's attorneys' fees, costs and expenses, which the Company's insurance carrier has committed to pay on behalf of the Company. To be fully implemented, the MOU will be embodied in a more detailed stipulation of settlement and will be expressly conditioned on Court approval following a period for comment by potentially affected parties.

We have recorded \$700,000 as a liability for the stipulated settlement as of September 30, 2006 since events that led to the litigation existed as of that date. Although we anticipate that our insurance carrier will cover the stipulated settlement, we have not recorded any receivable, or gain contingency, since the settlement is still contingent upon certain future events.

NASDAQ Delisting Proceeding

On December 18, 2006, EMCORE received a NASDAQ Staff Determination letter stating that the Company was not in compliance with the filing requirements for continued listing set forth in NASDAQ Marketplace Rule 4310(c)(14) and that its common stock was subject to delisting from The NASDAQ Stock Market. The notice, which the Company expected, was issued as a result of the Company's failure to file its annual report on Form 10-K for the year ended September 30, 2006 with the SEC by the required deadline. The Company had previously filed a Form 12b-25 with the SEC indicating that the Company would be unable to file its Form 10-K by the original filing deadline of December 14, 2006 due to the Company's ongoing review of its prior stock option grants.

On February 13, 2007, EMCORE received a NASDAQ Staff Determination letter stating that the Company was not in compliance with the filing requirements for continued listing set forth in NASDAQ Marketplace Rule 4310(c)(14) and that its common stock was subject to delisting from The NASDAQ Stock Market. The notice, which the Company expected, was issued as a result of the Company's failure to file its report on Form 10-Q for the fiscal quarter ended December 31, 2006 with the SEC by the required deadline. The Company had previously filed a Form 12b-25 with the SEC indicating that the Company would be unable to file its Form 10-Q by the original filing deadline of February 9, 2007 due to the Company's ongoing review of its prior stock option grants.

The Company attended a hearing before the NASDAQ Listing Qualifications Panel (the "Panel") on February 15, 2007 to review both the Staff Determination letter received by the Company on December 18, 2006 as a result of the Company's inability to file its Form 10-K for the year ended September 30, 2006 by the required deadline and the Staff Determination letter received by the Company on February 13, 2007 as a result of the Company's inability to file

its Form 10-Q for the quarter ended December 31, 2006 by the required deadline.

On April 3, 2007, the Company received notice from the NASDAQ Stock Market that the Panel granted the Company's request for continued listing on the NASDAQ Stock Market subject to the Company filing both its Form 10-K for the fiscal year ended September 30, 2006 and its Form 10-Q for the quarter ended December 31, 2006 with the SEC by no later than May 10, 2007.

On May 10, 2007, the Company received notice from the NASDAQ Stock Market that the Panel had granted the Company's request for an extension of the May 10, 2007 deadline. The extension was conditioned on the Company filing its Form 10-K for the fiscal year ended September 30, 2006, its Form 10-Q for the quarter ended December 31, 2006 and all required restatements with the SEC by no later than June 18, 2007.

On May 14, 2007, the Company received a NASDAQ Staff Determination letter stating that the Company was not in compliance with the filing requirements for continued listing set forth in NASDAQ Marketplace Rule 4310(c)(14) and that its common stock was subject to delisting from the NASDAQ Stock Market. The notice, which the Company expected, was issued as a result of the Company's failure to file its report on Form 10-Q for the fiscal quarter ended March 31, 2007 with the SEC by the required deadline. The Company had previously filed a Form 12b-25 with the SEC indicating that the Company would be unable to file its Form 10-Q by the original filing deadline of May 10, 2007 due to the Company's ongoing review of its prior stock option grants.

Table of Contents

On May 25, 2007, EMCORE filed an appeal of the May 10, 2007 Panel decision to grant the Company's request for an extension through June 18, 2007. EMCORE appealed the May 25, 2007 decision on the sole ground that the Panel could not grant the Company beyond June 18, 2007 to file the missing Form 10-K, Form 10-Qs and restatements. On June 8, 2007, the Company requested that NASDAQ stay the Panel's May 10, 2007 decision pending the Company's appeal of that action.

On June 15, 2007, the Company received a letter from the NASDAQ Stock Market stating that the NASDAQ Listing and Hearing Review Council (the "Listing Council") has stayed the previously reported May 10, 2007 decision of the Panel and any future Panel determinations to suspend the Company's securities from trading on NASDAQ, pending further review by the Listing Council. Consequently, the Company's securities would continue to be listed and tradable on the NASDAQ Global Market System until further action by the Listing Council to lift the stay, which would not occur prior to August 10, 2007. In addition, the Company was invited to submit any additional information to the Listing Council for consideration in its review by no later August 10, 2007.

On August 10, 2007, the Company submitted a letter, in response to the Listing Council's invitation, requesting that the Listing Council exercise its discretionary authority in favor of granting the Company an additional extension to regain compliance with NASDAQ's filing requirement. The Company is awaiting the Listing Council's response to this letter.

On August 13, 2007, the Company received a NASDAQ Staff Determination letter stating that the Company was not in compliance with the filing requirements for continued listing set forth in NASDAQ Marketplace Rule 4310(c)(14) and that its common stock was subject to delisting from the NASDAQ Stock Market. The notice, which the Company expected, was issued as a result of the Company's failure to file its Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007 with the SEC by the required deadline. The Company had previously filed a Notification of Late Filing on Form 12b-25 with the SEC indicating that the Company would be unable to file this Quarterly Report by the original filing deadline of August 9, 2007 due to the Company's ongoing review of its prior stock option grants.

On October 2, 2007, the Company received a NASDAQ Staff Determination letter stating that the Company was not in compliance with holding its annual meeting of shareholders within twelve months of the Company's fiscal year end, as set forth in NASDAQ Marketplace Rules 4350(e) and 4350(g) and that its common stock was subject to delisting from the NASDAQ Stock Market. The notice, which the Company expected, was issued as a result of the Company's failure to hold its annual shareholder meeting by September 30, 2007.

On October 5, 2007, the Company has received a decision from the Listing Council stating that, pursuant to its discretionary authority, it has granted the Company an exception and allowed the Company until December 4, 2007 to demonstrate compliance with all of the Global Market continued listing requirements (the "Decision"). The Decision requires that the Company file its Form 10-K for the fiscal year ended September 30, 2006 and its Form 10-Q for the quarters ended December 31, 2006, March 31, 2007 and June 30, 2007 with the SEC by the close of business on December 4, 2007. The Decision also provides that if the Company has not filed these delinquent reports with the SEC by the close of business on December 4, 2007, the Company's securities will be suspended at the opening of business on December 6, 2007.

Although we believe the filing of our Annual Report on Form 10-K as of September 30, 2006 and our concurrent filings of the Form 10-Qs for the quarters ended December 31, 2006, March 31, 2007, and June 30, 2007 satisfy the Panel's requirements, we cannot assure you that the Panel will be satisfied with these filings. See the Explanatory Note in our Annual Report on Form 10-K for the fiscal year ended September 30, 2006 for a discussion of stock option restatements that caused the delay in our SEC filings.

SEC Investigation

The Company informed the staff of the SEC of the Special Committee's investigation on November 6, 2006. After the Company's initial contact with the SEC, the SEC opened a non-public investigation concerning the Company's historic option granting practices since the Company's initial public offering. The Company has cooperated fully with the SEC's investigation. Although we cannot predict the outcome of this matter, we do not expect that such matter will have a material adverse effect on our consolidated financial position or results of operations.

Indemnification Obligations

Subject to certain limitations, we are obligated to indemnify our current and former directors, officers and employees in connection with the investigation of our historical stock option practices, related government investigation and shareholder litigation. These obligations arise under the terms of our certificate of incorporation, our bylaws, applicable contracts, and New Jersey law. The obligation to indemnify generally means that we are required to pay or reimburse the individuals' reasonable legal expenses and possibly damages and other liabilities incurred in connection with these matters. We are currently paying or reimbursing legal expenses being incurred in connection with these matters by a number of our current and former directors, officers and employees. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has a director and officer liability insurance policies that limits its exposure and enables it to recover a portion of any future amounts paid.

Table of Contents**Intellectual Property Lawsuits**

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 (Optium) in the United States District Court for the Western District of Pennsylvania for patent infringement. In the suit, EMCORE 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, EMCORE and JDSU filed a second patent suit in the same court against Optium alleging infringement of JDSU's patent 6,519,374. On March 15, 2007, Optium filed a declaratory judgment action against the Company and JDSU. Optium seeks in this litigation a declaration that certain products of Optium do not infringe United States Patent No. 6,519,374 ("the '374 patent") and that the patent is invalid. The '374 patent is assigned to JDSU and licensed to the Company. Other than the filing of a Complaint, Optium has taken no action in this case, and the Company has not been served.

NOTE 17. Segment Data and Related Information

EMCORE has two operating segments: Fiber Optics and Photovoltaics. EMCORE's Fiber Optics revenue is derived primarily from sales of optical components and subsystems for cable television (CATV), fiber to the premise (FTTP), enterprise routers and switches, telecom grooming switches, core routers, high performance servers, supercomputers, and satellite communications data links. EMCORE's Photovoltaics revenue is derived primarily from the sales of solar power conversion products, including solar cells, covered interconnect solar cells, and solar panels. EMCORE evaluates its reportable segments in accordance with SFAS 131, *Disclosures About Segments of an Enterprise and Related Information*. EMCORE's Chief Executive Officer is EMCORE's Chief Operating Decision Maker pursuant to SFAS 131, and he allocates resources to segments based on their business prospects, competitive factors, net revenue, operating results and other non-GAAP financial ratios.

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

| <i>(in thousands)</i> Segment Revenue | Three Months Ended March 31, 2007 | | Three Months Ended March 31, 2006 | |
|--|--------------------------------------|-----------------|--------------------------------------|-----------------|
| | Revenue | % of Revenue | Revenue | % of Revenue |
| Fiber Optics | \$ 26,237 | 66% | \$ 25,852 | 72% |
| Photovoltaics | 13,601 | 34 | 10,263 | 28 |
| Total revenue | \$ 39,838 | 100% | \$ 36,115 | 100% |

| <i>(in thousands)</i> Segment Revenue | Six Months Ended March 31, 2007 | | Six Months Ended March 31, 2006 | |
|--|------------------------------------|-----------------|------------------------------------|-----------------|
| | Revenue | % of Revenue | Revenue | % of Revenue |
| Fiber Optics | \$ 51,559 | 66% | \$ 50,857 | 71% |
| Photovoltaics | 26,953 | 34 | 20,987 | 29 |
| Total revenue | \$ 78,512 | 100% | \$ 71,844 | 100% |

The following table sets forth EMCORE's consolidated revenue by geographic region. Revenue was assigned to geographic regions based on the customers' or contract manufacturers' billing address.

22

Table of Contents

(in thousands)

| Geographic Revenue | Three Months Ended March 31, 2007 | | Three Months Ended March 31, 2006 | |
|------------------------|--------------------------------------|-----------------|--------------------------------------|-----------------|
| | Revenue | % of Revenue | Revenue | % of Revenue |
| North America | \$ 28,762 | 72% | \$ 29,525 | 82% |
| Asia and South America | 8,267 | 21 | 5,437 | 15 |
| Europe | 2,809 | 7 | 1,153 | 3 |
| Total revenue | \$ 39,838 | 100% | \$ 36,115 | 100% |

(in thousands)

| Geographic Revenue | Six Months Ended March 31, 2007 | | Six Months Ended March 31, 2006 | |
|------------------------|------------------------------------|-----------------|------------------------------------|-----------------|
| | Revenue | % of Revenue | Revenue | % of Revenue |
| North America | \$ 54,586 | 69% | \$ 59,412 | 83% |
| Asia and South America | 19,303 | 25 | 10,685 | 15 |
| Europe | 4,623 | 6 | 1,747 | 2 |
| Total revenue | \$ 78,512 | 100% | \$ 71,844 | 100% |

The following table sets forth operating losses attributable to each EMCORE operating segment:

(in thousands)

| Statement of Operations Data | Three Months Ended March 31, 2007 | | Six Months Ended March 31, 2006 | |
|---|---|------------|---------------------------------------|-------------|
| | 2007 | 2006 | 2007 | 2006 |
| Operating loss by segment: | | | | |
| Fiber Optics | \$ (6,408) | \$ (3,096) | \$ (12,613) | \$ (6,026) |
| Photovoltaics | (2,251) | (1,188) | (6,247) | (2,868) |
| Corporate | (4,912) | (3,235) | (8,366) | (3,604) |
| Operating loss | (13,571) | (7,519) | (27,226) | (12,498) |
| Other (income) expenses: | | | | |
| Interest income | (1,169) | (246) | (2,820) | (576) |
| Interest expense | 1,260 | 1,359 | 2,522 | 2,656 |
| Loss from convertible subordinated notes exchange offer | - | - | - | 1,078 |
| Gain from insurance proceeds | (357) | - | (357) | - |
| Equity in net loss of unconsolidated affiliates | - | 547 | - | 182 |
| Total other expenses | (266) | 1,660 | (655) | 3,340 |
| Loss from continuing operations | \$ (13,305) | \$ (9,179) | \$ (26,571) | \$ (15,838) |

Table of Contents

Long-lived assets (consisting of property, plant and equipment, goodwill and intangible assets) for each operating segment are as follows:

| <i>(in thousands)</i> | As of March 31, 2007 | As of September 30, 2006 |
|--------------------------|-------------------------------------|---|
| Long-lived Assets | | |
| Fiber Optics | \$ 54,165 | \$ 57,817 |
| Photovoltaics | 44,007 | 42,087 |
| Corporate | - | 22 |
| Total | \$ 98,172 | \$ 99,926 |

NOTE 18. Restatement of the Condensed Consolidated Financial Statements**Background**

In May 2006, EMCORE's senior management voluntarily began an inquiry into the Company's historical stock option granting practices. The inquiry was not in response to any governmental investigation, shareholder lawsuit, whistleblower complaint or inquiries from media organizations. Based on an initial review, senior management approached the Board of Directors and recommended that it form a Special Committee to examine EMCORE's historical stock option granting practices. The Board of Directors, pursuant to senior management's recommendation, appointed a Special Committee of three independent EMCORE directors to investigate the Company's historical stock option granting practices.

Based on this independent investigation, senior management, in consultation with the Audit Committee of the Board of Directors, concluded that it was likely that the most appropriate measurement dates for certain stock option grants, under the appropriate accounting treatment for stock options, differed from the recorded grant dates for such awards. Accordingly, on November 6, 2006, as initially disclosed in a Current Report on Form 8-K, senior management and the Audit Committee determined that the Company's financial statements included in its annual and interim reports and any related reports of its independent registered public accounting firm, earnings press releases and similar communications previously issued by the Company for the periods beginning with fiscal year 2000 should no longer be relied upon.

After comparing the most appropriate measurement dates to the measurement dates used by the Company in preparing its condensed consolidated financial statements, the Company determined that certain stock options were granted at an exercise price below the fair market value of the Company's common stock on the most appropriate measurement date. As a result of this determination, the Company has restated the condensed consolidated financial statements for the three and six months ended March 31, 2006 included in this Form 10-Q to record additional stock-based compensation expense of \$0.1 million and \$0.4 million, respectively. In addition, EMCORE's quarterly financial information has been reclassified to reflect the sale of the Company's EMD division as a discontinued operation.

Table of Contents

The following tables present the effects of the restatement on the Company's previously issued condensed consolidated financial statements for the three and six months ended March 31, 2006:

For the three months ended March 31, 2006**(in thousands, except per share data)**

| | As Previously Reported | EMD Discontinued Operations Adjustment (1) | Stock Compensation Expense Adjustment | As Restated |
|---|------------------------------|---|--|----------------|
| Revenue | \$ 41,162 | \$ (5,047) | \$ - | \$ 36,115 |
| Cost of revenue | 32,473 | (4,231) | 6 | 28,248 |
| Gross profit | 8,689 | (816) | (6) | 7,867 |
| Operating expenses: | | | | |
| Selling, general and administrative | 11,001 | (399) | 50 | 10,652 |
| Research and development | 4,964 | (240) | 10 | 4,734 |
| Total operating expenses | 15,965 | (639) | 60 | 15,386 |
| Operating loss | (7,276) | (177) | (66) | (7,519) |
| Other (income) expense: | | | | |
| Interest income | (246) | - | - | (246) |
| Interest expense | 1,359 | - | - | 1,359 |
| Equity in net loss of unconsolidated affiliates | 547 | - | - | 547 |
| Total other expenses | 1,660 | - | - | 1,660 |
| Loss from continuing operations | (8,936) | (177) | (66) | (9,179) |
| Discontinued operations: | | | | |
| Income (loss) from discontinued operations, net of tax | - | 177 | (7) | 170 |
| Gain on disposal of discontinued operations, net of tax | 2,012 | - | - | 2,012 |
| Income (loss) from discontinued operations | 2,012 | 177 | (7) | 2,182 |
| Net loss | \$ (6,924) | \$ - | \$ (73) | \$ (6,997) |
| Per share data: | | | | |
| Basic and diluted per share data: | | | | |
| Loss from continuing operations | \$ (0.18) | \$ - | \$ - | \$ (0.18) |
| Income from discontinued operations | 0.04 | - | - | 0.04 |
| Net loss | \$ (0.14) | \$ - | \$ - | \$ (0.14) |
| Weighted-average number of shares outstanding used in basic and diluted per share calculations | | | | |
| | 49,410 | - | - | 49,410 |

(1) See Note 7 "Discontinued Operations and Restructuring Charges" in Notes to the Condensed Consolidated Financial Statements.

Table of Contents**For the six months ended March 31, 2006****(in thousands, except per share data)**

| | As Previously Reported | EMD Discontinued Operations Adjustment (1) | Stock Compensation Expense Adjustment | As Restated |
|---|------------------------------|---|--|----------------|
| Revenue | \$ 81,053 | \$ (9,209) | \$ - | \$ 71,844 |
| Cost of revenue | 65,528 | (7,981) | 82 | 57,629 |
| Gross profit | 15,525 | (1,228) | (82) | 14,215 |
| Operating expenses: | | | | |
| Selling, general and administrative | 18,264 | (746) | 188 | 17,706 |
| Research and development | 9,398 | (479) | 88 | 9,007 |
| Total operating expenses | 27,662 | (1,225) | 276 | 26,713 |
| Operating loss | (12,137) | (3) | (358) | (12,498) |
| Other (income) expense: | | | | |
| Interest income | (576) | - | - | (576) |
| Interest expense | 2,656 | - | - | 2,656 |
| Loss from convertible subordinated notes exchange | | | | |
| Offer | 1,078 | - | - | 1,078 |
| Equity in net loss of unconsolidated affiliates | 182 | - | - | 182 |
| Total other expenses | 3,340 | - | - | 3,340 |
| Loss from continuing operations | (15,477) | (3) | (358) | (15,838) |
| Discontinued operations: | | | | |
| Income (loss) from discontinued operations, net of tax | - | 3 | (47) | (44) |
| Gain on disposal of discontinued operations, net of tax | 2,012 | - | - | 2,012 |
| Income (loss) from discontinued operations | 2,012 | 3 | (47) | 1,968 |
| Net loss | \$ (13,465) | \$ - | \$ (405) | \$ (13,870) |
| Per share data: | | | | |
| Basic and diluted per share data: | | | | |
| Loss from continuing operations | \$ (0.32) | \$ - | \$ - | \$ (0.32) |
| Income from discontinued operations | 0.04 | - | - | 0.04 |
| Net loss | \$ (0.28) | \$ - | \$ - | \$ (0.28) |
| Weighted-average number of shares outstanding used | | | | |
| in basic and diluted per share calculations | 48,789 | - | - | 48,789 |

(1) See Note 7 "Discontinued Operations and Restructuring Charges" in Notes to the Condensed Consolidated Financial Statements.

Table of Contents

For the six months ended March 31, 2006

(in thousands)

| | As Previously Reported | EMD Discontinued Operations Adjustment (1) | Stock Compensation Expense Adjustment | As Restated |
|--|------------------------------|---|--|-------------|
| Cash flows from operating activities: | | | | |
| Net loss | \$ (13,465) | \$ - | \$ (405) | \$ (13,870) |
| Adjustments to reconcile net loss to net cash used for operating activities: | | | | |
| Gain on disposal of discontinued operations | (2,012) | - | - | (2,012) |
| Loss from discontinued operations | - | - | 44 | 44 |
| Stock-based compensation expense | 2,062 | (112) | 361 | 2,311 |
| Depreciation and amortization expense | 6,810 | (449) | - | 6,361 |
| Accretion of loss from convertible subordinated notes exchange offer | 67 | - | - | 67 |
| Loss from convertible subordinated notes exchange offer | 1,078 | - | - | 1,078 |
| Provision for doubtful accounts | 4 | 9 | - | 13 |
| Equity in net income of unconsolidated affiliates | 182 | - | - | 182 |
| Compensatory stock issuances | 369 | - | - | 369 |
| Forgiveness of shareholders' note receivable | 2,613 | - | - | 2,613 |
| Reduction of note receivable due for services received | 260 | - | - | 260 |
| Total non-cash adjustments | 11,433 | (552) | 405 | 11,286 |
| Changes in operating assets and liabilities, net of effect of acquisitions: | | | | |
| Accounts receivable | (1,401) | 447 | - | (954) |
| Related party receivables | 157 | - | - | 157 |
| Inventory | (3,157) | 1,024 | - | (2,133) |
| Prepaid and other current assets | 532 | (7) | - | 525 |
| Other assets | (461) | 142 | - | (319) |
| Accounts payable | (210) | 339 | - | 129 |
| Accrued expenses and other current liabilities | (4,177) | (434) | - | (4,611) |
| Total change in operating assets and liabilities | (8,717) | 1,511 | - | (7,206) |
| Net cash used for operating activities of continuing operations | 2,716 | 959 | 405 | 4,080 |
| Net cash used for operating activities of discontinued operations | - | (959) | - | (959) |
| Net cash used for operating activities | (10,749) | - | - | (10,749) |
| Cash flows from investing activities: | | | | |
| Purchase of property, plant and equipment | (2,755) | 1,552 | - | (1,203) |
| Proceeds from (investment in) K2 Optronics | 500 | - | - | 500 |
| Cash purchase of businesses, net of cash acquired | 610 | - | - | 610 |

Edgar Filing: EMCORE CORP - Form 10-Q

| | | | | |
|---|----------|---------|------|----------|
| Funding of restricted cash | (98) | - | - | (98) |
| Purchase of marketable securities | (350) | - | - | (350) |
| Sale of marketable securities | 10,850 | - | - | 10,850 |
| Investing activities of discontinued operations | - | (1,552) | - | (1,552) |
| Net cash provided by investing activities | \$ 8,757 | \$ - | \$ - | \$ 8,757 |

(1) See Note 7 "Discontinued Operations and Restructuring Charges" in Notes to the Condensed Consolidated Financial Statements.

Table of Contents

| | As Previously Reported | EMD Discontinued Operations Adjustment (1) | Stock Compensation Expense Adjustment | As Restated |
|--|------------------------------|---|--|-------------|
| <i>(Continued from previous page)</i> | | | | |
| Cash flows from financing activities: | | | | |
| Payments on capital lease obligations | (82) | - | - | (82) |
| Proceeds from exercise of stock options | 5,385 | - | - | 5,385 |
| Proceeds from employee stock purchase plan | 326 | - | - | 326 |
| Convertible debt/equity issuance costs | (114) | - | - | (114) |
| Net cash provided by financing activities | 5,515 | - | - | 5,515 |
| Net decrease in cash and cash equivalents | 3,523 | - | - | 3,523 |
| Cash and cash equivalents at beginning of period | 19,525 | - | - | 19,525 |
| Cash and cash equivalents at end of period | \$ 23,048 | \$ - | \$ - | \$ 23,048 |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

| | | | | |
|--|----------|------|------|----------|
| Cash paid during the period for interest | \$ 2,580 | \$ - | \$ - | \$ 2,580 |
|--|----------|------|------|----------|

NON-CASH INVESTING AND FINANCING ACTIVITIES:

| | | | | |
|---|----------|------|------|----------|
| Acquisition of property and equipment under capital leases | \$ 126 | \$ - | \$ - | \$ 126 |
| Issuance of common stock in conjunction with an acquisition | \$ 6,460 | \$ - | \$ - | \$ 6,460 |
| Manufacturing equipment received in lieu of earn-out proceeds from disposition of discontinued operations | \$ 2,012 | \$ - | \$ - | \$ 2,012 |

(1) See Note 7 "Discontinued Operations and Restructuring Charges" in Notes to the Condensed Consolidated Financial Statements.

NOTE 19. Subsequent Events**Relocation of Headquarters and Departure and Appointment of Certain Officers**

Shortly after the Company sold both its New Jersey-based EMD division and its GELcore joint venture, we announced the relocation of our headquarters to Albuquerque, New Mexico. Three officers of the Company decided against relocation and resigned.

- Mr. Thomas G. Werthan, an Executive Vice President and Chief Financial Officer of the Company, resigned and left the Company on February 19, 2007. Mr. Werthan joined the Company in June 1992. Mr. Werthan will continue to be a member of the Board of Directors, a position he has held since joining the Company. In February 2007, Mr. Adam Gushard, former Vice President of Finance, was appointed Interim Chief Financial Officer. As discussed in

Note 10, Receivables, of the Notes to Consolidated Financial Statements, in connection with Mr. Werthan's resignation and pursuant to the terms of his promissory note, the Board of Directors forgave a loan he had with the Company. Mr. Werthan was responsible for the personal taxes related to the loan forgiveness.

- Mr. Howard W. Brodie, an Executive Vice President, Chief Legal Officer and Secretary of the Company, resigned and left the Company on April 27, 2007. Mr. Brodie joined the Company in 1999. In April 2007, Mr. Keith Kosco was appointed Chief Legal Officer and Secretary of the Company.
- Dr. Richard A. Stall, Executive Vice President and the Chief Technology Officer of the Company, resigned and left the Company on June 27, 2007. Dr. Stall co-founded the Company in 1984. On December 18, 2006, after ten years of service on the Board, Dr. Stall resigned his seat on the Board. Dr. John Iannelli, Ph.D. joined the Company in January 2003 through the acquisition of Ortel from Agere Systems and was appointed Chief Technology Officer in June 2007.

Table of Contents

Strategic Investment in WorldWater & Solar Technologies Corporation (“WorldWater”)

On April 9, 2007, EMCORE delivered a letter to WorldWater advising them that subject to the matters set forth therein, EMCORE would make additional investments in WorldWater. Subject to signing definitive agreements, EMCORE intends to (1) purchase 5,000,000 shares of WorldWater's common stock at \$0.50 per share, with a five year warrant to purchase 1,250,000 shares of the WorldWater's common stock at \$0.50, under the terms of a Confidential Private Placement Memorandum prepared by WorldWater and dated as of March 2007 and (2) complete the \$4,500,000 Tranche B investment previously agreed to in the Investment Agreement, dated November 29, 2006 between EMCORE and WorldWater provided that the purchase of shares pursuant to the Tranche B Investment will occur at a purchase price of \$0.40 per share and EMCORE will be entitled to 25% warrant coverage at \$0.40 per share. Subsequent to April 9, 2007, material changes were made to the terms of the proposed offering discussed in (1) above, and we elected not to participate.

Restructuring of the Company's 5% Convertible Senior Subordinated Notes due 2011

On April 9, 2007, the Company entered into a First Supplemental Indenture (the “2004 Supplemental Indenture”) with Deutsche Bank Trust Company Americas, as trustee (the “Trustee”), which amends the Indenture, dated as of February 24, 2004 (the “2004 Indenture”), between the Company and the Trustee, governing the Company's 5% Convertible Senior Subordinated Notes due 2011 issued thereunder (the “2004 Notes”). Also on April 9, 2007, the Company entered into a First Supplemental Indenture (the “2005 Supplemental Indenture” and together with the 2004 Supplemental Indenture, the “Supplemental Indentures”) with the Trustee, which amends the Indenture, dated as of November 16, 2005 (the “2005 Indenture” and together with the 2004 Indenture, the “Indentures”), between the Company and the Trustee, governing the Company's 5% Convertible Senior Subordinated Notes due 2011 issued thereunder (the “2005 Notes” and together with the 2004 Notes, the “Notes”).

Each Supplemental Indenture, among other things, increased the interest rate of the applicable Notes to 5.5% from 5.0%, reduced the Conversion Price (as defined in the applicable Indenture) from \$8.06 to \$7.01, provided for an increase in the Conversion Rate (as defined in the applicable Supplemental Indenture) in the event of a Non-Stock Change of Control (as defined in the applicable Supplemental Indenture), amended the restriction on payment of dividends, amended the definition of “Events of Default” and provided for an additional payment in certain circumstances in which the Company fails to comply with its reporting obligations under the applicable Indenture. The Supplemental Indentures also provided a waiver of the Company's failure to file certain reports with the SEC.

In order to give effect to the Supplemental Indentures, the Company entered into a Consent to Amendment and Waiver, dated as of April 9, 2007 (the “2004 Consent”), with certain holders of the 2004 Notes (the “2004 Consenting Holders”), and a Consent to Amendment and Waiver, dated as of April 9, 2007 (the “2005 Consent” and together with the 2004 Consent, the “Consents”), with the holder of the 2005 Notes (together with the 2004 Consenting Holders, the “Consenting Holders”), pursuant to which holders of at least a majority of the outstanding 2004 Notes and at least a majority of the 2005 Notes consented to the execution and delivery of the 2004 Supplemental Indenture and the 2005 Supplemental Indenture, respectively. The Consenting Holders also waived any and all Defaults (as defined in the applicable Indenture) and Events of Default (as defined in the applicable Indenture) relating to any failure of the Company to observe or perform any covenant or agreement contained in the Notes or the Indentures as a result of the Company's failure to file with the SEC, or with the Trustee, its Annual Report on Form 10-K for the year ended September 30, 2006, its Annual Report on Form 10-Q for the quarter ended December 31, 2006 and/or any other reports that the Company fails to file in a timely manner for reasons in whole or in part directly or indirectly attributable to or arising out of the Company's review of its historical stock option grants as initially reported in the Company's Current Report on Form 8-K filed with the SEC on November 6, 2006. The Consenting Holders agree to rescind any notice of acceleration delivered to the Company with respect to such failure to file.

The Consents also provided the Company with the option to repurchase an aggregate of \$11.4 million of the outstanding principal amount of the Notes held by the Consenting Holders at a purchase price equal to \$1,000 per \$1,000 principal amount of the Notes purchased, plus accrued and unpaid interest, if any, to but excluding the date of purchase. The Company exercised this option and repurchased \$11.4 million of its outstanding notes on April 13, 2007. Accordingly, the Company classified the \$11.4 million principal repayment as a current liability as of March 31, 2007 and September 30, 2006.

Table of Contents

Acquisition of Opticomm Corporation

In April 2007, EMCORE acquired privately-held Opticomm Corporation of San Diego, California, including its fiber optic video, audio and data networking business, technologies, and intellectual property. EMCORE paid \$4.0 million initial consideration for all of the shares of Opticomm. EMCORE also agreed to an additional earn-out payment based on Opticomm's 2007 revenues. Opticomm is one of the leading specialists in the field of fiber optic video, audio and data networking for the commercial, governmental and industrial sectors.

Option Grant Modification for Affected Former Employees

Under the terms of option agreements issued under the 2000 Plan, terminated employees who have vested and exercisable stock options have 90 days after the date of termination to exercise the options. In November 2006, the Company announced suspension of reliance on previously issued financial statements which in turn caused the Form S-8 registration statements for shares of common stock issuable under the option plans not to be available. Therefore, terminated employees were precluded from exercising their options during the remaining contractual term. This November 2006 modification did not have any accounting impact as there was no incremental compensation in accordance with SFAS 123(R).

To address this issue with affected former employees under the 2000 Plan, EMCORE's Board of Directors agreed in April 2007 to approve an option grant "modification" for these individuals by extending the normal 90-day exercise period after termination date to a date after which EMCORE becomes compliant with its SEC filings and the registration of the option shares is once again effective. The Company is preparing a plan of communication with its terminated employees relating to the tolling arrangement, which is expected to be finalized as soon as reasonably practicable. We will account for the April 2007 modification of stock options as additional compensation expense in accordance with SFAS 123(R).

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act of 1934. These forward-looking statements are based largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. These forward-looking statements may be identified by the use of terms and phrases such as "expects", "anticipates", "intends", "plans", "believes", "estimates", "targets", "can", "may", "could", "will", variations of these terms and similar phrases. Management cautions that these forward-looking statements are subject to business, economic, and other risks and uncertainties, both known and unknown, that may cause actual results to be materially different from those discussed in these forward-looking statements. The cautionary statements made in this Report should be read as being applicable to all forward-looking statements wherever they appear in this Report. This discussion should be read in conjunction with the consolidated financial statements, including the related notes.

These forward-looking statements include, without limitation, any and all statements or implications regarding:

- *The ability of EMCORE Corporation ("EMCORE") to remain competitive and a leader in its industry and the future growth of the company, the industry, and the economy in general;*
 - *Difficulties in integrating recent or future acquisitions into our operations;*
- *The expected level and timing of benefits to EMCORE from on-going cost reduction efforts, including (i) expected cost reductions and their impact on our financial performance, (ii) our continued leadership in technology and manufacturing in its markets, and (iii) our belief that the cost reduction efforts will not impact product development or manufacturing execution;*
 - *Expected improvements in our product and technology development programs;*
- *Whether our products will (i) be successfully introduced or marketed, (ii) be qualified and purchased by our customers, or (iii) perform to any particular specifications or performance or reliability standards; and/or*
- *Guidance provided by EMCORE regarding our expected financial performance in current or future periods, including, without limitation, with respect to anticipated revenues, income, or cash flows for any period in fiscal 2007 and subsequent periods.*

These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected, including without limitation, the following:

- *EMCORE's cost reduction efforts may not be successful in achieving their expected benefits, or may negatively impact our operations;*
- *The failure of our products (i) to perform as expected without material defects, (ii) to be manufactured at acceptable volumes, yields, and cost, (iii) to be qualified and accepted by our customers, and (iv) to successfully compete with products offered by our competitors; and/or*
- *Other risks and uncertainties described in EMCORE's filings with the Securities and Exchange Commission ("SEC") such as: cancellations, rescheduling, or delays in product shipments; manufacturing capacity constraints; lengthy sales and qualification cycles; difficulties in the production process; changes in semiconductor industry growth; increased competition; delays in developing and commercializing new products; and other factors.*

Neither management nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. Forward-looking statements are made only as of the date of this Report and subsequent facts or circumstances may contradict, obviate, undermine, or otherwise fail to support or substantiate such statements. We assume no obligation to update the matters discussed in this Quarterly Report on Form 10-Q to conform such statements to actual results or to changes in our expectations, except as required by applicable law or regulation.

Financial Statement Restatements

This Quarterly Report on Form 10-Q for the period ended March 31, 2007, reflects a restatement for additional stock-based compensation expense, under the appropriate accounting treatment for stock options, for the three and six months periods ended March 31, 2006. This Quarterly Report also reflects the reclassification of the results of operations of EMCORE's Electronic Materials & Device ("EMD") division to discontinued operations (see Note 7, Discontinued Operations and Restructuring Charges, of the Notes to Condensed Consolidated Financial Statements). We have not amended and we do not intend to amend any of our other previously filed annual reports on Form 10-K or quarterly reports on Form 10-Q.

Table of Contents

Business Overview

EMCORE Corporation (the “Company”, “we”, or “EMCORE”) is a leading provider of compound semiconductor-based components and subsystems for the broadband, fiber optic, satellite and terrestrial solar power markets. We have two operating segments: Fiber Optics and Photovoltaics. EMCORE's 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. EMCORE's Photovoltaics segment provides solar products for satellite and terrestrial applications. For satellite applications, EMCORE offers high-efficiency compound semiconductor-based gallium arsenide (“GaAs”) solar cells, covered interconnect cells (CICs) and fully integrated solar panels. For terrestrial applications, EMCORE offers its high-efficiency GaAs solar cells for use in solar power concentrator systems. For specific information about our company, our products or the markets we serve, please visit our website at <http://www.emcore.com>. We were established in 1984 as a New Jersey corporation.

Management Summary

Our principal objective is to maximize shareholder value by leveraging our expertise in advanced compound semiconductor technologies to be a leading provider of high-performance, cost-effective product solutions in each of the markets we serve.

We target market opportunities that we believe have large potential growth and where the favorable performance characteristics of our products and high volume production efficiencies may give us a competitive advantage over our competitors. We believe that as compound semiconductor production costs continue to be reduced, existing and new customers will be compelled to increase their use of these products because of their attractive performance characteristics and superior value.

With several strategic acquisitions and divestures in the past year, EMCORE has developed a strong business focus and comprehensive product portfolios in two main sectors: Fiber Optics and Photovoltaics.

Fiber Optics

Our fiber optics products enable information that is encoded on light signals to be transmitted, routed (switched) and received in communication systems and networks. Our fiber optics products provide our customers with increased capacity to offer more services, at increased data transmission distance, speed and bandwidth with lower noise video receive and lower power consumption. Our Fiber Optics segment primarily targets the following markets:

- **Cable Television (CATV) Networks** - We are a market leader in providing radio frequency (RF) over fiber products for the CATV industry. Our products are used in hybrid fiber coaxial (HFC) networks that enable cable service operators to offer multiple advanced services to meet the expanding demand for high-speed Internet, on-demand and interactive video and other advanced services, such as high-definition television (HDTV) and voice over IP (VoIP).
- **Fiber-to-the-Premises (FTTP) Networks** - Telecommunications companies are increasingly extending their optical infrastructure to the customer’s location in order to deliver higher bandwidth services. We have developed and maintained customer qualified FTTP components and subsystem products to support plans by telephone companies to offer voice, video and data services through the deployment of new fiber-based access networks.

-

Data Communications Networks - We provide leading-edge optical components and modules for data applications that enable switch-to-switch, router-to-router and server-to-server backbone connections at aggregate speeds of 10 gigabits per second (G) and above.

• **Telecommunications Networks** - Our leading-edge optical components and modules enable high-speed (up to an aggregate 40G) optical interconnections that drive advanced architectures in next-generation carrier class switching and routing networks. Our products are used in equipment in the network core and key metro optical nodes of voice telephony and Internet infrastructures.

• **Satellite Communications (Satcom) Networks** - We are a leading provider of optical components and systems for use in equipment that provides high-performance optical data links for the terrestrial portion of satellite communications networks.

Table of Contents

- **Storage Area Networks** - Our high performance optical components are also used in high-end data storage solutions to improve the performance of the storage infrastructure.
- **Video Transport** - Our video transport product line offers solutions for broadcasting, transportation, IP television (IPTV), mobile video and security & surveillance applications over private and public networks. EMCORE's video, audio, data and RF transmission systems serve both analog and digital requirements, providing cost-effective, flexible solutions geared for network reconstruction and expansion.
- **Defense and Homeland Security** - Leveraging our expertise in RF module design and high-speed parallel optics, we provide a suite of ruggedized products that meet the reliability and durability requirements of the Government and defense markets. Our specialty defense products include fiber optic gyro components used in precision guided munitions, ruggedized parallel optic transmitters and receivers, high-frequency RF fiber optic link components for towed decoy systems, optical delay lines for radar systems, EDFAs, terahertz spectroscopy systems and other products.
- **Consumer Products** - We intend to extend our optical technology into the consumer market by integrating our VCSELs into optical computer mice and ultra short data links. We are in production with customers on several products and currently qualifying our products with additional customers. An optical computer mouse with laser illumination is superior to LED-based illumination in that it reveals surface structures that a LED light source cannot uncover. VCSELs enable computer mice to track with greater accuracy, on more surfaces and with greater responsiveness than existing LED-based solutions.

Photovoltaics

We believe our high-efficiency compound semiconductor GaAs solar cell products provide our customers with compelling cost and performance advantages over traditional silicon-based solutions. These include higher solar cell efficiency, allowing for greater conversion of light into electricity, an increased ability to benefit from use in solar concentrator systems, ability to withstand high heat environments and reduced overall footprint. Our Photovoltaics segment serves two primary markets: Satellite Solar Power Generation and Terrestrial Solar Power Generation.

- **Satellite Solar Power Generation.** We are a leader in providing solar power generation solutions to the global communications satellite industry and U.S. Government space programs. We provide advanced compound semiconductor solar cell and solar panel products, which are more resistant to radiation levels in space and generate substantially more power from sunlight than silicon-based solutions. Space power systems using our multi-junction solar cells weigh less per unit of power than traditional silicon-based solar cells. These performance characteristics increase satellite useful life, increase satellites' transmission capacity and reduce launch costs. Our products provide our customers with higher light to power conversion efficiency for reduced size and launch costs; higher radiation tolerance; and long lifetime in harsh space environments. We design and manufacture multi-junction compound semiconductor solar cells for both commercial and military satellite applications. We currently manufacture and sell one of the most efficient and reliable, radiation resistant advanced triple-junction solar cells in the world, with an average "beginning of life" efficiency of 28.5%. In May 2007, EMCORE announced that it has attained a solar conversion efficiency of 31% for an entirely new class of advanced multi-junction solar cells optimized for space applications. EMCORE is also the only manufacturer to supply true monolithic bypass diodes, for shadow protection, utilizing several EMCORE patented methods. A satellite's operational success and corresponding revenue depend on its available power and its capacity to transmit data. EMCORE also provides covered interconnect cells (CICs) and solar panel lay-down services, giving us the capacity to manufacture complete solar panels. We can provide satellite manufacturers with proven integrated satellite power solutions that considerably improve satellite economics. Satellite manufacturers and solar array integrators rely on EMCORE to meet their satellite power needs with our proven flight heritage.

• **Terrestrial Solar Power Generation.** Solar power generation systems use photovoltaic cells to convert sunlight to electricity and have been used in space programs and, to a lesser extent, in terrestrial applications for several decades. The market for terrestrial solar power generation solutions has grown significantly as solar power generation technologies improve in efficiency, as global prices for non-renewable energy sources (e.g., fossil fuels) continue to rise, and as concern has increased regarding the effect of carbon emissions on global warming. Terrestrial solar power generation has emerged as one of the most rapidly growing renewable energy sources due to certain advantages solar power holds over other energy sources, including reduced environmental impact, elimination of fuel price risk, installation flexibility, scalability, distributed power generation (i.e., electric power is generated at the point of use rather than transmitted from a central station to the user), and reliability. The rapid increase in demand for solar power has created a growing need for highly efficient, reliable and cost-effective solar power concentrator systems.

Table of Contents

EMCORE has adapted its high-efficiency compound semiconductor-based GaAs solar cell products for terrestrial applications, which are intended for use with solar concentrator systems in utility-scale installations. In August 2007, EMCORE announced that it has reached 39% peak conversion efficiency on its terrestrial concentrating solar cell products currently in volume production. This compares favorably to typical efficiency of 15-21% on silicon-based solar cells. We believe that solar concentrator systems assembled using our compound semiconductor solar cells will be competitive with silicon-based solar power generation systems because they are more efficient and, when combined with the advantages of concentration, we believe it will result in a lower cost of power generated. Our multi-junction solar cell technology is not subject to silicon shortages, which has led to increasing prices in the raw materials required for silicon-based solar cells. While the terrestrial power generation market is still developing, we have already fulfilled production orders for one solar concentrator company, and provided samples to several others, including major system manufacturers in Europe and Asia.

Recent investments and strategic partnerships include:

- In November 2006, EMCORE invested \$13.5 million in WorldWater & Solar Technologies Corporation (“WorldWater”, OTC BB: WWAT.OB) a leader in solar electric engineering, water management solutions and solar energy installations and products. This investment represents EMCORE’s first tranche of its intended \$18.0 million investment, in return for convertible preferred stock and warrants of WorldWater, equivalent to approximately 31% equity ownership in WorldWater, or approximately 26.5% on a fully-diluted basis.
- Also in November 2006, EMCORE and WorldWater announced the formation of a strategic alliance and supply agreement under which EMCORE will be the exclusive supplier of high-efficiency multi-junction solar cells, assemblies and concentrator subsystems to WorldWater with expected revenues up to \$100.0 million over the next three years.
- In April 2007, EMCORE delivered a letter to WorldWater advising them that subject to the matters set forth therein, EMCORE would make additional investments in WorldWater. Subject to signing definitive agreements, EMCORE intends to (1) purchase 5,000,000 shares of WorldWater's common stock at \$0.50 per share, with a five year warrant to purchase 1,250,000 shares of the WorldWater's common stock at \$0.50, under the terms of a Confidential Private Placement Memorandum prepared by WorldWater and dated as of March 2007 and (2) complete the \$4,500,000 Tranche B investment previously agreed to in the Investment Agreement, dated November 29, 2006 between EMCORE and WorldWater provided that the purchase of shares pursuant to the Tranche B Investment will occur at a purchase price of \$0.40 per share and EMCORE will be entitled to 25% warrant coverage at \$0.40 per share. Subsequent to April 9, 2007, material changes were made to the terms of the proposed offering discussed in (1) above, and we elected not to participate.

We are committed to the ongoing evaluation of strategic opportunities that can expand our addressable markets and strengthen our competitive position. Where appropriate, we will acquire additional products, technologies, or businesses that are complementary to, or broaden the markets in which we operate. We plan to pursue strategic acquisitions to increase revenues and allow for higher overhead absorption where such acquisitions can improve our gross margins.

Recent acquisitions, all of which are reported with EMCORE’S Fiber Optics operating segment, include:

- On April 13, 2007, EMCORE acquired privately-held Opticomm Corporation, of San Diego, California, including its fiber optic video, audio and data networking business, technologies, and intellectual property. EMCORE paid \$4.0 million initial consideration for all of the shares of Opticomm. EMCORE also agreed to an additional earn-out payment based on Opticomm's 2007 revenues. EMCORE management anticipates that this transaction will provide

approximately \$7.0 million of revenue for calendar year 2007, and upon integration will be operationally profitable. In 2006, Opticomm generated revenues of \$6.3 million. Founded in 1986, Opticomm is one of the leading specialists in the field of fiber optic video, audio and data networking for the commercial, governmental and industrial sectors. Its flagship product is the Optiva platform, a complete line of transmission systems built to address the primary optical communication requirements of the following markets: broadcast and media, security and surveillance, healthcare, traffic and rail and government and military.

Table of Contents

- On January 12, 2006, EMCORE purchased K2 Optronics, Inc. (“K2”), a privately-held company located in Sunnyvale, CA. EMCORE, an investor in K2, paid approximately \$4.1 million in EMCORE common stock, and paid approximately \$0.7 million in transaction-related expenses, to acquire the remaining part of K2 that EMCORE did not already own. Prior to the transaction EMCORE owned a 13.6% equity interest in K2 as a result of a \$1.0 million investment that EMCORE made in K2 in October 2004. In addition, K2 was a supplier to EMCORE of analog external cavity lasers for CATV applications.
- On December 18, 2005, EMCORE acquired the assets of Force, Inc., a privately-held company located in Christiansburg, Virginia. In connection with the asset purchase, EMCORE issued 240,000 shares of EMCORE common stock, no par value, with a market value of \$1.6 million at the measurement date and \$0.5 million in cash. The acquisition included Force’s fiber optic transport and video broadcast products, technical and engineering staff, certain assets and intellectual properties and technologies.
- On November 8, 2005, EMCORE acquired the assets of Phasebridge, Inc., a privately-held company located in Pasadena, California. Founded in 2000, Phasebridge is known as an innovative provider of high performance, high value, miniaturized multi-chip system-in-package optical modules and subsystem solutions for a wide variety of markets, including fiber optic gyroscopes (FOG) for weapons & aerospace guidance, RF over fiber links for device remoting and optical networks, and emerging technologies such as optical RF frequency synthesis and processing and terahertz spectroscopy. In connection with the asset purchase, based on a closing price of \$5.46, EMCORE issued 128,205 shares of EMCORE common stock, no par value, that was valued in the transaction at approximately \$0.7 million. The acquisition included Phasebridge’s products, technical and engineering staff, certain assets and intellectual properties and technologies.

Table of Contents

EMCORE is committed to achieving profitability by increasing revenue through the introduction of new products, reducing our cost structure and lowering the breakeven points of our product lines. We have significantly streamlined our manufacturing operations by focusing on core competencies to identify cost efficiencies. Where appropriate, we transferred the manufacturing of certain product lines to contract manufacturers.

In May 2007, EMCORE announced the opening of a new manufacturing facility in Langfang, China. Our new company, Langfang EMCORE Optoelectronics Co. Ltd., is located approximately 20 miles southeast of Beijing and currently occupies a space of 22,000 square feet with a Class-10,000 clean room for optoelectronic device packaging. Another 60,000 square feet is available for future expansion. We will transfer our most cost sensitive optoelectronic devices to this facility. This facility, along with a strategic alignment with our existing contract-manufacturing partners, should enable us to improve our cost structure and gross margins. We also expect to develop and provide improved service to our global customers using a local presence in Asia.

EMCORE's restructuring programs are designed to further reduce the number of manufacturing facilities, in addition to the divestiture or exit from selected businesses and product lines that were not strategic and/or were not capable of achieving desired revenue or profitability goals. Recent divestitures and facility consolidations include:

- In August 2007, we announced the consolidation of our North American fiber optics engineering and design centers into our main operating sites. EMCORE's engineering facilities in Virginia, Illinois, and Northern California will be consolidated into larger primary sites in Albuquerque, New Mexico and Alhambra, California. The consolidation of these engineering sites will allow EMCORE to leverage resources within engineering, new product introduction, and customer service. The design centers in Virginia and northern California have been closed and the design center in Illinois was vacated in October 2007.
- In October 2006, we announced the move of our corporate headquarters from Somerset, New Jersey to Albuquerque, New Mexico. Financial operations and records have been transferred and the New Jersey facility was vacated in September 2007.
- In October 2006, we consolidated our solar panel operations into a state-of-the-art facility located in Albuquerque, New Mexico. The establishment of a modern solar panel manufacturing facility, adjacent to our solar cell fabrication operations, should facilitate consistency, as well as reduce manufacturing costs. The benefit of having these operations located on one site is expected to provide high quality, high reliability and cost-effective solar components. Solar panel production operations ceased at our California solar panel facility in June 2006 and the facility was vacated in December 2006.
- In August 2006, EMCORE sold its 49% membership interest in GELcore, LLC to General Electric Corporation, which owned the remaining 51% membership interest prior to the transaction, for \$100.0 million in cash.
- In August 2006, EMCORE completed the sale of the assets of its Electronic Materials & Device (EMD) division, including inventory, fixed assets, and intellectual property to IQE, plc, a public limited company organized under the laws of the United Kingdom, for \$16.0 million.
- In April 2005, EMCORE divested product technology focused on gallium nitride-based power electronic devices for the power device industry. The new company, Velox Semiconductor Corporation ("Velox"), initially raised \$6.0 million from various venture capital partnerships. EMCORE contributed intellectual property and equipment in exchange for an initial 19.2% stake in Velox.

Table of Contents

Our results of operations and financial condition have and will continue to be significantly affected by severance, restructuring charges, impairment of long-lived assets and idle facility expenses incurred during facility closing activities. Please refer to Risk Factors under Item 1A and Financial Statements and Supplemental Data under Item 8 in our Annual Report on Form 10-K for the fiscal year ended September 30, 2006, for further discussion of these items.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. 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. EMCORE’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, which are discussed below. In the event that estimates or assumptions prove to differ from actual results, adjustments are made in subsequent periods to reflect more current information. EMCORE’s most significant estimates relate to accounts receivable, inventory, goodwill, intangibles, other long-lived assets, warranty accruals, revenue recognition, and valuation of stock-based compensation.

Valuation of Accounts Receivable. EMCORE 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 obligation to us. The allowance is based on the age of receivables and a specific identification of receivables considered at risk. EMCORE classifies charges associated with the allowance for doubtful accounts as SG&A expense. If the financial condition of our customers were to deteriorate, additional allowances may be required.

Valuation of Inventory. Inventory is stated at the lower of cost or market, with cost being determined using the standard cost method. EMCORE reserves against inventory once it has been determined that: (i) conditions exist that may not allow the inventory to be sold for its intended purpose, (ii) the inventory’s value is determined to be less than cost, or (iii) the inventory is determined to be obsolete. 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 EMCORE 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. EMCORE 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. EMCORE evaluates inventory levels at least quarterly against sales forecasts on a significant part-by-part basis, in addition to determining its overall inventory risk. Reserves are adjusted to reflect inventory values in excess of forecasted sales, as well as overall inventory risk assessed by management. We have incurred, and may in the future incur, charges to write-down our inventory. While we believe, based on current information, that the amount recorded for inventory is properly reflected on our balance sheet, if market conditions are less favorable than our forecasts, our future sales mix differs from our forecasted sales mix, or actual demand from our customers is lower than our estimates, we may be required to record additional inventory write-downs.

Valuation of Goodwill and Intangible Assets. Goodwill represents the excess of the purchase price of an acquired business or assets over the fair value of the identifiable assets acquired and liabilities assumed. Intangible assets consist primarily of intellectual property that has been internally developed or purchased. Purchased intangible assets

include existing and core technology, trademarks and trade names, and customer contracts. Intangible assets are amortized using the straight-lined method over estimated useful lives ranging from one to fifteen years.

EMCORE evaluates its goodwill and intangible assets for impairment on an annual basis, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Circumstances that could trigger an impairment test include but are not limited to: a significant adverse change in 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. The determination as to whether a write-down of goodwill or intangible assets is necessary involves significant judgment based on the short-term and long-term projections of the future performance of the reporting unit to which the goodwill or intangible assets are attributed. As of December 31, 2006, we tested for impairment on our goodwill and intangible assets and based on that analysis, we determined that the carrying amount of the reporting units did not exceed their fair value.

Table of Contents

Valuation of Long-lived Assets. EMCORE reviews long-lived assets on an annual basis or whenever events or circumstances indicate that the assets may be impaired. A long-lived asset is considered impaired when its anticipated undiscounted cash flow is less than its carrying value. In making this determination, EMCORE uses certain assumptions, including, but not limited to: (a) estimates of the fair market value of these assets; and (b) estimates of future cash flows expected to be generated by these assets, which are based on additional assumptions such as asset utilization, length of service that assets will be used in our operations, and estimated salvage values. As of December 31, 2006, we tested for impairment of our long-lived assets and based on that analysis, we recorded no impairment charges on any of EMCORE's long-lived assets.

Product Warranty Reserves. EMCORE provides its customers with limited rights of return for non-conforming shipments and warranty claims for certain products. In accordance with SFAS 5, *Accounting for Contingencies*, EMCORE 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 failures. 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 EMCORE 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, EMCORE ships its products cost insurance and freight (CIF). Under this arrangement, revenue is recognized under FCA shipping point terms, but EMCORE pays (and bills the customer) for the cost of shipping and insurance to the customer's designated location. EMCORE 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. EMCORE 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 - EMCORE uses a number of distributors around the world. In accordance with Staff Accounting Bulletin No. 104, *Revenue Recognition*, EMCORE 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 EMCORE on standard commercial terms, just like our other direct customers. EMCORE does not sell to its distributors on consignment and, except in the event of a product discontinuance, does not give distributors a right of return.

Solar Panel Contracts - EMCORE records revenues from certain solar panel 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. If estimates of costs to complete long-term contracts indicate a loss, a provision is made for the total loss anticipated. EMCORE has numerous contracts that are in various stages of completion. Such contracts require estimates to determine the appropriate cost and revenue recognition. EMCORE 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.

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 EMCORE 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, cost-share, 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. For cost-share contracts, the actual costs of performance are divided between the U.S. Government and EMCORE based on the R&D contract terms. 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.

Stock-Based Compensation. EMCORE records stock-based compensation under SFAS 123(R). The fair value of each option grant is estimated on the date of grant using the Black-Scholes option valuation model and the straight-line attribution approach. 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. EMCORE'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 EMCORE'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 also are areas in which management's judgment in selecting any available alternative would not produce a materially different result. For complete discussion of our accounting policies and other required U.S. GAAP disclosures, we refer you to our Annual Report on Form 10-K for the fiscal year ended September 30, 2006.

Results of Operations

The following table sets forth the consolidated statements of operations data of EMCORE expressed as a percentage of total revenue for the three and six months ended March 31, 2007 and 2006.

| Statement of Operations Data | Three Months Ended | | Six Months Ended | |
|--|---------------------------|-------------|---------------------------|-------------|
| | March 31, 2007 | 2006 | March 31, 2007 | 2006 |
| Revenue | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of revenue | 82.1 | 78.2 | 83.9 | 80.2 |
| Gross profit | 17.9 | 21.8 | 16.1 | 19.8 |
| Operating expenses: | | | | |
| Selling, general and administrative | 33.0 | 29.5 | 32.7 | 24.6 |
| Research and development | 19.0 | 13.1 | 18.1 | 12.5 |
| Total operating expenses | 52.0 | 42.6 | 50.8 | 37.1 |
| Operating loss | (34.1) | (20.8) | (34.7) | (17.3) |
| Other (income) expense: | | | | |
| Interest income | (2.9) | (0.7) | (3.6) | (0.8) |
| Interest expense | 3.1 | 3.8 | 3.2 | 3.7 |
| Loss from convertible subordinated notes exchange offer | - | - | - | 1.5 |
| Gain from insurance proceeds | (0.9) | - | (0.5) | - |
| Equity in net loss of unconsolidated affiliates | - | 1.5 | - | 0.3 |
| Total other (income) expense | (0.7) | 4.6 | (0.9) | 4.7 |
| Loss from continuing operations | (33.4) | (25.4) | (33.8) | (22.0) |
| Discontinued operations: | | | | |
| Income (loss) from discontinued operations | - | 0.4 | - | - |
| Gain on disposal of discontinued operations | - | 5.6 | - | 2.7 |

| | | | | |
|-------------------------------------|---------|---------|---------|---------|
| Income from discontinued operations | - | 6.0 | - | 2.7 |
| Net loss | (33.4)% | (19.4)% | (33.8)% | (19.3)% |

Comparison of three and six months ended March 31, 2007 and 2006

Consolidated Revenue

39

Table of Contents

For the three months ended March 31, 2007, EMCORE's consolidated revenue increased \$3.7 million or 10% to \$39.8 million from \$36.1 million, as reported in the prior year. For the three months ended March 31, 2007, international sales increased \$4.5 million or 68%, when compared to the prior year. For the three months ended March 31, 2007, revenue from government contracts increased \$3.2 million or 119% to \$5.9 million from \$2.7 million, as reported in the prior year.

For the six months ended March 31, 2007, EMCORE's consolidated revenue increased \$6.7 million or 9% to \$78.5 million from \$71.8 million, as reported in the prior year. For the six months ended March 31, 2007, international sales increased \$11.5 million or 93%, when compared to the prior year. For the six months ended March 31, 2007, revenue from government contracts increased \$3.0 million or 49% to \$9.1 million from \$6.1 million, as reported in the prior year.

A comparison of revenue achieved at each of EMCORE's operating segments follows:

Fiber Optics

Over the past several years, communications networks have experienced dramatic growth in data transmission traffic due to worldwide Internet access, e-mail, and e-commerce. As Internet content expands to include full motion video on-demand, HDTV, multi-channel high quality audio, online video conferencing, image transfer, online multi-player gaming, and other broadband applications, the delivery of such data will place a greater demand on available bandwidth and require the support of higher capacity networks. The bulk of this traffic, which continues to grow at a very high rate, is already routed through the optical networking infrastructure used by local and long distance carriers, as well as Internet service providers. Optical fiber offers substantially greater bandwidth capacity, is less error prone, and is easier to administer than older copper wire technologies. As greater bandwidth capability is delivered closer to the end user, increased demand for higher content, real-time, interactive visual and audio content is expected. We believe that EMCORE is well positioned to benefit from the continued deployment of these higher capacity fiber optic networks. Customers for the Fiber Optics segment include: Avago Technologies, Inc., Alcatel, Aurora Networks, BUPT-GUOAN Broadband, C-Cor Electronics, Cisco Systems, Inc., Finisar, Hewlett-Packard Corporation, Intel Corporation, Jabil, JDSU, Motorola, Network Appliance, Sycamore Networks, Inc., and Tellabs.

For the three months ended March 31, 2007, EMCORE's fiber optic revenues increased \$0.3 million or 1% to \$26.2 million from \$25.9 million, as reported in the prior year. For the six months ended March 31, 2007, EMCORE's fiber optic revenues increased \$0.7 million or 1% to \$51.6 million from \$50.9 million, as reported in the prior year. Lower digital fiber-optic module and component sales due to customer inventory management were offset by increased sales volume of CATV, SATCOM, TELECOM and FTTP components. The communications industry in which we participate continues to be dynamic. The driving factor is the competitive environment that exists between cable operators, telephone companies, and satellite and wireless service providers. Each are rapidly investing capital to deploy a converging multi-service network capable of delivering "triple play services", i.e. digitalized video, voice and data content, bundled as a service provided by a single communication provider. As a market leader in RF transmission over fiber products for the CATV industry, EMCORE enables cable companies to offer multiple forms of communications to meet the expanding demand for high-speed Internet, on-demand and interactive video, and other new services (such as HDTV and VOIP). Television is also undergoing a major transformation, as the U.S. Government requires television stations to broadcast exclusively in digital format, abandoning the analog format used for decades. Although the transition date for digital transmissions is not expected for several years, the build-out of these television networks has already begun. To support the telephone companies plan to offer competing video, voice and data services through the deployment of new fiber-based systems, EMCORE has developed and maintains customer qualified FTTP components and subsystem products. Our CATV and FTTP products include broadcast analog and digital fiber optic transmitters, quadrature amplitude modulation (QAM) transmitters, video receivers, and passive optical network (PON) transceivers. Fiber optics revenue represented 66% and 72% of EMCORE's total

revenues for the three months ended March 31, 2007 and 2006, respectively. Fiber optics revenue represented 66% and 71% of EMCORE's total revenues for the six months ended March 31, 2007 and 2006, respectively.

Table of Contents

Photovoltaics

EMCORE provides advanced compound semiconductor solar cell products and solar panels, which are more resistant to radiation levels in space and convert substantially more power from sunlight than silicon-based solutions. EMCORE's Photovoltaics segment designs and manufactures multi-junction compound semiconductor solar cells for both commercial and military satellite applications. Customers for the Photovoltaics segment include Boeing, General Dynamics, the Indian Space Research Organization ("ISRO"), Lockheed Martin, and Space Systems/Loral.

For the three months ended March 31, 2007, EMCORE's photovoltaic revenues increased \$3.3 million or 32% to \$13.6 million from \$10.3 million, as reported in the prior year. Increased sales volume of solar cells, solar panels, and service revenue from government research contracts were the reason for the significant increase in quarter over quarter revenues. Government contract revenues for photovoltaics products were \$5.7 million and \$2.2 million for the three months ended March 31, 2007 and 2006, respectively. Photovoltaics revenue represented 34% and 28% of EMCORE's total revenues for the three months ended March 31, 2007 and 2006, respectively.

For the six months ended March 31, 2007, EMCORE's photovoltaic revenues increased \$6.0 million or 29% to \$27.0 million from \$21.0 million, as reported in the prior year. Increased sales volume of solar cells, solar panels, and service revenue from government research contracts were the reason for the significant increase in quarter over quarter revenues. Government contract revenues for Photovoltaics products were \$8.6 million and \$5.6 million for the six months ended March 31, 2007 and 2006, respectively. Photovoltaics revenue represented 34% and 29% of EMCORE's total revenues for the six months ended March 31, 2007, respectively.

We see additional areas for growth resulting from the joint venture between the ISRO and EADS Astrium for the manufacture of GEO communication satellites. EMCORE is a leading supplier of solar cell products to ISRO, and we anticipate increased activity with that customer. Government and military procurement remains steady, and we have succeeded in gaining market share in that area. We have recently been awarded solar panel government contracts for military and science missions, and this represents an expansion of our customer base.

EMCORE had been engaged in a multi-year cost reimbursable solar cell development and production contract for a major U.S. aerospace corporation. It was previously reported that the contract would exceed \$40.0 million in development and production revenues over the next several years. Although we recognized significant revenues for this program during fiscal 2007, our customer notified us in August 2007 that their program had been terminated by the U.S. Government for its convenience. We adjusted our order backlog accordingly and this will have no effect on our fiscal 2008 revenue guidance. In fiscal 2008, we expect to recognize additional revenue from this program related to contract termination costs. We also expect revenue in fiscal 2008 from a new U.S. Government contract that has similar technical contract requirements.

In February 2006, EMCORE was awarded a subcontract to participate in the Defense Advanced Research Projects Agency (DARPA) Very High Efficiency Solar Cell (VHSEC) program to more than double the efficiency of terrestrial solar cells within the next fifty months. EMCORE was selected by the University of Delaware, the prime contractor for the DARPA VHSEC program, to develop advanced III-V multi-junction solar cells in Phase I of the program effort. The VHSEC program will provide up to \$53.0 million in funding, which will be awarded to program participants in various phases over the next several years.

In August 2007, EMCORE was awarded a follow-on production order from Green and Gold Energy (GGE) for three million solar cells for use in GGE's SunCube™ terrestrial concentrator system. This 105 MW purchase order represents the largest procurement of concentrator solar cells in the industry to date and is a follow-on order to an initial 5 MW order placed earlier in 2007. All hardware ordered under this contract is to be shipped by December

2008.

Gross Profit

For the three months ended March 31, 2007, gross profit decreased \$0.8 million or 10% to \$7.1 million from \$7.9 million, as reported in the prior year. Compared to the prior year, gross margins decreased to 18% from 22%. On a segment basis, margins for Fiber Optics decreased from 25% to 16% due to unabsorbed fixed overhead from reduced customer demand of 10Gb/s Ethernet transceivers and chip level products. Margins for the Photovoltaics segment increased from 14% to 21%, due to favorable product mix and improved operational efficiency, when compared to the prior year.

41

Table of Contents

For the six months ended March 31, 2007, gross profit decreased \$1.6 million or 11% to \$12.6 million from \$14.2 million, as reported in the prior year. Compared to the prior year, gross margins decreased to 16% from 20%. On a segment basis, margins for Fiber Optics decreased from 24% to 17% due to unabsorbed fixed overhead from reduced customer demand of 10Gb/s Ethernet transceivers and chip level products. Margins for the Photovoltaics segment increased to 14% from 11% due to favorable product mix and improved operational efficiency, when compared to the prior year.

Actions designed to improve our gross margins (through product mix improvements, cost reductions associated with product transfers and product rationalization, maximizing production yields on high-performance devices and quality improvements, among other things) continue to be a principal focus for us. The establishment of a modern solar panel manufacturing facility, adjacent to our solar cell fabrication operations, should facilitate consistency, as well as reduce manufacturing costs. The benefit of having these operations located at one site is expected to provide high quality, high reliability and cost-effective solar components. Solar panel production operations ceased at our California solar panel facility in June 2006 and the facility was vacated in December 2006. We focus our activities on developing new process control and yield management tools that enable us to accelerate the adoption of new technologies into full-volume production, while minimizing their associated risks.

On October 1, 2005, EMCORE adopted SFAS 123(R) and incurred stock-based compensation expense as more fully described in Note 3 – Equity to EMCORE’s condensed consolidated financial statements. Gross profit included the effect of stock-based compensation expense related to employee stock options and employee stock purchases under SFAS 123(R) of \$0.3 million and \$0.1 million for the three months ended March 31, 2007 and 2006, respectively, and \$0.7 million and \$0.4 million for the six months ended March 31, 2007 and 2006, respectively.

Operating Expenses

Selling, General and Administrative. For the three months ended March 31, 2007, SG&A expenses increased \$2.4 million or 22% to \$13.1 million from \$10.7 million, as reported in the prior year. Consistent with prior years, SG&A expense includes corporate overhead expenses. As a percentage of revenue, SG&A increased from 30% to 33%. For the six months ended March 31, 2007, SG&A expenses increased \$8.0 million or 45% to \$25.7 million from \$17.7 million, as reported in the prior year. As a percentage of revenue, SG&A increased from 25% to 33%. The increase in SG&A expenses is primarily due to:

- acquisitions of Phasebridge Inc., Force Inc., and K2 Optronics, Inc.;
- stock-based compensation expense related to employee stock options and employee stock purchases under SFAS 123(R) totaling \$0.6 million and \$2.2 million for the three and six months ended March 31, 2007, respectively compared to \$0.7 million and \$1.3 million for the three and six months ended March 31, 2006, respectively;
 - professional fees incurred associated with our review of historical stock option grants;
 - costs associated with the new terrestrial solar power division;
- legal costs associated with the Company’s patent infringement lawsuits against Optium Corporation; and
 - continued investment in personnel strategic to our business.

Research and Development. Our R&D efforts have been sharply focused to maintain our technological leadership position by working to improve the quality and attributes of our product lines. We also invest significant resources to develop new products and production technology to expand into new market opportunities by leveraging our existing technology base and infrastructure. Our efforts are focused on designing new proprietary processes and products, on improving the performance of our existing materials, components, and subsystems, and on reducing costs in the product manufacturing process. In addition to using our internal capacity to develop and manufacture products for our target markets, EMCORE continues to expand its portfolio of products and technologies through acquisitions.

For the three months ended March 31, 2007, R&D expenses increased \$2.9 million or 62% to \$7.6 million from \$4.7 million, as reported in the prior year. The increase in R&D is significantly due to \$2.2 million of expense related to the Company's new terrestrial solar power division. In the Photovoltaics market, EMCORE has developed a high efficiency solar cell product for terrestrial applications. During the three months ended March 31, 2007 and 2006, R&D included stock-based compensation expense of \$0.4 million and \$0.2 million, respectively. As a percentage of revenue, R&D increased from 13% to 19%. For the six months ended March 31, 2007, R&D expenses increased \$5.2 million or 58% to \$14.2 million from \$9.0 million, as reported in the prior year. The increase in R&D is significantly due to \$3.9 million of expense related to the Company's new terrestrial solar power division. In the Photovoltaics market, EMCORE has developed a high efficiency solar cell product for terrestrial applications. During the six months ended March 31, 2007 and 2006, R&D included stock-based compensation expense of \$0.8 million and \$0.6 million, respectively. As a percentage of revenue, R&D increased from 13% to 18%. We believe that recently completed R&D projects have the potential to greatly improve our competitive position and drive revenue growth in the next few years.

Table of Contents

As part of the ongoing effort to cut costs, many of our projects are to develop lower cost versions of our existing products and of our existing processes, while improving quality. Also, we have implemented a program to focus research and product development efforts on projects that we expect to generate returns within one year. Our technology and product leadership is an important competitive advantage. Driven by current and anticipated demand, we will continue to invest in new technologies and products that offer our customers increased efficiency, higher performance, improved functionality, and/or higher levels of integration. In fiscal 2007, we expect R&D spending to significantly increase as we invest in solar power concentrator system development.

Other Income & Expenses

Interest Income. EMCORE realized a significant increase in interest income for both the three and six months ended March 31, 2007 compared to the same periods in the prior year, due to an increase in cash, cash equivalents, and marketable securities, primarily as a result of the sale of EMCORE's 49% membership interest in GELcore, LLC for \$100.0 million to General Electric Corporation on August 31, 2006.

Loss from Convertible Subordinated Notes Exchange Offer. In November 2005, EMCORE exchanged \$14.4 million aggregate principal amount of EMCORE's 5% convertible subordinated notes due in May 2006 for \$16.6 million aggregate principal amount of newly issued convertible senior subordinated notes due May 15, 2011. As a result of this transaction, EMCORE recognized approximately \$1.1 million of expense in the first quarter of fiscal 2006 related to the early extinguishment of debt. EMCORE will also incur additional expense of approximately \$1.1 million over the life of the subordinated notes, which will be charged to interest expense. This charge will increase expense by approximately \$50,000 per quarter through May 2011, the maturity date of the convertible subordinated notes.

Gain from Insurance Proceeds. During the three months ended March 31, 2007, we recognized a gain of \$0.4 million related to insurance proceeds received.

Equity in Net Loss of Unconsolidated Affiliates.

- *GELcore.* For the three and six months ended March 31, 2006, EMCORE recognized a loss of \$0.4 million and income of \$0.2 million, respectively, related to its previously-held investment in GELcore.
- *Velox.* For the three and six months ended March 31, 2006, EMCORE recognized a loss of \$0.2 million and \$0.3 million, respectively, related to Velox. During fiscal 2006, EMCORE reduced its voting percentage and relinquished its Velox Board seat, and its right to a Velox Board seat. As a result of these modifications, EMCORE reported its investment in Velox under the cost method of accounting rather than the equity method of accounting. Under the cost method of accounting, the Velox investment is carried at cost and adjusted only for other-than-temporary declines in fair value, distribution of earnings and additional investments. As of March 31, 2007, EMCORE's net investment in Velox amounted to approximately \$1.0 million.

Liquidity and Capital Resources

Working Capital

As of March 31, 2007 EMCORE had working capital of approximately \$96.1 million compared to \$129.7 million as of September 30, 2006. Cash, cash equivalents, and marketable securities at March 31, 2007 totaled \$77.2 million, which reflects a net decrease of \$46.7 million from September 30, 2006. The decrease was a result of a \$13.5 million

cash investment in WorldWater and Solar Technologies Corporation (“WorldWater”), a \$2.4 million semi-annual interest payment on the Company’s outstanding convertible subordinated notes and \$2.7 million for capital equipment purchases. The remaining decrease was primarily due to payment of taxes associated with the income earned on the sale of the Company’s interest in the GELcore joint venture, payment of professional fees incurred associated with our review of historical stock option grants, legal costs associated with the Company’s patent infringement lawsuits against Optium Corporation and certain other increases in working capital requirements.

Table of Contents

Cash Flow

Net Cash Used For Operations

For the six months ended March 31, 2007, net cash used for operations increased \$21.4 million to \$32.1 million from \$10.7 million, as reported in the prior period. For the six months ended March 31, 2007, significant changes in working capital include an increase in receivables of \$9.3 million, an increase in inventory of \$4.0 million and a net decrease in accounts payable and accrued expenses of \$1.7 million. The majority of the fluctuation is due to recent business acquisitions. For the six months ended March 31, 2006, changes in working capital included an increase in receivables of \$1.0 million, an increase in inventory of \$2.1 million and a decrease in accounts payable and accrued expenses of \$4.5 million.

Net Cash Provided by Investing Activities

For the six months ended March 31, 2007, net cash provided by investing activities increased by \$27.6 million to \$37.9 million from \$8.8 million, as reported in the prior year. Investing cash flows during the six months ended March 31, 2007 and 2006 consisted primarily of:

- Capital expenditures of \$2.7 million and \$1.2 million during the six months ended March 31, 2007 and 2006, respectively.
- A \$13.9 million investment in WorldWater, inclusive of \$0.4 million of transaction costs, in return for an amount of convertible preferred stock and warrants of WorldWater, equivalent to an approximately 26.5% fully-diluted equity ownership in WorldWater.
 - Proceeds of \$1.5 million from the quarterly promissory note related to the sale of the EMD division.
- Net sales and purchases of marketable securities increased by \$42.5 million from \$10.5 million to \$53.0 million.

Net Cash Provided By Financing Activities

For the six months ended March 31, 2007, net cash provided by financing activities decreased \$5.1 million to \$0.4 million from \$5.5 million.

Financing Transactions

In May 2001, EMCORE issued \$175.0 million aggregate principal amount of its 5% convertible subordinated notes due in May 2006 ("2006 Notes"). In December 2002, EMCORE purchased \$13.2 million principal amount of the 2006 Notes at prevailing market prices for an aggregate of approximately \$6.3 million, resulting in a gain of approximately \$6.6 million after netting unamortized debt issuance costs of approximately \$0.3 million. In February 2004, EMCORE exchanged approximately \$146.0 million, or 90.2%, of its remaining 2006 Notes for approximately \$80.3 million aggregate principal amount of new 5% convertible senior subordinated notes due May 15, 2011 ("2011 Notes") and approximately 7.7 million shares of EMCORE common stock. Interest on the 2011 Notes is payable in arrears semiannually on May 15 and November 15 of each year. The notes were convertible into EMCORE common stock at a conversion price of \$8.06 per share, subject to adjustment under customary anti-dilutive provisions. They also are redeemable should EMCORE's common stock price reach \$12.09 per share for at least twenty trading days within a period of any thirty consecutive trading days. As a result of this transaction, EMCORE reduced debt by approximately

\$65.7 million, recorded a gain from early debt extinguishment of approximately \$12.3 million.

In November 2005, EMCORE exchanged \$14.4 million aggregate principal amount of EMCORE's 2006 Notes for \$16.6 million aggregate principal amount of newly issued convertible senior subordinated notes due May 15, 2011 ("New 2011 Notes") pursuant to an Exchange Agreement ("Agreement") with Alexandra Global Master Fund Ltd. ("Alexandra"). The terms of the New 2011 Notes are identical in all material respects to EMCORE's 2011 Notes. The New 2011 Notes are ranked pari passu with the existing 2011 Notes. The New 2011 Notes will be convertible at any time prior to maturity, unless previously redeemed or repurchased by EMCORE, into the shares of EMCORE common stock, no par value, at the conversion rate of 124.0695 shares of common stock per \$1,000 principal amount. The effective conversion rate was \$8.06 per share of common stock, subject to adjustment under customary anti-dilutive provisions. They also are redeemable should EMCORE's common stock price reach \$12.09 per share for at least twenty trading days within a period of any thirty consecutive trading days. As a result of this transaction, EMCORE recognized approximately \$1.1 million of expense in the first quarter of fiscal 2006 related to the early extinguishment of debt. EMCORE will also incur an additional expense of approximately \$1.1 million over the life of the subordinated notes issued to Alexandra, which will be charged to interest expense. Furthermore, the 2006 Notes exchanged by Alexandra represented approximately 91.4% of the \$15.8 million total amount of existing 2006 Notes outstanding at the time of the transaction. EMCORE paid the remaining \$1.4 million of 2006 Notes on the May 15, 2006 maturity date.

Table of Contents

On April 9, 2007, the Company entered into a First Supplemental Indenture (the “2004 Supplemental Indenture”) with Deutsche Bank Trust Company Americas, as trustee (the “Trustee”), which amends the Indenture, dated as of February 24, 2004 (the “2004 Indenture”), between the Company and the Trustee, governing the Company’s 5% Convertible Senior Subordinated Notes due 2011 issued thereunder (the “2004 Notes”). Also on April 9, 2007, the Company entered into a First Supplemental Indenture (the “2005 Supplemental Indenture” and together with the 2004 Supplemental Indenture, the “Supplemental Indentures”) with the Trustee, which amends the Indenture, dated as of November 16, 2005 (the “2005 Indenture” and together with the 2004 Indenture, the “Indentures”), between the Company and the Trustee, governing the Company’s 5% Convertible Senior Subordinated Notes due 2011 issued thereunder (the “2005 Notes” and together with the 2004 Notes, the “Notes”).

Each Supplemental Indenture, among other things, increased the interest rate of the applicable Notes to 5.5% from 5.0%, reduced the Conversion Price (as defined in the applicable Indenture) from \$8.06 to \$7.01, provided for an increase in the Conversion Rate (as defined in the applicable Supplemental Indenture) in the event of a Non-Stock Change of Control (as defined in the applicable Supplemental Indenture), amended the restriction on payment of dividends, amended the definition of “Events of Default” and provided for an additional payment in certain circumstances in which the Company fails to comply with its reporting obligations under the applicable Indenture. The Supplemental Indentures also provided a waiver of the Company’s failure to file certain reports with the SEC.

In order to give effect to the Supplemental Indentures, the Company entered into a Consent to Amendment and Waiver, dated as of April 9, 2007 (the “2004 Consent”), with certain holders of the 2004 Notes (the “2004 Consenting Holders”), and a Consent to Amendment and Waiver, dated as of April 9, 2007 (the “2005 Consent” and together with the 2004 Consent, the “Consents”), with the holder of the 2005 Notes (together with the 2004 Consenting Holders, the “Consenting Holders”), pursuant to which holders of at least a majority of the outstanding 2004 Notes and at least a majority of the 2005 Notes consented to the execution and delivery of the 2004 Supplemental Indenture and the 2005 Supplemental Indenture, respectively. The Consenting Holders also waived any and all Defaults (as defined in the applicable Indenture) and Events of Default (as defined in the applicable Indenture) relating to any failure of the Company to observe or perform any covenant or agreement contained in the Notes or the Indentures as a result of the Company’s failure to file with the SEC, or with the Trustee, its Annual Report on Form 10-K for the year ended September 30, 2006, its Annual Report on Form 10-Q for the quarter ended December 31, 2006 and/or any other reports that the Company fails to file in a timely manner for reasons in whole or in part directly or indirectly attributable to or arising out of the Company’s review of its historical stock option grants as initially reported in the Company’s Current Report on Form 8-K filed with the SEC on November 6, 2006. The Consenting Holders agree to rescind any notice of acceleration delivered to the Company with respect to such failure to file.

The Consents also provided the Company with the option to repurchase an aggregate of \$11.4 million of the outstanding principal amount of the Notes held by the Consenting Holders at a purchase price equal to \$1,000 per \$1,000 principal amount of the Notes purchased, plus accrued and unpaid interest, if any, to but excluding the date of purchase. The Company exercised this option and repurchased \$11.4 million of its outstanding notes on April 13, 2007. Accordingly, the Company classified the \$11.4 million principal repayment as a current liability as of March 31, 2007 and September 30, 2006.

If our cash flow is inadequate to meet our obligations or we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments on the notes or our other obligations, we would be in default under the terms thereof. Default under any of the note indentures would permit the holders of the notes to accelerate the maturity of the notes and could cause defaults under future indebtedness we may incur. Any such default would have a material adverse effect on our business, prospects, financial condition, results of operations and cash flows. In addition, we cannot assure you that we would be able to repay amounts due in respect of the notes if payment of any of the notes were to be accelerated following the occurrence of an event of default as defined in the respective note indentures.

Table of Contents

EMCORE may repurchase 2011 Notes and/or New 2011 Notes through various means, including, but not limited to, one or more open market or privately negotiated transactions in future periods. The timing and amount of repurchase, if any, whether *de minimis* or material, will depend on many factors, including, but not limited to, the availability of capital, the prevailing market price of the notes, and overall market conditions.

In September 2005, EMCORE entered into a non-recourse receivables purchase agreement (“AR Agreement”) with Silicon Valley Bank (“SVBank”). Under the terms of the AR Agreement, EMCORE from time to time may sell, without recourse, certain accounts receivables to SVBank up to a maximum aggregate outstanding amount of \$20.0 million. In September 2006, EMCORE sold approximately \$3.0 million of accounts receivable to SVBank. The AR Agreement expired on December 31, 2006.

Conclusion

We believe that our current liquidity should be sufficient to meet our cash needs for working capital through the next twelve months. If cash generated from operations and cash on hand are not sufficient to satisfy EMCORE's liquidity requirements, EMCORE will seek to obtain additional equity or debt financing. Additional funding may not be available when needed, or on terms acceptable to EMCORE. If EMCORE is required to raise additional financing and if adequate funds are not available or not available on acceptable terms, our ability to continue to fund expansion, develop and enhance products and services, or otherwise respond to competitive pressures may be severely limited. Such a limitation could have a material adverse effect on EMCORE's business, financial condition, results of operations, and cash flow.

Due to the Special Committee investigation and resulting restatements, we did not file our periodic reports with the SEC on time and faced the possibility of delisting of our stock from the NASDAQ Global Market. With the filing of our Annual Report and our Quarterly Reports on Form 10-Q thereafter for the quarters ended December 31, 2006, March 31, 2007, and June 30, 2007, we believe we have returned to full compliance with SEC reporting requirements and NASDAQ listing requirements and, therefore, the NASDAQ delisting matter should now be resolved. However, if the SEC has comments on these reports (or other reports that we previously filed) that require us to file amended reports, or if the NASDAQ does not concur that we are in compliance with applicable listing requirements, we may be unable to maintain an effective listing of our stock on NASDAQ. If this happens, the price of our stock and the ability of our shareholders to trade in our stock could be adversely affected. In addition, we would be subject to a number of restrictions regarding the registration of our stock under federal securities laws, which could adversely affect our business and results of operations.

Relocation of Headquarters and Departure and Appointment of Certain Officers

Shortly after the Company sold both its New Jersey-based EMD division and its GELcore joint venture, we announced the relocation of our headquarters to Albuquerque, New Mexico. Three officers of the Company decided against relocation and resigned.

- Mr. Thomas G. Werthan, an Executive Vice President and Chief Financial Officer of the Company, resigned and left the Company on February 19, 2007. Mr. Werthan joined the Company in June 1992. Mr. Werthan will continue to be a member of the Board of Directors, a position he has held since joining the Company. In February 2007, Mr. Adam Gushard, former Vice President of Finance, was appointed Interim Chief Financial Officer. As discussed in Note 10, Receivables, of the Notes to Consolidated Financial Statements, in connection with Mr. Werthan's resignation and pursuant to the terms of his promissory note, the Board of Directors forgave a loan he had with the Company. Mr. Werthan was responsible for the personal taxes related to the loan forgiveness.

- Mr. Howard W. Brodie, an Executive Vice President, Chief Legal Officer and Secretary of the Company, resigned and left the Company on April 27, 2007. Mr. Brodie joined the Company in 1999. In April 2007, Mr. Keith Kosco was appointed Chief Legal Officer and Secretary of the Company.
- Dr. Richard A. Stall, Executive Vice President and the Chief Technology Officer of the Company, resigned and left the Company on June 27, 2007. Dr. Stall co-founded the Company in 1984. On December 18, 2006, after ten years of service on the Board, Dr. Stall resigned his seat on the Board. Dr. John Iannelli, Ph.D. joined the Company in January 2003 through the acquisition of Ortel from Agere Systems and was appointed Chief Technology Officer in June 2007.

In addition, Mr. Scott T. Massie, an Executive Vice President and Chief Operating Officer of the Company, resigned and left the Company on December 29, 2006. Dr. Hong Q. Hou was appointed as President and Chief Operating Officer and was elected to the Company's Board of Directors.

Table of Contents

The Company also reported that Mr. Reuben F. Richards will continue to serve as Chief Executive Officer until the Company's Annual Meeting in 2008, at which time he will become Executive Chairman and Chairman of the Board of Directors and Dr. Thomas J. Russell, the current Chairman, will become Chairman Emeritus and Lead Director. The Board of Directors has offered Dr. Hong Q. Hou the position of Chief Executive Officer after Mr. Richards becomes Chairman.

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. Although EMCORE enters into transactions denominated in foreign currencies from time to time, the total amount of such transactions is not material. Accordingly, fluctuations in foreign currency values would not have a material adverse effect on our future financial condition or results of operations. However, 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.

Interest Rates. We maintain an investment portfolio in a variety of high-grade (AAA), short-term debt and money market instruments, which carry a minimal degree of interest rate risk. Due in part to these factors, our future investment income may be slightly less than expected because of changes in interest rates, or we may suffer insignificant losses in principal if forced to sell securities that have experienced a decline in market value because of changes in interest rates. The Company does not currently hedge its interest rate exposure.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company intends to maintain 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 Interim Chief Financial Officer (Chief 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 Interim Chief Financial Officer (Chief 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 not effective at the reasonable assurance level because of the identification of material weaknesses in its internal control over financial reporting, as described below, which the Company views as an integral part of its disclosure controls and procedures.

Attached as exhibits to this Quarterly Report on Form 10-Q are certifications of the Company's Chief Executive Officer (Principal Executive Officer) and Interim Chief Financial Officer (Chief Accounting 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 control 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 Interim Chief Financial Officer (Chief Accounting Officer).

A material weakness is a significant deficiency, or combination of significant deficiencies, in internal controls over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. Management performed an assessment of the effectiveness of the Company's internal control over financial reporting as of September 30, 2006, utilizing the criteria described in the "Internal Control — Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The objective of this assessment was to determine whether the Company's internal control over financial reporting was effective as of September 30, 2006. In its assessment of the effectiveness of internal control over financial reporting as of September 30, 2006, management determined that there were control deficiencies that constituted material weaknesses, as described below.

Table of Contents

(i) Control Activities Relating to Stock Options

The Company did not maintain effective controls over its granting of stock options and the related recording and disclosure of stock-based compensation expense under APB 25, SFAS 123, SFAS 123(R) and their related interpretations. Specifically, effective controls, including monitoring, were not designed and in place to provide reasonable assurance regarding the existence, completeness, accuracy, valuation and presentation of activity related to the Company's granting of stock options in the financial statements. These control deficiencies resulted in errors in (i) stock-based compensation expense, additional paid-in capital, related income tax accounts and weighted averaged diluted shares outstanding and (ii) related financial statement disclosures that resulted in the restatement of the Company's historical financial statements. Accordingly, management determined that in the aggregate these control deficiencies constitute a material weakness in internal control over financial reporting.

(ii) Control Activities Relating to Non-routine and Non-systematic Transactions

The Company did not maintain effective controls over non-routine and non-systematic transactions. Specifically, the Company did not properly review and analyze legal expenses, interest income, amortization expense, gross receipts tax and other accruals. In addition, the Company had errors in the classifications of bonuses and discontinued operations. This control deficiency resulted in errors to the Company's financial statements for the fourth quarter of 2006. Accordingly, management determined that this control deficiency constituted a material weakness in internal control over financial reporting.

Due to these material weaknesses, management determined that the Company's internal control over financial reporting was not effective as of September 30, 2006. As of March 31, 2007, management determined that these material weaknesses still existed; however, the Company is continuing to implement significant changes and improvements in the Company's internal control over financial reporting to remediate the control deficiencies that gave rise to the material weaknesses.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting, other than those changes discussed below, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Remediation of Material Weaknesses

Management is committed to remediating the control deficiencies that constitute the material weaknesses described above by implementing changes to the Company's internal control over financial reporting. In addition, management has established procedures to consider the ongoing effectiveness of both the design and operation of the Company's internal control over financial reporting. The Chief Executive Officer and Interim Chief Financial Officer of the Company have taken the responsibility to implement changes and improvements in the Company's internal control over financial reporting and remediate the control deficiencies that gave rise to the material weaknesses. Specifically, these changes include:

Remediation Activities Relating to Stock Option Grants

The Board of Directors of the Company adopted a revised Incentive Stock Option Grant Policy on November 13, 2006, that provided that:

- Non-administrative grant responsibilities other than with respect to new-hire options are to be set by the Compensation Committee.
- All new-hire options be issued the later of an employee's first day of employment, or where applicable, the date the Compensation Committee approved the terms of the new-hire grant and have an exercise price of not less than 100% of the fair market value of the Company's stock on that date. The Board will conduct a review of all new-hire grants to ensure compliance with the Company's policies and procedures.
- The grant date for all options awarded to employees other than new-hire options is the date on which the Compensation Committee meets and approves the grants.
- The exercise price of options other than new hire-options should be set at the closing price of the common stock of the Company on the date on which the Compensation Committee approves the grants.

Table of Contents

- The Company should, with respect to annual retention grants to employees, maintain the practice of awarding retention grants to senior management on the same date and with the same exercise price as retention grants awarded to non-senior management employees.
- No additions or modifications to options grants should be permitted after the Compensation Committee has approved the option grants.
 - All grants are to be communicated to employees as soon as reasonably practicable after the grant date.

Remediation Activities Relating to Non-routine Transactions

Management has also reevaluated its accounting policies and procedures related to the above mentioned non-routine accounting transactions which aggregated to a material weakness. As part of our review, we have enhanced the review process over non-routine transactions and the related accounting treatment by ensuring that these transactions are subject to a more thorough and detailed review.

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 EMCORE 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.

Table of Contents

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, the operating results of a particular reporting period could be materially adversely affected. The Company settled certain matters during 2007 that did not individually or in the aggregate have a material impact on the Company's results of operations.

Shareholder Derivative Litigation Relating to Historical Stock Option Practices

On February 1, 2007, Plaintiff Lewis Edelstein filed a purported stockholder derivative action (the "Federal Court 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 United States District Court for the District of New Jersey, Edelstein v. Brodie, et. al., Case No. 3:07-cv-00596-FLW-JJH (D.N.J.). On May 22, 2007, Plaintiffs Kathryn Gabaldon and Michael Sackrison each filed a purported stockholder derivative action against the Individual Defendants, and the Company as nominal defendant, in the Superior Court of New Jersey, Somerset County, Gabaldon v. Brodie, et. al., Case No. 3:07-cv-03185-FLW-JJH (D.N.J.) and Sackrison v. Brodie, et. al., Case No. 3:07-cv-00596-FLW-JJH (D.N.J.) (collectively, the "State Court Actions").

Both the Federal Court Action and the State Court Actions alleged, using essentially identical contentions that the Individual Defendants engaged in improprieties and violations of law in connection with the Company's historical issuances of stock options. Each of the actions seeks the same relief on behalf of the Company, including, among other things, damages, equitable relief, corporate governance reforms, an accounting, rescission, restitution and costs and disbursements of the lawsuit. On July 10, 2007, the State Court Actions were removed to the United States District Court for the District of New Jersey.

On September 26, 2007, the plaintiff in the Federal Court Action signed an agreement in principle with the Individual Defendants and the Company to settle that litigation in accordance with the Memorandum of Understanding (the "MOU") filed as Exhibit 10.10 to this Annual Report on Form 10-K. That same day, the plaintiffs in the State Court Actions advised the Federal Court that the settlement embodied in the MOU would also constitute the settlement of the State Court Actions.

The MOU provides that the Company will adhere to certain policies and procedures relating to the issuance of stock options, stock trading by directors, officers and employees, the composition of its Board of Directors, and the functioning of the Board's Audit and Compensation Committees. The MOU also provides for the payment of \$700,000 relating to plaintiff's attorneys' fees, costs and expenses, which the Company's insurance carrier has committed to pay on behalf of the Company. To be fully implemented, the MOU will be embodied in a more detailed stipulation of settlement and will be expressly conditioned on Court approval following a period for comment by potentially affected parties.

We have recorded \$700,000 as a liability for the stipulated settlement as of September 30, 2006 since events that led to the litigation existed as of that date. Although we anticipate that our insurance carrier will cover the stipulated settlement, we have not recorded any receivable, or gain contingency, since the settlement is still contingent upon

certain future events.

NASDAQ Delisting Proceeding

On December 18, 2006, EMCORE received a NASDAQ Staff Determination letter stating that the Company was not in compliance with the filing requirements for continued listing set forth in NASDAQ Marketplace Rule 4310(c)(14) and that its common stock was subject to delisting from The NASDAQ Stock Market. The notice, which the Company expected, was issued as a result of the Company's failure to file its annual report on Form 10-K for the year ended September 30, 2006 with the SEC by the required deadline. The Company had previously filed a Form 12b-25 with the SEC indicating that the Company would be unable to file its Form 10-K by the original filing deadline of December 14, 2006 due to the Company's ongoing review of its prior stock option grants.

On February 13, 2007, EMCORE received a NASDAQ Staff Determination letter stating that the Company was not in compliance with the filing requirements for continued listing set forth in NASDAQ Marketplace Rule 4310(c)(14) and that its common stock was subject to delisting from The NASDAQ Stock Market. The notice, which the Company expected, was issued as a result of the Company's failure to file its report on Form 10-Q for the fiscal quarter ended December 31, 2006 with the SEC by the required deadline. The Company had previously filed a Form 12b-25 with the SEC indicating that the Company would be unable to file its Form 10-Q by the original filing deadline of February 9, 2007 due to the Company's ongoing review of its prior stock option grants.

Table of Contents

The Company attended a hearing before the NASDAQ Listing Qualifications Panel (the “Panel”) on February 15, 2007 to review both the Staff Determination letter received by the Company on December 18, 2006 as a result of the Company's inability to file its Form 10-K for the year ended September 30, 2006 by the required deadline and the Staff Determination letter received by the Company on February 13, 2007 as a result of the Company's inability to file its Form 10-Q for the quarter ended December 31, 2006 by the required deadline.

On April 3, 2007, the Company received notice from the NASDAQ Stock Market that the Panel granted the Company's request for continued listing on the NASDAQ Stock Market subject to the Company filing both its Form 10-K for the fiscal year ended September 30, 2006 and its Form 10-Q for the quarter ended December 31, 2006 with the SEC by no later than May 10, 2007.

On May 10, 2007, the Company received notice from the NASDAQ Stock Market that the Panel had granted the Company's request for an extension of the May 10, 2007 deadline. The extension was conditioned on the Company filing its Form 10-K for the fiscal year ended September 30, 2006, its Form 10-Q for the quarter ended December 31, 2006 and all required restatements with the SEC by no later than June 18, 2007.

On May 14, 2007, the Company received a NASDAQ Staff Determination letter stating that the Company was not in compliance with the filing requirements for continued listing set forth in NASDAQ Marketplace Rule 4310(c)(14) and that its common stock was subject to delisting from the NASDAQ Stock Market. The notice, which the Company expected, was issued as a result of the Company's failure to file its report on Form 10-Q for the fiscal quarter ended March 31, 2007 with the SEC by the required deadline. The Company had previously filed a Form 12b-25 with the SEC indicating that the Company would be unable to file its Form 10-Q by the original filing deadline of May 10, 2007 due to the Company's ongoing review of its prior stock option grants.

On May 25, 2007, EMCORE filed an appeal of the May 10, 2007 Panel decision to grant the Company's request for an extension through June 18, 2007. EMCORE appealed the May 25, 2007 decision on the sole ground that the Panel could not grant the Company beyond June 18, 2007 to file the missing Form 10-K, Form 10-Qs and restatements. On June 8, 2007, the Company requested that NASDAQ stay the Panel's May 10, 2007 decision pending the Company's appeal of that action.

On June 15, 2007, the Company received a letter from the NASDAQ Stock Market stating that the NASDAQ Listing and Hearing Review Council (the “Listing Council”) has stayed the previously reported May 10, 2007 decision of the Panel and any future Panel determinations to suspend the Company's securities from trading on NASDAQ, pending further review by the Listing Council. Consequently, the Company's securities would continue to be listed and tradable on the NASDAQ Global Market System until further action by the Listing Council to lift the stay, which would not occur prior to August 10, 2007. In addition, the Company was invited to submit any additional information to the Listing Council for consideration in its review by no later August 10, 2007.

On August 10, 2007, the Company submitted a letter, in response to the Listing Council's invitation, requesting that the Listing Council exercise its discretionary authority in favor of granting the Company an additional extension to regain compliance with NASDAQ's filing requirement. The Company is awaiting the Listing Council's response to this letter.

On August 13, 2007, the Company received a NASDAQ Staff Determination letter stating that the Company was not in compliance with the filing requirements for continued listing set forth in NASDAQ Marketplace Rule 4310(c)(14) and that its common stock was subject to delisting from the NASDAQ Stock Market. The notice, which the Company expected, was issued as a result of the Company's failure to file its Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007 with the SEC by the required deadline. The Company had previously filed a Notification of Late Filing on Form 12b-25 with the SEC indicating that the Company would be unable to file this Quarterly

Report by the original filing deadline of August 9, 2007 due to the Company's ongoing review of its prior stock option grants.

On October 2, 2007, the Company received a NASDAQ Staff Determination letter stating that the Company was not in compliance with holding its annual meeting of shareholders within twelve months of the Company's fiscal year end, as set forth in NASDAQ Marketplace Rules 4350(e) and 4350(g) and that its common stock was subject to delisting from the NASDAQ Stock Market. The notice, which the Company expected, was issued as a result of the Company's failure to hold its annual shareholder meeting by September 30, 2007.

On October 5, 2007, the Company has received a decision from the Listing Council stating that, pursuant to its discretionary authority, it has granted the Company an exception and allowed the Company until December 4, 2007 to demonstrate compliance with all of the Global Market continued listing requirements (the "Decision"). The Decision requires that the Company file its Form 10-K for the fiscal year ended September 30, 2006 and its Form 10-Q for the quarters ended December 31, 2006, March 31, 2007 and June 30, 2007 with the SEC by the close of business on December 4, 2007. The Decision also provides that if the Company has not filed these delinquent reports with the SEC by the close of business on December 4, 2007, the Company's securities will be suspended at the opening of business on December 6, 2007.

Table of Contents

Although we believe the filing of our Annual Report on Form 10-K as of September 30, 2006 and our concurrent filings of the Form 10-Qs for the quarters ended December 31, 2006, March 31, 2007, and June 30, 2007 satisfy the Panel's requirements, we cannot assure you that the Panel will be satisfied with these filings. See the Explanatory Note in our Annual Report on Form 10-K for the fiscal year ended September 30, 2006 for a discussion of stock option restatements that caused the delay in our SEC filings.

SEC Investigation

The Company informed the staff of the SEC of the Special Committee's investigation on November 6, 2006. After the Company's initial contact with the SEC, the SEC opened a non-public investigation concerning the Company's historic option granting practices since the Company's initial public offering. The Company has cooperated fully with the SEC's investigation. Although we cannot predict the outcome of this matter, we do not expect that such matter will have a material adverse effect on our consolidated financial position or results of operations.

Indemnification Obligations

Subject to certain limitations, we are obligated to indemnify our current and former directors, officers and employees in connection with the investigation of our historical stock option practices, related government investigation and shareholder litigation. These obligations arise under the terms of our certificate of incorporation, our bylaws, applicable contracts, and New Jersey law. The obligation to indemnify generally means that we are required to pay or reimburse the individuals' reasonable legal expenses and possibly damages and other liabilities incurred in connection with these matters. We are currently paying or reimbursing legal expenses being incurred in connection with these matters by a number of our current and former directors, officers and employees. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has a director and officer liability insurance policies that limits its exposure and enables it to recover a portion of any future amounts paid.

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 is 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 (Optium) in the United States District Court for the Western District of Pennsylvania for patent infringement. In the suit, EMCORE 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, EMCORE and JDSU filed a second patent suit in the same court against Optium alleging infringement of JDSU's patent 6,519,374. On March 15, 2007, Optium filed a declaratory judgment action against the Company and JDSU. Optium seeks in this litigation a declaration that certain products of Optium do not infringe United States Patent No. 6,519,374 ("the '374 patent") and that the patent is invalid. The '374 patent is assigned to JDSU and licensed to the Company. Other than the filing of a Complaint, Optium has taken no action in this case, and the Company has not been served.

Table of Contents

ITEM 1A. RISK FACTORS

Please see the Risk Factors set forth in “Item 1A - Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended September 30, 2006.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not Applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not Applicable

ITEM 5. OTHER INFORMATION

Not Applicable

ITEM 6. EXHIBITS

| <u>Exhibit No.</u> | <u>Description</u> |
|---------------------------|--|
| 31.1* | Certification by Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification by Interim Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1* | Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2* | Certification by Interim Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

* *Filed herewith*

Table of Contents

SIGNATURES

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

EMCORE CORPORATION

Date: October 30, 2007

By: /s/ Reuben F. Richards, Jr.
Reuben F. Richards, Jr.

Chief Executive Officer
(Principal Executive Officer)

Date: October 30, 2007

By: /s/ Adam Gushard
Adam Gushard

Interim Chief Financial Officer
(Principal Financial and Accounting Officer)

Table of Contents

| <u>Exhibit</u> <u>No.</u> | <u>Description</u> |
|--|--|
| <u>31.1*</u> | Certification by Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| <u>31.2*</u> | Certification by Interim Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| <u>32.1*</u> | Certification by Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| <u>32.2*</u> | Certification by Interim Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

* *Filed herewith*