

EMCORE CORP  
Form 10-Q  
August 11, 2008

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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: June 30, 2008

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) (Zip Code)

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

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, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The number of shares outstanding of the registrant's no par value common stock as of August 4, 2008 was 77,682,709.

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EMCORE Corporation  
FORM 10-Q  
For the Quarterly Period Ended June 30, 2008  
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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

EMCORE CORPORATION  
Condensed Consolidated Statements of Operations  
For the three and nine months ended June 30, 2008 and 2007  
(in thousands, except per share data)  
(unaudited)

|  | Three Months Ended<br>June 30, |           | Nine Months Ended<br>June 30, |            |
|--|--------------------------------|-----------|-------------------------------|------------|
|  | 2008                           | 2007      | 2008                          | 2007       |
| Product revenue  | \$ 71,934                      | \$ 39,565 | \$ 164,695                    | \$ 108,907 |
| Service revenue  | 3,568                          | 4,863     | 13,973                        | 13,715     |
| Total revenue  | 75,502                         | 44,428    | 178,668                       | 122,622    |
| Cost of product revenue                                      | 61,767                         | 32,181    | 139,212                       | 91,292     |
| Cost of service revenue                                      | 89                             | 2,542     | 9,059                         | 9,160      |
| Total cost of revenue  | 61,856                         | 34,723    | 148,271                       | 100,452    |
| Gross profit   | 13,646                         | 9,705     | 30,397                        | 22,170     |
| Operating expenses:  |                                |           |                               |            |
| Selling, general, and administrative                         | 13,906                         | 15,516    | 36,032                        | 41,198     |
| Research and development                                     | 11,382                         | 7,668     | 28,132                        | 21,807     |
| Total operating expenses                                     | 25,288                         | 23,184    | 64,164                        | 63,005     |
| Operating loss   | (11,642)                       | (13,479)  | (33,767)                      | (40,835)   |
| Other (income) expense:                                      |                                |           |                               |            |
| Interest income  | (124)                          | (723)     | (778)                         | (3,543)    |
| Interest expense   | -                              | 1,254     | 1,580                         | 3,776      |
| Loss from conversion of subordinated notes                   | -                              | -         | 4,658                         | -          |
| Loss from early redemption of convertible subordinated notes | -                              | 561       | -                             | 561        |
| Stock-based compensation expense from tolled options         | -                              | -         | 4,316                         | -          |
| Gain from insurance proceeds                                 | -                              | -         | -                             | (357)      |
| Gain from sale of WWAT investment                            | (3,692)                        |           | (3,692)                       |            |
| Loss on disposal of equipment                                | -                              | -         | 86                            | -          |
| Foreign exchange gain  | (104)                          | (12)      | (302)                         | (12)       |
|  | (3,920)                        | 1,080     | 5,868                         | 425        |

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|   |            |             |             |             |
|---|------------|-------------|-------------|-------------|
| Total other (income) expense                                    |            |             |             |             |
| Net loss  | \$ (7,722) | \$ (14,559) | \$ (39,635) | \$ (41,260) |
| Per share data:   |            |             |             |             |
| Basic and diluted per share data:                               |            |             |             |             |
| Net loss  | \$ (0.10)  | \$ (0.29)   | \$ (0.62)   | \$ (0.81)   |
| Weighted-average number of basic and diluted shares outstanding |            |             |             |             |
|   | 76,582     | 51,043      | 64,155      | 50,974      |

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

EMCORE CORPORATION  
Condensed Consolidated Balance Sheets  
As of June 30, 2008 and September 30, 2007  
(In thousands)  
(unaudited)

|  | As of<br>June 30,<br>2008 | As of<br>September<br>30,<br>2007 |
|--|---------------------------|-----------------------------------|
| <b>ASSETS</b>  |                           |                                   |
| Current assets:  |                           |                                   |
| Cash and cash equivalents  | \$ 18,183                 | \$ 12,151                         |
| Restricted cash  | 1,869                     | 1,538                             |
| Available-for-sale securities  | -                         | 29,075                            |
| Accounts receivable, net of allowance of \$490 and \$802, respectively | 68,157                    | 38,151                            |
| Receivables, related party   | 287                       | 332                               |
| Income tax receivable  | 130                       | -                                 |
| Inventory, net   | 50,066                    | 29,205                            |
| Prepaid expenses and other current assets                              | 6,032                     | 4,350                             |
| <b>Total current assets</b>  | <b>144,724</b>            | <b>114,802</b>                    |
| Property, plant, and equipment, net                                    | 84,938                    | 57,257                            |
| Goodwill   | 76,850                    | 40,990                            |
| Other intangible assets, net   | 28,570                    | 5,275                             |
| Investments in unconsolidated affiliates                               | 12,069                    | 14,872                            |
| Available-for-sale securities  | 1,458                     | -                                 |
| Long-term investments and restricted cash                              | 3,472                     | -                                 |
| Other non-current assets, net  | 654                       | 1,540                             |
| <b>Total assets</b>  | <b>\$ 352,735</b>         | <b>\$ 234,736</b>                 |
| <b>LIABILITIES and SHAREHOLDERS' EQUITY</b>                            |                           |                                   |
| Current liabilities:   |                           |                                   |
| Accounts payable   | \$ 36,751                 | \$ 22,685                         |
| Accrued expenses and other current liabilities                         | 24,670                    | 28,776                            |
| Income tax payable   | 594                       | 137                               |
| <b>Total current liabilities</b>                                       | <b>62,015</b>             | <b>51,598</b>                     |
| Convertible senior subordinated notes                                  | -                         | 84,981                            |
| <b>Total liabilities</b>   | <b>62,015</b>             | <b>136,579</b>                    |
| Commitments and contingencies (Note 12)                                |                           |                                   |

## Shareholders' equity:

|   |                   |                   |
|---|-------------------|-------------------|
| Preferred stock, \$0.0001 par, 5,882 shares authorized, no shares outstanding   | -                 | -                 |
| Common stock, no par value, 200,000 shares authorized, 77,672 shares issued and 77,513 outstanding at June 30, 2008; 51,208 shares issued and 51,049 shares outstanding at September 30, 2007 | 676,354           | 443,835           |
| Accumulated deficit   | (383,539)         | (343,578)         |
| Accumulated other comprehensive loss  | (12)              | (17)              |
| Treasury stock, at cost; 159 shares   | (2,083)           | (2,083)           |
| <b>Total shareholders' equity</b>   | <b>290,720</b>    | <b>98,157</b>     |
| <b>Total liabilities and shareholders' equity</b>   | <b>\$ 352,735</b> | <b>\$ 234,736</b> |

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

EMCORE CORPORATION  
Condensed Consolidated Statements of Cash Flows  
For the nine months ended June 30, 2008 and 2007  
(in thousands)  
(unaudited)

|   | Nine Months Ended<br>June 30, |             |
|---|-------------------------------|-------------|
|   | 2008                          | 2007        |
| Cash flows from operating activities:   |                               |             |
| Net loss  | \$ (39,635)                   | \$ (41,260) |
| Adjustments to reconcile net loss to net cash used<br>for operating activities: |                               |             |
| Stock-based compensation expense  | 8,705                         | 4,800       |
| Depreciation and amortization expense   | 9,509                         | 6,903       |
| Accretion of loss from convertible subordinated<br>notes                        | 41                            | 167         |
| Provision for doubtful accounts   | 204                           | 309         |
| Compensatory stock issuances  | 1,648                         | 640         |
| Loss from disposal of property, plant, and<br>equipment                         | 86                            | 16          |
| Loss from early redemption of convertible<br>subordinated notes                 | -                             | 561         |
| Loss from conversion of convertible subordinated<br>notes                       | 1,169                         | -           |
| Gain from sale of WWAT investment   | (3,692)                       | -           |
| Forgiveness of shareholders' note receivable                                    | -                             | 82          |
| Reduction of note receivable due for services<br>received                       | 390                           | 391         |
| Total non-cash adjustments  | 18,061                        | 13,869      |
| Changes in operating assets and liabilities, net of<br>effect of acquisitions:  |                               |             |
| Accounts receivable   | (30,172)                      | (13,556)    |
| Inventory   | 10,559                        | (4,559)     |
| Prepaid expenses and other current assets                                       | (1,674)                       | 3,527       |
| Other assets  | (1,059)                       | (3,540)     |
| Accounts payable  | 14,066                        | 840         |
| Accrued expenses and other current liabilities                                  | (6,004)                       | 318         |
| Total change in operating assets and liabilities                                | (14,284)                      | (16,970)    |
| Net cash used for operating activities  | (35,859)                      | (44,361)    |
| Cash flows from investing activities:   |                               |             |
| Purchase of plant and equipment   | (15,028)                      | (4,810)     |
| Proceeds from insurance recovery  | 1,189                         | 362         |
| Investment in unconsolidated affiliates   | (1,503)                       | (13,892)    |
| Proceeds from employee notes receivable   | -                             | 121         |
| Proceeds from notes receivable  | -                             | 2,250       |
| Purchase of businesses, net of cash acquired                                    | (75,779)                      | (3,885)     |
| Funding of restricted cash  | (874)                         | (420)       |



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|  |             |           |
|--|-------------|-----------|
| Purchase of available-for-sale securities            | (7,000)     | (22,900)  |
| Sale of available-for-sale securities                | 32,805      | 91,300    |
| Proceeds from sale of WWAT investment                | 6,540       | -         |
| Net cash (used for) provided by investing activities | \$ (59,651) | \$ 48,126 |

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

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EMCORE CORPORATION  
Condensed Consolidated Statements of Cash Flows (continued)  
For the nine months ended June 30, 2008 and 2007  
(in thousands)  
(unaudited)

|  | Nine Months Ended<br>June 30, |                  |
|--|-------------------------------|------------------|
|  | 2008                          | 2007             |
| Cash flows from financing activities:  |                               |                  |
| Payments on capital lease obligations  | \$ (11)                       | \$ (44)          |
| Proceeds from exercise of stock options  | 6,960                         | 274              |
| Proceeds from employee stock purchase plan                                       | 723                           | 202              |
| Principal payment on convertible debt obligation                                 | -                             | (11,428)         |
| Proceeds from private placement of common stock and warrants                     | 93,692                        | -                |
| <b>Net cash provided by (used for) financing activities</b>                      | <b>101,364</b>                | <b>(10,996)</b>  |
| Effect of foreign currency   | 176                           | -                |
| <b>Net increase in cash and cash equivalents</b>                                 | <b>6,032</b>                  | <b>7,231</b>     |
| Cash and cash equivalents, beginning of period                                   | 12,151                        | 22,592           |
| <b>Cash and cash equivalents, end of period</b>                                  | <b>\$ 18,183</b>              | <b>\$ 15,361</b> |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>                          |                               |                  |
| Cash paid during the period for interest   | \$ 3,314                      | \$ 4,836         |
| Cash paid for income taxes   | \$ -                          | \$ 2,351         |
| <b>NON-CASH DISCLOSURE</b>   |                               |                  |
| Issuance of common stock for purchase of Intel's Optical Platform Division       | \$ 36,085                     | \$ -             |
| Issuance of common stock for conversion of convertible senior subordinated notes | \$ 85,428                     | \$ -             |

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

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 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, 2007 has been derived from the audited consolidated financial statements as of such date. For a more complete understanding of the Company's financial position, operating results, risk factors and other matters, please refer to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2007.

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. The Company'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.

Earnings Per Share

For the three and nine months ended June 30, 2008, stock options representing 3,800,327 and 5,134,376 shares, respectively, of common stock were excluded from the diluted earnings per share calculations. For the three and nine months ended June 30, 2007, stock options representing 2,901,002 and 2,860,692 shares, respectively, of common stock were excluded from the diluted earnings per share calculations. These stock options, and the shares underlying the Company's convertible senior subordinated notes for the three and nine months ended June 30, 2007, were not included in the computation of diluted earnings per share since the Company incurred a net loss for the periods presented and any effect would have been anti-dilutive.

NOTE 2. Recent Accounting Pronouncements

SFAS 141(R) - In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") 141(R), Business Combinations. This statement replaces SFAS 141, Business Combinations, and requires an acquirer to recognize the assets acquired, the liabilities assumed, including those

arising from contractual contingencies, any contingent consideration, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the statement. SFAS 141(R) also requires the acquirer in a business combination achieved in stages (sometimes referred to as a step acquisition) to recognize the identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, at the full amounts of their fair values (or other amounts determined in accordance with SFAS 141(R)). In addition, SFAS 141(R)'s requirement to measure the noncontrolling interest in the acquiree at fair value will result in recognizing the goodwill attributable to the noncontrolling interest in addition to that attributable to the acquirer. SFAS 141(R) amends SFAS No. 109, Accounting for Income Taxes, to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. It also amends SFAS 142, Goodwill and Other Intangible Assets, to, among other things, provide guidance on the impairment testing of acquired research and development intangible assets and assets that the acquirer intends not to use. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Management is currently assessing the potential impact that the adoption of SFAS 141(R) could have on the Company's financial statements.

SFAS 157 - In September 2006, the FASB issued SFAS 157, Fair Value Measurements, which defines fair value, providing 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. However, in December 2007, the FASB issued FASB Staff Position FAS 157-b, which deferred the effective date of SFAS No. 157 for one year, as it relates to nonfinancial assets and liabilities. Management is currently assessing the potential impact that the adoption of SFAS 157 could have on the Company's financial statements.

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. Management is currently assessing the potential impact that the adoption of SFAS 159 could have on the Company's financial statements.

SFAS 160 - In December 2007, the FASB issued SFAS 160, Noncontrolling Interests in Consolidated Financial Statements. SFAS 160 amends Accounting Research Bulletin 51, Consolidated Financial Statements, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 also changes the way the consolidated income statement is presented by requiring consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. SFAS 160 requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated and requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent owners and the interests of the noncontrolling owners of a subsidiary. SFAS 160 is effective for fiscal periods, and interim periods within those fiscal years, beginning on or after December 15, 2008. Management is currently assessing the potential impact that the adoption of SFAS 160 could have on our financial statements.

SFAS 161 - In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an

entity uses derivative instruments, (b) how derivative instruments and related hedge items are accounted for under Statement 133, Accounting for Derivative Instruments and Hedging Activities, and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is intended to enhance the current disclosure framework in SFAS 133 and requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk related contingent features in derivative agreements. The provisions of SFAS 161 are effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. Management is currently assessing the potential impact that the adoption of SFAS 161 could have on our financial statements.

### NOTE 3. Equity

#### Stock Options

The Company has stock option plans to provide long-term incentives to eligible employees and officers 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. The Company 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 stock options to purchase up to 2,744,118 shares of the Company's common stock. On March 31, 2008, the 2000 Plan was amended to authorize an additional grant of 3,500,000 stock options for a total of 12,850,000 shares of the Company's common stock. As of June 30, 2008, no stock options were available for issuance under the 1995 Plan and 790,620 stock options were available for issuance under the 2000 Plan. Certain options under the Option Plans are intended to qualify as incentive stock options pursuant to Section 422A of the Internal Revenue Code.

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The following table summarizes the activity under the Option Plans for the nine months ended June 30, 2008:

|   | Number of<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life<br>(in years) |
|---|---------------------|--|---|
| Outstanding as of October 1, 2007               | 5,697,766           | \$ 5.46                                  |   |
| Granted   | 3,983,250           | 7.79                                     |   |
| Exercised                                       | (1,615,123)         | 4.29                                     |   |
| Tolled  | 658,989             | 5.19                                     |   |
| Cancelled and expired                           | (255,446)           | 7.96                                     |   |
| Outstanding as of June 30, 2008                 | 8,469,436           | \$ 6.68                                  | 8.28  |
| Vested and expected to vest as of June 30, 2008 | 5,568,060           | \$ 6.33                                  | 7.83  |
| Exercisable as of June 30, 2008                 | 2,643,123           | \$ 5.01                                  | 6.17  |

The weighted-average grant date fair value of stock options granted during the nine months ended June 30, 2008 and 2007 was \$5.35 and \$4.00, respectively. The total intrinsic value of stock options exercised during the nine months ended June 30, 2008 and 2007 was \$11.5 million and \$0.2 million, respectively. The aggregate intrinsic value of fully vested and expected to vest stock options as of June 30, 2008 was \$6.4 million. The aggregate intrinsic value of exercisable stock options as of June 30, 2008 was \$5.6 million.

As of June 30, 2008, there was \$15.4 million of total unrecognized compensation expense related to non-vested stock-based compensation arrangements granted under the Option Plans. This expense is expected to be recognized over an estimated weighted-average life of 3.46 years.

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), Share-Based Payment (revised 2004), 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 nine months ended June 30, 2008 and 2007 was as follows:

| (in thousands, except per<br>share data)           | Three Months Ended<br>June 30,<br>2008 |          | Nine Months Ended<br>June 30,<br>2008 |          |
|--|--|----------|---------------------------------------|----------|
| Stock-based compensation<br>expense by award type: |  |          |                                       |          |
| Employee stock options                             | \$ 1,555                               | \$ 1,130 | \$ 4,035                              | \$ 4,800 |
| Employee stock purchase<br>plan                    | 186                                    | -        | 354                                   | -        |
| Former employee stock<br>options tolled            | -                                      | -        | 4,316                                 | -        |
| Total stock-based<br>compensation expense          | \$ 1,741                               | \$ 1,130 | \$ 8,705                              | \$ 4,800 |

|   |           |           |           |           |
|---|-----------|-----------|-----------|-----------|
| Net effect on net loss per<br>basic and diluted share | \$ (0.02) | \$ (0.02) | \$ (0.14) | \$ (0.09) |
|---|-----------|-----------|-----------|-----------|

### Former Employee Stock Options Tolled

Under the terms of stock 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 stock options. In November 2006, the Company announced suspension of reliance on previously issued financial statements, which in turn caused the Company's 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 stock options during the remaining contractual term (the "Blackout Period"). To address this issue, the Company's Board of Directors agreed in April 2007 to approve a stock option grant "modification" for these individuals by extending the normal 90-day exercise period after the termination date to a date after which the Company became compliant with its SEC filings and the registration of the stock option shares was once again effective. The Company communicated the terms of the tolling agreement with its terminated employees in November 2007. The Company's Board of Directors approved an extension of the stock option expiration date equal to the number of calendar days during the Blackout Period before such stock option would have otherwise expired (the "Tolling Period"). Former employees were able to exercise their vested stock options beginning on the first day after the lifting of the Blackout Period for a period equal to the Tolling Period. The Company accounted for the modification of stock options issued to terminated employees as additional compensation expense in accordance with SFAS 123(R) in the first quarter of fiscal 2008 and adjusted the stock options to market value in the first quarter of 2008 and recognized income on expired options in the quarters ended December 31, 2007 and March 31, 2008. All tolled options were either exercised or expired by January 29, 2008.

### Valuation Assumptions

The Company estimated the fair value of stock options using a Black-Scholes model. The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option valuation model and the straight-line attribution approach using the following weighted-average assumptions.

| Black-Scholes Weighted-Average Assumptions: | For the<br>Nine<br>Months<br>Ended June<br>30, 2008 |
|---|---|
| Expected dividend yield                     | 0%  |
| Expected stock price volatility             | 80.8%   |
| Risk-free interest rate                     | 2.94%   |
| Expected term (in years)                    | 5.56  |
| Estimated pre-vesting forfeitures           | 23.3%   |

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

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

**Risk-Free Interest Rate:** The Company 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 the Company's stock-based awards do not correspond with the terms for which interest rates are quoted, the Company performed a straight-line interpolation to determine the rate from the available maturities.

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

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

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## Preferred Stock

The Company's Restated Certificate of Incorporation authorizes the Board of Directors to issue up to 5,882,352 shares of preferred stock of the Company upon such terms and conditions having such rights, privileges and preferences as the Board of Directors may determine. As of June 30, 2008 and September 30, 2007, no shares of preferred stock were issued or outstanding.

## Warrants

As of June 30, 2008, the Company had 1,400,003 warrants outstanding and exercisable. No warrants were outstanding as of September 30, 2007.

## Employee Stock Purchase Plan

In fiscal 2000, the Company adopted an Employee Stock Purchase Plan (the "ESPP"). The ESPP provides employees of the Company an opportunity to purchase common stock through payroll deductions. The ESPP is a 6-month duration plan, with new participation periods beginning the first business day of January and July of each year. The purchase price is set at 85% of the average high and low market price for the Company's common stock on either the first or last day of the participation period, whichever is lower, and annual contributions are limited to the lower of 10% of an employee's compensation or a fair value up to \$25,000. In November 2006, the Company suspended the ESPP due to its review of historical stock option granting practices. The Company reinstated the ESPP on January 1, 2008. The number of shares of common stock available for issuance under the ESPP is 2,000,000 shares.

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

|  | Number of<br>Common<br>Stock Shares<br>Issued | Purchase<br>Price per<br>Common<br>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 -<br>\$ 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  |
| Number of shares issued in June 2008 for the first half of calendar year 2008  | (124,906)                                     | \$ 5.62  |
| Remaining shares reserved for the ESPP as of June 30, 2008                     | 751,237                                       |  |

## Future Issuances

As of June 30, 2008, the Company had reserved a total of 12,711,296 shares of its common stock for future issuances as follows:

|  | Number of<br>Common Stock<br>Shares<br>Available |
|--|--|
| For exercise of outstanding common stock options   | 8,469,436  |
| For future issuances to employees under the ESPP plan                                      | 751,237  |
| For future common stock option awards  | 790,620  |
| For future exercise of warrants  | 1,400,003  |
| For future issuance in relation to the acquisition of Intel's<br>Optical Platform Division | 1,300,000  |
| <b>Total reserved</b>  | <b>12,711,296</b>                                |

## Private Placement of Common Stock and Warrants

On February 20, 2008, the Company consummated the sale of \$100 million of restricted common stock and warrants. In this transaction, investors purchased 8 million shares of our common stock, no par value, and warrants to purchase an additional 1.4 million shares of our common stock. The purchase price was \$12.50 per share, priced at the 20-day volume-weighted average price. The warrants grant the holder the right to purchase one share of our common stock at a price of \$15.06 per share, representing a 20.48% premium over the purchase price. The warrants are immediately exercisable and remain exercisable until February 20, 2013. In addition, the Company entered into a registration rights agreement with the investors to register for resale the shares of common stock issued in this transaction and the shares of common stock to be issued upon exercise of the warrants. Beginning two years after their issuance, the warrants may be called by the Company for a price of \$0.01 per underlying share if the closing price of its common stock has exceeded 150% of the exercise price for at least 20 trading days within a period of any 30 consecutive trading days and other conditions are met. Total agent fees incurred were 5.75% of the gross proceeds, or \$5.8 million. The Company used a substantial portion of the net proceeds to acquire the telecom assets of Intel's Optical Platform Division and is using the remainder for working capital requirements.

In the registration rights agreement, the Company agreed to pay liquidated damages in the event it did not file with the SEC a registration statement with respect to the registrable securities, or if the registration statement was not declared effective, within certain deadlines. The Company filed the registration statement, and it was declared effective within the deadlines specified in the registration rights agreement. The Company further agreed to pay liquidated damages if sales of the registrable securities included in the registration statement are unable to be made, or if, after a period of six months following the closing, the Company does not file with the SEC the reports required to be filed pursuant to Rule 144(c)(1) under the Securities Act and, as a result, holders are unable to sell their registrable securities. In such events, the Company agreed to pay as liquidated damages to each holder of registrable securities relating an amount in cash equal to one (1) percent (1%) of the aggregate purchase price of such holder's registrable securities included in such registration statement on the day that such a failure first occurs and on every thirtieth day thereafter until such failure is cured. Liquidated damages shall be paid on the earlier of (i) the last day of the calendar month during which such damages are incurred and (ii) the third business day after the event or failure giving rise to the damages is cured. In the event the Company fails to make such payments in a timely manner, such liquidated damages shall bear simple interest at the rate of four (4) percent (4%) per month until paid in full. In no event shall the aggregate amount of liquidated damages exceed, in the aggregate, ten (10) percent (10%) of the aggregate purchase price of the common stock sold in the private placement.

The Company accounted for the various components of the private placement transaction using the provisions of EITF Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's Own Stock; and FASB Staff Position EITF 00-19-2, Accounting for Registration Payment Arrangements. Warrants issued to the investors were accounted for as an equity transaction with a value of \$9.8 million recorded to common stock. The potential future payments to the investors are considered a contingent liability in accordance with SFAS No. 5 Accounting for Contingencies. As of June 30, 2008, the Company did not record any contingent liability associated with the liquidated damages clause.

The costs associated with this offering were \$6.3 million which was recorded as an offset to common stock.

#### Share Dilution

The following table summarizes the Company's equity transactions and effect on share dilution for the nine months ended June 30, 2008:

|  | Number of<br>Common Stock<br>Shares<br>Outstanding |
|--|--|
| Common stock shares outstanding – as of October 1, 2007                      | 51,048,481   |
| Conversion of convertible subordinated notes to equity (see Note 11 - Debt)  | 12,186,656   |
| Private placement transaction  | 8,000,000  |
| Acquisition of Intel's Optical Platform Division (see Note 4 – Acquisitions) | 4,422,688  |
| Stock option exercises and other compensatory stock issuances                | 1,855,403  |
| Common stock shares outstanding – as of June 30, 2008                        | 77,513,228   |

On March 31, 2008, the Board of Directors authorized an additional 100 million shares of common stock available for issuance for a total of 200 million shares authorized.

NOTE 4. Acquisitions

Intel's Optical Platform Division

On February 22, 2008, the Company acquired assets of the telecom portion of Intel Corporation's Optical Platform Division ("OPD"). The telecom assets acquired include inventory, fixed assets, intellectual property, and technology comprised of tunable lasers, tunable transponders, 300-pin transponders, and integrated tunable laser assemblies. The purchase price was \$75 million in cash and \$10 million in the Company's common stock, priced at a volume-weighted average price of \$13.84 per share. Under the terms of the asset purchase agreement, the purchase price of \$85 million is subject to adjustment based on an inventory true-up, plus specifically assumed liabilities. Direct transaction costs totaled \$0.5 million. This acquisition was financed through proceeds received from the \$100 million private placement of common stock and warrants (see Note 3).

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On April 20, 2008, the Company acquired the enterprise and storage assets of Intel Corporation's OPD business, as well as Intel's Connects Cables business. The assets acquired include inventory, fixed assets, intellectual property, and technology relating to optical transceivers for enterprise and storage customers, as well as optical cable interconnects for high-performance computing clusters. As consideration for the purchase of assets, the Company issued 3.7 million restricted shares of the Company's common stock to Intel. In addition, the Company may be required to make an additional payment to Intel based on the Company's stock price twelve months after the closing of the transaction. In the event that the Company is required to make an additional payment, it has the option to make that payment in cash, common stock or both (but not to exceed the equivalent value of 1.3 million shares).

The purchase price allocation for the entire business acquired has been prepared on a preliminary basis and is subject to change as new facts and circumstances emerge. The Company is currently completing the purchase price allocation and valuation of the acquired assets. The Company will adjust the preliminary purchase price allocation to reflect changes in the final valuation report, which is expected to be completed by September 2008. Amortization expense totaled \$0.9 million and \$1.0 million for the three and nine months ended June 30, 2008, respectively. Of the total goodwill recognized, approximately \$35.0 million is expected to be deductible for tax purposes over a 15 year life.

The preliminary purchase price was allocated as follows:

(in thousands)

Intel's Optical Platform Division

|   |            |
|---|------------|
| Net purchase price                          | \$ 111,864 |
| Net assets acquired                         | (76,834)   |
| Excess purchase price allocated to goodwill | \$ 35,030  |

Net assets acquired in the acquisition were as follows:

|                     |           |
|---------------------|-----------|
| Inventory           | \$ 31,420 |
| Fixed assets        | 20,010    |
| Intangible assets   | 25,404    |
| Net assets acquired | \$ 76,834 |

In connection with this acquisition, Intel and the Company entered into a Transition Services Agreement (the "TSA"), which allows Intel to carve-out the business and deliver those assets to the Company. Pursuant to the terms of the TSA, Intel intends to manufacture, assemble, test, and supply products that are sold by the business. Intel will also provide certain transition services to the Company, including financial services, supply chain support, data extraction, conversion services, facilities and site computing support, and office space services. Operating expenses associated with the TSA are being expensed as incurred. For the three and nine months ended June 30, 2008, the Company incurred \$3.2 million and \$4.1 million, respectively of TSA-related fees in operating expenses. The TSA is expected to continue through September 2008 or until such time when the Company can arrange its own resources to operate the acquired business.

The following unaudited condensed consolidated pro forma financial data has been prepared to give effect to the Company's acquisition of certain assets and liabilities of OPD. The pro forma financial information has been developed by the application of pro forma adjustments to the estimated results of operations of OPD, and the historical Condensed Consolidated Statements of Operations of the Company as if OPD had been acquired as of October 1, 2006. The pro forma financial information is based upon available information and assumptions that management believes are reasonable. The pro forma financial information does not purport to represent what our consolidated results of operations would have been had the Company's acquisition of OPD occurred on the dates indicated, or to project our consolidated financial performance for any future period.

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Condensed Consolidated Pro Forma Statement of Operations  
(unaudited)

| (in thousands, except per<br>share data) | Three Months Ended<br>June 30, 2008 |              | Three Months Ended<br>June 30, 2007 |              |
|--|-------------------------------------|--------------|-------------------------------------|--------------|
|  | EMCORE                              | PRO<br>FORMA | EMCORE                              | PRO<br>FORMA |
| Revenues                                 | \$ 75,502                           | \$ 76,966    | \$ 44,428                           | \$ 72,928    |
| Net loss                                 | (7,722)                             | (8,336)      | (14,559)                            | (12,859)     |
| Net loss per basic and<br>diluted shares | \$ (0.10)                           | \$ (0.11)    | \$ (0.29)                           | \$ (0.24)    |

  

| (in thousands, except per<br>share data) | Nine Months Ended<br>June 30, 2008 |              | Nine Months Ended<br>June 30, 2007 |              |
|--|------------------------------------|--------------|------------------------------------|--------------|
|  | EMCORE                             | PRO<br>FORMA | EMCORE                             | PRO<br>FORMA |
| Revenues                                 | \$ 178,688                         | \$ 216,193   | \$ 122,622                         | \$ 206,879   |
| Net loss                                 | (39,635)                           | (38,280)     | (41,260)                           | (36,780)     |
| Net loss per basic and<br>diluted shares | \$ (0.62)                          | \$ (0.60)    | \$ (0.81)                          | \$ (0.72)    |

This transaction was accounted for as a purchase in accordance with SFAS 141, Business Combinations; therefore, the tangible assets acquired and liabilities assumed were recorded at fair value on the acquisition date. The operating results of the entire business acquired are included in the accompanying consolidated statement of operations from the date of acquisition. The acquired business is part of the Company's Fiber Optics operating segment.

## NOTE 5. Receivables, net

The components of accounts receivable consisted of the following:

| (in thousands)                  | As of<br>June 30,<br>2008 | As of<br>September<br>30, 2007 |
|---------------------------------|---------------------------|--------------------------------|
| Accounts receivable             | \$ 56,512                 | \$ 35,558                      |
| Accounts receivable – unbilled  | 12,135                    | 3,395                          |
| Accounts receivable, gross      | 68,647                    | 38,953                         |
| Allowance for doubtful accounts | (490)                     | (802)                          |
| Total accounts receivable, net  | \$ 68,157                 | \$ 38,151                      |

## NOTE 6. 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:

| (in thousands)                              | As of<br>June 30,<br>2008 | As of<br>September<br>30, 2007 |
|---|---------------------------|--------------------------------|
| Raw materials                               | \$ 19,352                 | \$ 19,884                      |
| Work-in-process                             | 10,192                    | 6,842                          |
| Finished goods                              | 27,050                    | 10,891                         |
| Inventory, gross                            | 56,594                    | 37,617                         |
| Less: allowance for excess and obsolescence | (6,528)                   | (8,412)                        |
| Total inventory, net                        | \$ 50,066                 | \$ 29,205                      |

As part of our acquisition of Intel's Optical Platform Division, the Company acquired inventory of approximately \$31.4 million (see Note 4 - Acquisitions).



## NOTE 7. Property, Plant, and Equipment, net

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

| (in thousands)                                  | As of<br>June 30,<br>2008 | As of<br>September<br>30, 2007 |
|---|---------------------------|--------------------------------|
| Land  | \$ 1,502                  | \$ 1,502                       |
| Building and improvements                       | 44,473                    | 43,397                         |
| Equipment                                       | 104,770                   | 75,631                         |
| Furniture and fixtures                          | 6,458                     | 5,643                          |
| Leasehold improvements                          | 93                        | 2,141                          |
| Construction in progress                        | 6,878                     | 3,744                          |
| Property, plant and equipment, gross            | 164,174                   | 132,058                        |
| Less: accumulated depreciation and amortization | (79,236)                  | (74,801)                       |
| Total property, plant and equipment, net        | \$ 84,938                 | \$ 57,257                      |

As part of our acquisition of Intel's Optical Platform Division, the Company acquired fixed assets of approximately \$20.0 million (see Note 4 – Acquisitions).

As of June 30, 2008 and September 30, 2007, the Company did not have any significant capital lease agreements.

Depreciation expense was \$3.5 million and \$7.3 million for the three and nine months ended June 30, 2008, respectively, and \$1.3 million and \$5.0 million for the three and nine months ended June 30, 2007, respectively.

## NOTE 8. Goodwill and Intangible Assets, net

The following table sets forth changes in the carrying value of goodwill by reportable segment during the nine months ended June 30, 2008:

| (in thousands)  | Fiber<br>Optics | Photovoltaics | Total     |
|---|-----------------|---------------|-----------|
| Balance as of October 1, 2007                                       | \$ 20,606       | \$ 20,384     | \$ 40,990 |
| Acquisition – earn-out payments                                     | 712             | -             | 712       |
| Acquisition – Intel's Optical Platform<br>Division                  | 35,030          | -             | 35,030    |
| Final purchase price allocation<br>adjustment: Opticomm acquisition | 118             | -             | 118       |
| Balance as of June 30, 2008   | \$ 56,466       | \$ 20,384     | \$ 76,850 |



The following table sets forth the carrying value of intangible assets, consisting of patents and acquired intellectual property ("IP"), as of June 30, 2008 and September 30, 2007, by reportable segment:

| (in thousands)          | As of June 30, 2008 |                          |            | As of September 30, 2007 |                          |            |
|-------------------------|---------------------|--------------------------|------------|--------------------------|--------------------------|------------|
|                         | Gross Assets        | Accumulated Amortization | Net Assets | Gross Assets             | Accumulated Amortization | Net Assets |
| <b>Fiber Optics:</b>    |                     |                          |            |                          |                          |            |
| Patents                 | \$ 998              | \$ (495)                 | \$ 503     | \$ 845                   | \$ (358)                 | \$ 487     |
| Ortel acquired IP       | 3,274               | (3,037)                  | 237        | 3,274                    | (2,893)                  | 381        |
| JDSU acquired IP        | 1,040               | (661)                    | 379        | 1,040                    | (512)                    | 528        |
| Alvesta acquired IP     | 193                 | (193)                    | -          | 193                      | (187)                    | 6          |
| Molex acquired IP       | 558                 | (530)                    | 28         | 558                      | (446)                    | 112        |
| Phasebridge acquired IP | 603                 | (409)                    | 194        | 603                      | (347)                    | 256        |
| Force acquired IP       | 1,075               | (590)                    | 485        | 1,075                    | (443)                    | 632        |
| K2 acquired IP          | 583                 | (325)                    | 258        | 583                      | (248)                    | 335        |
| Opticomm acquired IP    | 2,178               | (586)                    | 1,592      | 2,504                    | (321)                    | 2,183      |
| Intel acquired IP       | 25,404              | (1,002)                  | 24,402     | -                        | -                        | -          |
| Subtotal                | 35,906              | (7,828)                  | 28,078     | 10,675                   | (5,755)                  | 4,920      |
| <b>Photovoltaics:</b>   |                     |                          |            |                          |                          |            |
| Patents                 | 862                 | (370)                    | 492        | 615                      | (260)                    | 355        |
| Tecstar acquired IP     | 1,900               | (1,900)                  | -          | 1,900                    | (1,900)                  | -          |
| Subtotal                | 2,762               | (2,270)                  | 492        | 2,515                    | (2,160)                  | 355        |
| Total                   | \$ 38,668           | \$ (10,098)              | \$ 28,570  | \$ 13,190                | \$ (7,915)               | \$ 5,275   |

Amortization expense was \$1.2 million and \$2.2 million for the three and nine months ended June 30, 2008, respectively, and \$0.8 million and \$1.9 million for the three and nine months ended June 30, 2007, respectively.

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:                              |          |
| Three-month period ended September 30, 2008 | \$ 1,856 |
| Year ended September 30, 2009               | 4,758    |
| Year ended September 30, 2010               | 4,664    |

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|                                   |           |
|-----------------------------------|-----------|
| Year ended September 30, 2011     | 4,184     |
| Year ended September 30, 2012     | 3,715     |
| Year ended September 30, 2013     | 2,702     |
| Thereafter                        | 6,691     |
| Total future amortization expense | \$ 28,570 |

As of June 30, 2008, due to the recent decline in the Company's stock price, we tested for impairment of 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, and therefore, no impairment was recognized for any period presented in the condensed consolidated financial statements.

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## NOTE 9. Accrued Expenses and Other Current Liabilities

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

| (in thousands)  | As of<br>June 30,<br>2008 | As of<br>September<br>30, 2007 |
|---|---------------------------|--------------------------------|
| Compensation-related  | \$ 7,449                  | \$ 8,398                       |
| Interest  | -                         | 1,775                          |
| Warranty  | 2,028                     | 1,310                          |
| Professional fees   | 3,461                     | 6,213                          |
| Royalty   | 1,491                     | 705                            |
| Self insurance  | 816                       | 794                            |
| Deferred revenue, contract losses and customer deposits     | 1,852                     | 687                            |
| Tax-related   | 4,332                     | 3,460                          |
| Restructuring accrual                                       | 439                       | 2,112                          |
| Inventory obligation  | 1,499                     | 1,499                          |
| Other   | 1,303                     | 1,823                          |
| <b>Total accrued expenses and other current liabilities</b> | <b>\$ 24,670</b>          | <b>\$ 28,776</b>               |

In February 2008, the Company converted all of its convertible subordinated notes into shares of common stock (see Note 11 – Debt). As of June 30, 2008, the Company did not have any long-term debt or related accrued interest.

As of June 30, 2008, the Company had accrued \$1.3 million related to estimated contract losses on certain CPV system-related orders.

## NOTE 10. Restructuring Charges

As the Company has historically acquired businesses and consolidated them into its existing operations, the Company has incurred charges associated with the transition and integration of those activities. In accordance with SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities, expenses recognized as restructuring charges include costs associated with the integration of several business acquisitions and the Company's overall cost-reduction efforts. Restructuring charges are included in SG&A. These charges primarily relate to our Fiber Optics operating segment. Costs incurred and expected to be incurred consist of the following:

| (in thousands)                | Amount<br>Incurred<br>in<br>Period | Cumulative<br>Amount<br>Incurred<br>to Date | Amount<br>Expected<br>in Future<br>Periods | Total<br>Amount<br>Expected<br>to<br>be<br>Incurred |
|-------------------------------|------------------------------------|---|--|---|
| One-time termination benefits | \$ 4                               | \$ 3,585                                    | \$ -                                       | \$ 3,585  |

The following table sets forth changes in the accrual for restructuring charges during the nine months ended June 30, 2008:

(in thousands)

|                                 |          |
|---------------------------------|----------|
| Balance at October 1, 2007      | \$ 2,112 |
| Increase in liability           | 275      |
| Costs paid or otherwise settled | (1,948)  |
| Balance at June 30, 2008        | \$ 439   |

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## NOTE 11. Debt

In January 2008, the Company entered into agreements with holders of approximately 97.5%, or approximately \$83.3 million of its outstanding 5.50% convertible subordinated notes due 2011 (the "Notes") pursuant to which the holders converted their Notes into the Company's common stock. In addition, the Company called for redemption of all of its remaining outstanding Notes. Upon conversion of the Notes, the Company issued shares of its common stock, based on a conversion price of \$7.01, in accordance with the terms of the Notes. To incentivize certain holders to convert their Notes, the Company made cash payments to such holders equal to 4% of the principal amount of the Notes converted, plus accrued interest. By February 20, 2008, all Notes were redeemed and converted into the Company common stock. As a result of these transactions, 12.2 million shares of the Company common stock were issued. The Company recognized a loss totaling \$4.7 million on the conversion of Notes to equity of which \$3.5 million was paid in cash. Interest expense incurred on the Notes totaled \$1.6 million for the nine months ended June 30, 2008, and \$1.3 million and \$3.8 million for the three and nine months ended June 30, 2007, respectively. The Company did not incur any interest expense during the three months ended June 30, 2008.

## NOTE 12. Commitments and Contingencies

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

| As of June 30, 2008<br>(in millions)               | Total    | 2008    | 2009 to<br>2010 | 2011 to<br>2012 | 2013<br>and later |
|--|----------|---------|-----------------|-----------------|-------------------|
| Operating lease obligations                        | \$ 6.8   | \$ 0.4  | \$ 2.2          | \$ 1.3          | \$ 2.9            |
| Letters of credit                                  | 2.5      | 2.5     | -               | -               | -                 |
| Purchase commitments (1)                           | 242.8    | 17.2    | 134.9           | 90.7            | -                 |
| Total contractual cash obligations and commitments | \$ 252.1 | \$ 20.1 | \$ 137.1        | \$ 92.0         | \$ 2.9            |

(1) The purchase commitments primarily represent the value of purchase agreements issued for raw materials and services that have been scheduled for fulfillment over the next three to five years.

The Company 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 \$0.5 million and \$1.1 million for the three and nine months ended June 30, 2008, respectively, and approximately \$0.5 million and \$1.2 million for the three and nine months ended June 30, 2007, respectively.

As of June 30, 2008, the Company had ten standby letters of credit issued totaling approximately \$2.5 million.

### Credit Market Conditions

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

### Auction Rate Securities

Historically, the Company has invested in securities with an auction reset feature ("auction rate securities"). In February 2008, the auction market failed for the Company's auction rate securities, which meant the Company was unable to sell its investments in auction rate securities. During the three months ended June 30, 2008, the Company received \$2.3 million from the sale of auction rate securities at par value that had previously failed as of March 31, 2008. At June 30, 2008, the Company had approximately \$3.1 million invested in auction rate securities, of which the underlying assets for \$1.7 million are currently AAA rated, the highest rating by a rating agency. The remaining \$1.4 million of investments are securities whose underlying assets are primarily student loans which are substantially backed by the federal government.

As of June 30, 2008, all of the securities are classified as non-current assets. The Company recorded a temporary unrealized loss of approximately \$0.2 million to accumulated other comprehensive loss, a component of shareholders' equity, primarily due to liquidity factors. Based on expected operating cash flows, and other sources of cash, the Company does not anticipate the potential lack of liquidity on these investments will affect its ability to execute on its current business plan.

### Legal Proceedings

The Company is subject to various legal proceedings and claims as 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.

### 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 U.S. 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").

A motion to approve an agreement among the parties to settle the matter reflected in a stipulation of compromise and settlement was filed with the U.S. District Court for the District of New Jersey on December 3, 2007. The Court granted the motion for preliminary approval of the settlement on January 3, 2008, and, at a hearing held on March 28, 2008, the Court issued an order giving final approval to the settlement. The settlement has become final and effective



upon the expiration of the appeal period on April 30, 2008. Thus, the settlement is now binding on all parties and represents a final settlement of both the Federal Court Action and the State Court Actions. For additional information regarding this matter, please see EMCORE's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2008.

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## Intellectual Property Lawsuits

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

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

On December 20, 2007, the Company was served with a complaint in another declaratory relief action which Optium had filed in the Federal District Court for the Western District of Pennsylvania. This action seeks to have U.S. patents 6,282,003 and 6,490,071 declared invalid or unenforceable because of certain conduct alleged to have occurred in connection with the grant of these patents. These allegations are substantially the same as those brought by Optium by motion in the Company's own case against Optium, which motion had been denied by the Court. The Court denied the Company's motion to dismiss this action and has indicated that it will be tried at the same time as the Optium Plaintiff Matters. The Company filed its answer in this matter on May 12, 2008. In its complaint, Optium does not seek monetary damages but asks that the patents in question be declared unenforceable and that it be awarded attorneys' fees. The Company believes that this action is without merit.

## Commercial Litigation

On July 15, 2008 the Company was served with a complaint filed by Avago Technologies and what appear to be affiliates thereof in the United States District Court for the Northern District of California, San Jose Division. In this complaint, Avago asserts claims for breach of contract and breach of express warranty against defendant Venture Corporation Limited (one of the Company's customers) and asserts a tort claim for negligent interference with prospective economic advantage against the Company. The Company has filed a motion to dismiss this action against the Company for failure to state a claim on which relief can be granted. The Company believes that this action is without merit.

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## NOTE 13. Segment Data and Related Information

The Company has four operating segments: (1) EMCORE Fiber Optics and (2) EMCORE Broadband, which are aggregated as a separate reporting segment, Fiber Optics, and (3) EMCORE Photovoltaics and (4) EMCORE Solar Power, which are aggregated as a separate reporting segment, Photovoltaics. The Company's Fiber Optics revenue is derived primarily from sales of 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. The Company's Photovoltaics revenue is derived from sales of solar products for satellite and terrestrial applications. For satellite applications, the Company offers high-efficiency compound semiconductor-based gallium arsenide ("GaAs") solar cells, covered interconnect cells ("CICs") and fully integrated solar panels. For terrestrial applications, the Company offers its high-efficiency GaAs solar cells and integrated PV components for use in solar power concentrator systems. The Company evaluates its reportable segments in accordance with SFAS 131, Disclosures About Segments of an Enterprise and Related Information. The Company's Chief Executive Officer is the Company'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 Company's recent acquisition of assets from Intel will reside in the Company's Fiber Optics reporting segment.

The following table sets forth the revenue and percentage of total revenue attributable to each of the Company's reporting segments for the three and nine months ended June 30, 2008 and 2007.

| (in thousands)<br>Segment Revenue | Three Months Ended<br>June 30, 2008 |                 | Three Months Ended<br>June 30, 2007 |                 |
|-----------------------------------|-------------------------------------|-----------------|-------------------------------------|-----------------|
|                                   | Revenue                             | % of<br>Revenue | Revenue                             | % of<br>Revenue |
| Fiber Optics                      | \$ 53,589                           | 71%             | \$ 27,611                           | 62%             |
| Photovoltaics                     | 21,913                              | 29              | 16,817                              | 38              |
| Total revenue                     | \$ 75,502                           | 100%            | \$ 44,428                           | 100%            |

  

| (in thousands)<br>Segment Revenue | Nine Months Ended<br>June 30, 2008 |                 | Nine Months Ended<br>June 30, 2007 |                 |
|-----------------------------------|------------------------------------|-----------------|------------------------------------|-----------------|
|                                   | Revenue                            | % of<br>Revenue | Revenue                            | % of<br>Revenue |
| Fiber Optics                      | \$ 125,179                         | 70%             | \$ 79,171                          | 65%             |
| Photovoltaics                     | 53,489                             | 30              | 43,451                             | 35              |
| Total revenue                     | \$ 178,668                         | 100%            | \$ 122,622                         | 100%            |

The following table sets forth the Company's consolidated revenues by geographic region for the three and nine months ended June 30, 2008 and 2007. Revenue was assigned to geographic regions based on the customers' or contract manufacturers' billing address.

| (in thousands)<br>Geographic Revenue | Three Months Ended<br>June 30, 2008 |                 | Three Months Ended<br>June 30, 2007 |                 |
|--------------------------------------|-------------------------------------|-----------------|-------------------------------------|-----------------|
|                                      | Revenue                             | % of<br>Revenue | Revenue                             | % of<br>Revenue |
| North America                        | \$ 47,586                           | 63%             | \$ 33,194                           | 75%             |
| Asia and South America               | 19,359                              | 26              | 8,506                               | 19              |
| Europe                               | 8,306                               | 11              | 2,728                               | 6               |
| Other                                | 251                                 | -               | -                                   | -               |
| <b>Total revenue</b>                 | <b>\$ 75,502</b>                    | <b>100%</b>     | <b>\$ 44,428</b>                    | <b>100%</b>     |

  

| (in thousands)<br>Geographic Revenue | Nine Months Ended<br>June 30, 2008 |                 | Nine Months Ended<br>June 30, 2007 |                 |
|--------------------------------------|------------------------------------|-----------------|------------------------------------|-----------------|
|                                      | Revenue                            | % of<br>Revenue | Revenue                            | % of<br>Revenue |
| North America                        | \$ 114,656                         | 64%             | \$ 87,462                          | 71%             |
| Asia and South America               | 42,823                             | 24              | 27,809                             | 23              |
| Europe                               | 20,624                             | 12              | 7,351                              | 6               |
| Other                                | 565                                | -               | -                                  | -               |
| <b>Total revenue</b>                 | <b>\$ 178,668</b>                  | <b>100%</b>     | <b>\$ 122,622</b>                  | <b>100%</b>     |

The following table sets forth operating losses attributable to each of the Company's reporting segments and corporate for the three and nine months ended June 30, 2008 and 2007.

| (in thousands)<br>Statement of Operations<br>Data   | Three Months Ended<br>June 30, |                    | Nine Months Ended<br>June 30, |                    |
|---|--------------------------------|--------------------|-------------------------------|--------------------|
|   | 2008                           | 2007               | 2008                          | 2007               |
| <b>Operating loss by segment<br/>and corporate:</b> |                                |                    |                               |                    |
| Fiber Optics  | \$ (4,234)                     | \$ (5,053)         | \$ (11,735)                   | \$ (17,667)        |
| Photovoltaics                                       | (7,213)                        | (1,613)            | (20,549)                      | (7,989)            |
| Corporate income (loss)                             | (195)                          | (6,813)            | (1,483)                       | (15,179)           |
| <b>Operating loss</b>                               | <b>\$ (11,642)</b>             | <b>\$ (13,479)</b> | <b>\$ (33,767)</b>            | <b>\$ (40,835)</b> |

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

| (in thousands)<br>Long-lived Assets | As of<br>June 30,<br>2008 | As of<br>September<br>30, 2007 |
|-------------------------------------|---------------------------|--------------------------------|
|                                     |                           |                                |

|               |            |            |
|---------------|------------|------------|
| Fiber Optics  | \$ 135,522 | \$ 56,816  |
| Photovoltaics | 54,836     | 46,706     |
| Total         | \$ 190,358 | \$ 103,522 |

## NOTE 14. Income Taxes

Effective October 1, 2007, the Company adopted Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes, an interpretation of FASB 109. As a result of the adoption of FIN 48, the Company recorded an increase in accumulated deficit and an increase in the liability for unrecognized state tax benefits of approximately \$326,000 (net of the federal benefit for state tax liabilities). All of this amount, if recognized, would reduce future income tax provisions and favorably impact effective tax rates. During the quarter ended June 30, 2008, there were no material increases or decreases in unrecognized tax benefits. Management expects that over the next twelve months the liability for unrecognized state tax benefits will substantially decrease and does not anticipate any material increases over the next twelve months.

The Company's historical accounting policy with respect to interest and penalties related to tax uncertainties has been to classify these amounts as income taxes, and the Company continued this classification upon the adoption of FIN 48. At June 30, 2008, the Company had approximately \$117,000 of interest and penalties accrued as tax liabilities in the Condensed Consolidated Balance Sheet.

The Company files income tax returns in the U.S. federal, state and local jurisdictions. No federal, state and local income tax returns are currently under examination. Certain income tax returns for fiscal years 2004 through 2006 remain open to examination by U.S. federal, state and local tax authorities.

NOTE 15. Related Party Transactions

Investments

On November 29, 2006, EMCORE invested \$13.5 million, and incurred \$0.4 million in transaction costs, in WorldWater & Solar Technologies Corporation (“WWAT”), a leader in solar electric engineering, water management solutions and solar energy installations and products. At September 30, 2007, EMCORE held an approximately 21% equity ownership in WWAT. In connection with the investment, EMCORE received two seats on WWAT'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 WWAT 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 WWAT’s common stock because our investment’s liquidation preference is considered substantive. Therefore, we are accounting for the investment in WWAT under the cost method of accounting and evaluating it for other-than-temporary impairment each reporting period.

In June 2008, the Company agreed to sell two million shares of Series D Preferred Stock of WWAT, together with 200,000 warrants to a major shareholder of both EMCORE and WorldWater at a price equal to \$6.54 per share. The sale took place through two closings, one for one million shares and 100,000 warrants, which closed in June 2008, and one for an equal number of shares and warrants which closed in July 2008. Total proceeds from the sale were approximately \$13.1 million. In the three months ended June 30, 2008, the Company recognized a gain of \$3.7 million on the first sale of stock that occurred in June 2008. As of June 30, 2008, the Company had approximately \$11.1 million invested in WWAT which approximates a 17% ownership. In the fourth quarter of 2008, the Company will recognize an additional gain of \$3.7 million related to the second closing in July 2008. In July 2008, the Company had an approximate ownership of 16% in WWAT.

Receivables

The Company held a receivable balance owed from Velox Corporation, in which the Company has an insignificant ownership with outstanding balances of \$0.3 million as of both June 30, 2008 and September 30, 2007.

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## 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, 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" and 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 (the "Company," "we" or "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 the Company 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 the Company 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 2008 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:

- The Company'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 the Company'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.

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.





## Business Overview

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 reporting segments: Fiber Optics and Photovoltaics. The Company'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. The Company's Photovoltaics segment provides solar products for satellite and terrestrial applications. For satellite applications, the Company offers high-efficiency compound semiconductor-based gallium arsenide ("GaAs") solar cells, covered interconnect cells ("CICs") and fully integrated solar panels. For terrestrial applications, the Company offers its high-efficiency GaAs solar cells and integrated PV components 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>. The information on our website is not incorporated into this Quarterly Report on Form 10-Q. We were established in 1984 as a New Jersey corporation.

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 have implemented a program to focus research and product development efforts on projects that we expect to generate returns within one year.

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.

On April 4, 2008, the Company announced that its Board of Directors had authorized management of the Company to prepare a comprehensive operational and strategic plan for the separation of the Company's Fiber Optics and Photovoltaic businesses into separate corporations. Management is currently assessing alternative opportunities associated with the potential separation of the Company's businesses. The purpose of the review is to determine whether there exists the potential for unlocking additional stockholder value with respect to these strategic assets through some type of separation transaction. A separation may take the form of a spin-off transaction or a public offering of securities, and we may have discussions from time-to-time with third parties involving these possibilities. There can be no assurances that our strategic review will lead to the completion of any separation transactions or as to the impact of these transactions on stockholder value or on us.

## Quarterly Highlights

April 2, 2008 – The Company announced that it had been awarded a \$4.6 million follow-on production order for solar cell receiver assemblies from Concentration Solar la Mancha of Manzanares (Ciudad Real), Spain. The receivers will be incorporated into CS la Mancha's 500X CPV system and will be deployed throughout Spain and other locations in fully licensed and funded projects.

April 10, 2008 – The Company announced that it agreed to supply CPV systems to XinAo Group in China. XinAo Group is one of China's largest energy companies and is well known for its clean-energy technologies. The program will start with the delivery of a 50 kilowatt (kW) CPV system, which was shipped in June 2008, to be installed in Langfang, China in August 2008. This system will be used for test and evaluation purposes. Once the expected

reliability and performance metrics have been demonstrated, XinAo plans to install CPV systems to provide electric power for its innovative coal gasification project, which is estimated to have a requirement of 60 megawatts (MW) of power. XinAo believes that EMCORE's CPV technology will provide a cost-effective solution for its energy needs. In addition, XinAo intends to build a manufacturing plant in China, jointly owned by EMCORE, to manufacture CPV systems designed and certified by EMCORE for the Chinese market.

April 21, 2008 – The Company announced completion of the acquisition of the enterprise and storage assets of Intel's Optical Platform Division (OPD) and the Intel Connects Cable (ICC) business for high-performance computing under the terms signed and announced previously. The assets include intellectual property, inventory, fixed assets and technology relating to XENPAK, X2, SFP, and SFP+ optical transceivers for enterprise and storage customers, as well as the Intel Connects Cables (ICC) active cable interconnects for high-performance computing clusters. This acquisition will further enhance EMCORE's presence in the local area and storage area network market segments. These assets, along with the Telecom assets acquired in February 2008 from Intel OPD, place EMCORE among one of the major companies in the world with the most comprehensive product portfolio, vertically-integrated capability and infrastructure, and strong commitment to Telecom, Datacom, and Broadband fiber optics businesses. The acquired assets are being integrated into the EMCORE Digital Products (EDP) division.

May 5, 2008 – The Company announced that it has entered into a \$28 million definitive supply agreement with ES System of Gwang-Ju, South Korea, for solar cell receivers to be fielded in fully licensed and funded solar farms in South Korea. This agreement incorporates an advance deposit to ensure production priority, and will enable the installation of 70 megawatts (MW) of solar farms. Production for this order has commenced and shipments are scheduled to occur over the next 24 months with the provisions for accelerated deliveries as well as future purchase options under the same terms.

July 9, 2008 – The Company announced that it entered into two definitive supply agreements for solar cell receivers in June 2008 with a total value of approximately \$29 million. These supply agreements incorporate advance deposits to ensure production priority for these customers. The end applications for the product to be delivered range from solar farm to commercial rooftop installations employing CPV technology. Production for these orders has commenced and shipments are scheduled to occur over the next 24 months.

July 25, 2008 – The Company announced that its world record Inverted Metamorphic (IMM) solar cell technology has been chosen by R&D Magazine for an R&D 100 award. This prestigious award recognizes the IMM solar cell as one of the most innovative technologies of 2008. Developed in conjunction with the National Renewable Energy Laboratory (NREL) and the Vehicle Systems Directorate of the US Air Force Research Laboratory (AFRL), this solar cell technology provides a platform for EMCORE's next generation photovoltaic products for space and terrestrial solar power applications. Solar cells built using IMM technology recently achieved world record conversion efficiency of 33% used in space, and it is anticipated that efficiency levels in the 42%-45% range will be achieved when adapted for use under the 500-1500X concentrated illumination, typical in terrestrial CPV systems. Once commercialized, we believe the CPV systems that are powered with EMCORE's IMM based products will see a reduction in the cost of power generated by approximately 10% to 20%. EMCORE expects to commercialize this technology for both space and terrestrial applications in 2009.

August 5, 2008 – The Company announced that it entered into two new supply agreements for solar cells and receivers with a total value of over \$40 million. The larger of the two purchase contracts is a multi-year supply agreement for solar cells, to be delivered over four years. The product to be delivered will be incorporated into concentrating photovoltaics (CPV) systems developed for commercial rooftop installations as well as utility-scale solar farms. The customers placing these orders are targeting CPV deployments in the United States with a particular focus on the California market. Production for these orders has commenced and approximately \$1 million of product is expected to be shipped in the present quarter.

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With several strategic acquisitions and divestures in the past year, the Company has developed a well-defined 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 maintain 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 (10G) 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.
- 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. the Company’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 U.S. 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, erbium doped fiber amplifiers (“EDFAs”), terahertz spectroscopy systems and other products.
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Consumer Products - We intend to extend our optical technology into the consumer market by integrating our Vertical Cavity Surface-Emitting Lasers (“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-based multi-junction 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 primarily targets the following markets:

- **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. A satellite’s operational success and corresponding revenue depend on its available power and its capacity to transmit data. We manufacture advanced compound semiconductor-based 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 sunlight to electrical power conversion efficiency for reduced size and launch costs; higher radiation tolerance; and longer lifetime in harsh space environments. We design and manufacture multi-junction compound semiconductor-based 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, the Company announced that it has attained solar conversion efficiency of 31% for an entirely new class of advanced multi-junction solar cells optimized for space applications. The Company is also the only manufacturer to supply true monolithic bypass diodes for shadow protection, utilizing several the Company patented methods. The Company also provides covered interconnect cells (“CICs”) and solar panel lay-down services, giving us the capability 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 the Company 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 (i.e., 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 expanding 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.

The Company has adapted its high-efficiency compound semiconductor-based multi-junction solar cell products for terrestrial applications, which are intended for use with solar concentrator systems in utility-scale installations. In August 2007, the Company announced that it has obtained 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 and 35% for competing multi-junction concentrating solar cells. We believe that solar concentrator systems assembled using our compound semiconductor-based 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 will result in a lower cost of power generated. Our multi-junction solar cell technology is not subject to silicon shortages, which have 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 received production orders from multiple CPV systems integrators and provided samples to several others, including major system manufacturers in the United States, Europe and Asia.

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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, investments, and partnerships to increase revenue and allow for higher overhead absorption that will improve our gross margins. Recent acquisition activity includes:

- On February 22, 2008, the Company acquired certain assets of the telecom portion of Intel Corporation's Optical Platform Division.
- On April 20, 2008, the Company acquired certain assets of the enterprise portion of Intel Corporation's Optical Platform Division.

The Company 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, the Company 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.

The Company'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. Our results of operations and financial condition have and will continue to be significantly affected by severance and 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, 2007, 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. The Company's reported financial position or results of operations may be materially different under changed conditions or when using different estimates and assumptions, particularly with respect to significant accounting policies, 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. The Company'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.** The Company regularly evaluates the collectibility of its accounts receivable and accordingly maintains allowances for doubtful accounts for estimated losses resulting from the inability of our customers to meet their financial obligations to us. The allowance is based on the age of receivables and a specific

identification of receivables considered at risk. The Company classifies charges associated with the allowance for doubtful accounts as SG&A expense. If the financial condition of our customers were to deteriorate, 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. The Company 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 the Company sells previously written down inventory, it is typically sold as a component part of a finished product. The finished product is sold at market price at the time resulting in higher average gross margin on such revenue. The Company does not track the selling price of individual raw material components that have been previously written down or written off, since such raw material components usually are only a portion of the resultant finished products and related sales price. The Company evaluates inventory levels at least quarterly against sales forecasts on a significant part-by-part basis, in addition to determining its overall inventory risk. 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.

The Company 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. Management has elected December 31 as its annual assessment date. 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, 2008 and 2007, we tested for impairment of 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, and therefore, no impairment was recognized for any period presented in the condensed consolidated financial statements. As of June 30, 2008, due to the recent decline in the Company's stock price, we tested for impairment of 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, and therefore, no impairment was recognized for any period presented in the condensed consolidated financial statements.

**Valuation of Long-lived Assets.** The Company reviews long-lived assets on an annual basis or whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. A long-lived asset is considered impaired when its anticipated undiscounted cash flow is less than its carrying value. In making this determination, the Company 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.

**Product Warranty Reserves.** The Company provides its customers with limited rights of return for non-conforming shipments and warranty claims for certain products. In accordance with SFAS 5, Accounting for Contingencies, the Company makes estimates of product warranty expense using historical experience rates as a percentage of revenue and accrues estimated warranty expense as a cost of revenue. We estimate the costs of our warranty obligations based on our historical experience of known product failure rates, use of materials to repair or replace defective products and service delivery costs incurred in correcting product 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.

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

**Distributors** - The Company uses a number of distributors around the world. In accordance with Staff Accounting Bulletin No. 104, Revenue Recognition, the Company recognizes revenue upon shipment of product to these distributors. Title and risk of loss pass to the distributors upon shipment, and our distributors are contractually obligated to pay the Company on standard commercial terms, just like our other direct customers. The Company does not sell to its distributors on consignment and, except in the event of product discontinuance, does not give distributors a right of return.

**Solar Panel and Solar Power Systems Contracts** - The Company records revenues from certain solar panel and solar power systems contracts using the percentage-of-completion method in accordance with AICPA Statement of Position 81-1 ("SOP 81-1"), Accounting for Performance of Construction-Type and Certain Production-Type Contracts. 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. As of June 30, 2008, the Company had accrued \$1.2 million related to estimated contract losses on certain CPV system-related orders. The Company has numerous contracts that are in various stages of completion. Such contracts require estimates to determine the appropriate cost and revenue recognition. The Company uses all available information in determining dependable estimates of the extent of progress towards completion, contract revenues, and contract costs. Estimates are revised as additional information becomes available. Due to the fact that the Company accounts for these contracts under the percentage-of-completion method, unbilled accounts receivable represent revenue recognized but not yet billed pursuant to contract terms or accounts billed after the period end.

**Government R&D Contracts** - R&D contract revenue represents reimbursement by various U.S. Government entities, or their contractors, to aid in the development of new technology. The applicable contracts generally provide that the Company may elect to retain ownership of inventions made in performing the work, subject to a non-exclusive license retained by the U.S. Government to practice the inventions for governmental purposes. The R&D contract funding may be based on a cost-plus, cost reimbursement, or a firm fixed price arrangement. The amount of funding under each R&D contract is determined based on cost estimates that include both direct and indirect costs. Cost-plus funding is determined based on actual costs plus a set margin. As we incur costs under cost reimbursement type contracts, we record revenue. Contract costs include material, labor, special tooling and test equipment, subcontracting costs, as well as an allocation of indirect costs. An R&D contract is considered complete when all significant costs have been

incurred, milestones have been reached, and any reporting obligations to the customer have been met. Government contract revenue is primarily recognized as service revenue.

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

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

**Stock-Based Compensation.** The Company uses the Black-Scholes option-pricing model and the straight-line attribution approach to determine the fair-value of stock-based awards under SFAS 123(R), Share-Based Payment (revised 2004). The Company elected to use the modified prospective transition method as permitted by SFAS 123(R) and accordingly prior periods were not restated to reflect the impact of SFAS 123(R). The modified prospective transition method requires that stock-based compensation expense be recorded for all new and unvested stock options and employee stock purchase plan shares that are ultimately expected to vest as the requisite service is rendered beginning on October 1, 2005, the first day of the Company's fiscal year 2006. The option-pricing model requires the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock. The Company's expected term represents the period that stock-based awards are expected to be outstanding and is determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior as influenced by changes to the terms of its stock-based awards. The expected stock price volatility is based on the Company's historical stock prices (see Note 3 - Equity).

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, 2007.

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## Results of Operations

The following table sets forth the condensed consolidated statements of operations data of the Company expressed as a percentage of total revenues for the three and nine months ended June 30, 2008.

| Condensed Statement of<br>Operations Data                          | Three Months Ended<br>June 30, |         | Nine Months Ended<br>June 30, |         |
|--|--------------------------------|---------|-------------------------------|---------|
|  | 2008                           | 2007    | 2008                          | 2007    |
| Product revenue  | 95.3%                          | 89.1%   | 92.2%                         | 88.8%   |
| Service revenue  | 4.7                            | 10.9    | 7.8                           | 11.2    |
| Total revenue  | 100.0                          | 100.0   | 100.0                         | 100.0   |
| Cost of product revenue  | 81.8                           | 72.4    | 77.9                          | 74.4    |
| Cost of service revenue  | 0.1                            | 5.8     | 5.1                           | 7.5     |
| Total cost of revenue  | 81.9                           | 78.2    | 83.0                          | 81.9    |
| Gross profit   | 18.1                           | 21.8    | 17.0                          | 18.1    |
| Operating expenses:  |                                |         |                               |         |
| Selling, general, and<br>administrative                            | 18.4                           | 34.9    | 20.2                          | 33.6    |
| Research and development   | 15.1                           | 17.3    | 15.7                          | 17.8    |
| Total operating expenses   | 33.5                           | 52.2    | 35.9                          | 51.4    |
| Operating loss   | (15.4)                         | (30.3)  | (18.9)                        | (33.3)  |
| Other (income) expense:  |                                |         |                               |         |
| Interest income  | (0.2)                          | (1.6)   | (0.4)                         | (2.9)   |
| Interest expense   | -                              | 2.8     | 0.9                           | 3.1     |
| Loss from conversion of<br>subordinated convertible<br>notes       | -                              | -       | 2.6                           | -       |
| Loss from early<br>redemption of subordinated<br>convertible notes | -                              | 1.3     | -                             | 0.4     |
| Stock-based compensation<br>expense from tolled<br>options         | -                              | -       | 2.4                           | -       |
| Gain from insurance<br>proceeds                                    | -                              | -       | -                             | (0.3)   |
| Gain from sale of WWAT<br>investment                               | (4.9)                          | -       | (2.0)                         | -       |
| Loss on disposal of<br>equipment                                   | -                              | -       | -                             | -       |
| Foreign exchange gain  | (0.1)                          | -       | (0.2)                         | -       |
| Total other (income)<br>expense                                    | (5.2)                          | (2.5)   | 3.3                           | 0.3     |
| Net loss   | (10.2)%                        | (32.8)% | (22.2)%                       | (33.6)% |

Comparison of three and nine months ended June 30, 2008 and 2007

Consolidated Revenue

Consolidated revenue for the quarter ended June 30, 2008 totaled \$75.5 million. This represents a revenue increase of over 70% when compared to \$44.4 million of revenue reported in the same period last year. Consolidated revenue for the nine months ended June 30, 2008 totaled \$178.7 million. This represents a revenue increase of 46% when compared to \$122.6 million of revenue reported in the same period last year. Both of the Company's operating segments posted increases in quarterly revenue when compared year-over-year and quarter-over-quarter. For the three months ended June 30, 2008, international sales increased \$16.7 million or 149%, when compared to the same period last year. For the three months ended June 30, 2008, revenue from government contracts, which are primarily service contracts, decreased \$1.4 million or 28% to \$3.6 million from \$5.0 million, as reported in the same period last year. For the nine months ended June 30, 2008, international sales increased \$28.9 million or 83% when compared to the same period last year. For the nine months ended June 30, 2008, revenue from government contracts, decreased \$5.2 million or 37% to \$8.9 million from \$14.1 million, as reported in the same period last year. A comparison of revenue achieved at each of the Company's reportable 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 the Company is well positioned to benefit from the continued deployment of these higher capacity fiber optic networks. Customers for the Fiber Optics segment include: 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 June 30, 2008, revenue from the Company's Fiber Optics segment increased \$26.0 million or 94% to \$53.6 million from \$27.6 million, as reported in the same period last year. For the nine months ended June 30, 2008, Fiber Optics revenue increased \$46.0 million or 58% to \$125.2 million from \$79.2 million, as reported in the same period last year. The increase in Fiber Optics revenue was primarily due to increased demand for the Company's parallel optical transceivers and our recent acquisition of Intel's Optical Platform Division. Demand for the Company's legacy datacom products continued to strengthen throughout the quarter increasing 144% and 46% on a year-over-year and sequential quarterly basis, respectively.

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, the Company 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, the Company 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.

There was no government contract revenue during the three and nine months ended June 30, 2008 and 2007. Fiber optics revenue represented 71% and 62% of the Company's total revenue for the three months ended June 30, 2008 and 2007, respectively and 70% and 65% of the Company's total revenue for the nine months ended June 30, 2008 and 2007 respectively.

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## Photovoltaics.

The Company 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. The Company's Photovoltaics segment designs and manufactures multi-junction compound semiconductor solar cells for both commercial and military satellite applications as well as for use in terrestrial concentrating photovoltaic solar power systems. Customers for the Photovoltaics segment include Boeing, General Dynamics, the Indian Space Research Organization ("ISRO"), Lockheed Martin, and Space Systems/Loral.

Photovoltaics revenue for the three months ended June 30, 2008 increased \$5.1 million or 30% to \$21.9 million from \$16.8 million as reported in the same period last year. For the nine months ended June 30, 2008, Photovoltaics revenue increased \$10.0 million or 23% to \$53.5 million from \$43.5 million, as reported in the same period last year. The increase in sequential quarterly revenue was due primarily to the Company's introduction of new concentrator photovoltaics (CPV) products for commercial and utility scale applications. Government contract revenues for photovoltaics products were \$3.6 million and \$5.0 million for the three months ended June 30, 2008 and 2007 respectively. Government contract revenues for photovoltaics products were \$8.9 million and \$14.1 million for the nine months ended June 30, 2008 and 2007 respectively. Photovoltaics revenue represented 29% and 38% of the Company's total revenues for the three months ended June 30, 2008 and 2007, respectively. Photovoltaics revenues represented 30% and 35% of the Company's total revenues for the nine months ended June 30, 2008 and 2007, respectively.

We believe the successful deployment of terrestrial solar power systems that rely on our multi-junction solar cells and CPV components will provide growth opportunities for our photovoltaics business. Concentrating PV systems have the potential to provide cost effective solar power in regions of high solar resources. Several countries such as Italy, Spain and Greece have provided favorable feed-in tariffs for utility-scale solar power installations. The Company has developed high efficiency multi-junction solar cells and integrated PV components that function as the engine in concentrating photovoltaic systems, and we are well positioned to provide the enabling components in these large-scale deployments. In the satellite industry, we believe the commercial market will present increased growth opportunities as the number of geosynchronous communication satellite launches have recovered from the decline observed earlier in the decade, with Space Systems Loral winning a substantial share of the awards over the last several years. 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, which represents an expansion of our customer base.

## Gross Profit

Consolidated gross profit for the quarter ended June 30, 2008 increased to \$13.7 million from \$9.7 million as reported in the same period last year. Consolidated gross profit for the nine months ended June 30, 2008 totaled \$30.4 million, which represents an increase of \$8.2 million or 37% from gross profit of \$22.2 million as reported in the same period last year. Consolidated gross margin for the quarter ended June 30, 2008 was approximately 18%, which represents a decrease from 22% gross margin as reported in the same period last year. Consolidated gross margin for the nine months ended June 30, 2008 was approximately 17%, which was slightly lower than gross margin reported in the same period last year.

Fiber Optics gross margins were 27% and 25% for the three and nine months ended June 30, 2008, respectively. This represents an increase in gross margin from 22% as reported for the three months ended June 30, 2007 and also an increase in gross margin from 19% as reported for the nine months ended June 30, 2007. Fiber Optics gross margin also increased from the prior quarter, which was 24% as reported. The increase in Fiber Optics gross margins was primarily due to increased revenue; benefits associated with the ramp-up in our China manufacturing operations, implementation of certain cost reduction initiatives, and improved efficiencies driven by facility consolidation.

Photovoltaics gross margins were (3%) and (2%) for the three and nine months ended June 30, 2008, respectively. This represents a decrease in gross margin from 22% as reported for the three months ended June 30, 2007 and a decrease in gross margin from 17% as reported for the nine months ended June 30, 2007. Photovoltaics gross margin did improve from the prior quarter, which was (12%) as reported. In the quarter ended March 31, 2008, our Photovoltaics division incurred charges of approximately \$6.3 million related to inventory write-downs and start-up costs in our solar cell receiver line and CPV system business. In the quarter ended June 30, 2008, our Photovoltaics division increased manufacturing capacity for its CPV components; however, equipment uptime was below plan, consequently, production volume in the quarter was not sufficient to completely absorb the additional overhead costs associated with the new CPV receiver lines placed into service. Also, during the quarter, the Company recorded losses on CPV system projects of approximately \$1.8 million primarily due to higher than standard freight and installation costs.

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. 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.

#### Operating Expenses

**Selling, General, and Administrative.** For the three months ended June 30, 2008, SG&A expenses decreased \$1.6 million or 10% to \$13.9 million from \$15.5 million, as reported in the same period last year. For the nine months ended June 30, 2008, SG&A expenses decreased \$4.9 million or 12% to \$36.3 million from \$41.2 million, as reported in the same period last year. Consistent with prior years, SG&A expense includes corporate overhead expenses. As a percentage of revenue for the three months ended June 30, 2008 and 2007, SG&A decreased to 18% from 35%, respectively. As a percentage of revenue for the nine months ended June 30, 2008 and 2007, SG&A decreased to 20% from 34%, respectively. During the quarter ended June 30, 2008, the Company incurred over \$3.6 million in additional SG&A expenses associated with the acquisition of Intel's Optical Platform division, of which \$1.4 related to transitional services being provided by Intel. The Company expects the transitional services being provided by Intel to cease in September 2008, with this type of expense decreasing to less than \$1 million in the quarter ended September 30, 2008.

**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, the Company continues to expand its portfolio of products and technologies through acquisitions.

For the three months ended June 30, 2008, R&D expenses increased \$3.7 million or 48% to \$11.4 million from \$7.7 million, as reported in the same period last year. As a percentage of revenue, R&D decreased to 15% from 17% for the three months ended June 30, 2008 and 2007, respectively. For the nine months ended June 30, 2008, R&D expenses increased \$6.3 million or 29% to \$28.1 million from \$21.8 million, as reported in the same period last year. As a percentage of revenue R&D decreased to 16% from 18% for the nine months ended June 30, 2008 and 2007, respectively. During the quarter ended June 30, 2008, the Company incurred over \$3.6 million in additional R&D expenses associated with the acquisition of Intel's Optical Platform division, of which \$1.8 related to transitional



services being provided by Intel. The Company expects the transitional services being provided by Intel to cease in September 2008, with this type of expense decreasing to less than \$1 million in the quarter ended September 30, 2008.

We believe that recently completed R&D projects in our terrestrial solar power division have the potential to greatly improve our competitive position and drive revenue growth in the next few years.

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 intend to continue to invest in new technologies and products that we believe will offer our customers increased efficiency, higher performance, improved functionality, and/or higher levels of integration.

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## Other Income & Expenses

**Interest Income.** The Company realized a significant decrease in interest income of \$0.6 million and \$2.8 million for the three and nine months ended June 30, 2008, respectively, due to its decreased cash, cash equivalents and investment position.

**Interest Expense.** The Company realized a significant decrease in interest expense of \$1.3 million and \$2.2 million for the three and nine months ended June 30, 2008, respectively, due to the conversion of its convertible subordinated notes to equity (see Note 11 – Debt).

**Loss from Conversion of Subordinated Notes.** In January 2008, the Company entered into agreements with holders of approximately 97.5%, or approximately \$83.3 million of its outstanding 5.50% convertible senior subordinated notes due 2011 (the "Notes") pursuant to which the holders converted their Notes into the Company's common stock. In addition, the Company called for redemption all of its remaining outstanding Notes. Upon conversion of the Notes, the Company issued shares of its common stock, based on a conversion price of \$7.01, in accordance with the terms of the Notes. To incentivize certain holders to convert their Notes, the Company made cash payments to such holders equal to 4% of the principal amount of the Notes converted, plus accrued interest. By February 20, 2008, all Notes were redeemed and converted into the Company common stock. As a result of this transaction, 12.2 million shares of the Company common stock were issued. The Company recognized a loss totaling \$4.7 million on the conversion of Notes to equity. The Notes conversion resulted in a reduction of future interest payments of approximately \$4.7 million, on an annual basis, through May 2011.

**Stock-based compensation expense from tolled options.** Under the terms of stock 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 stock options. In November 2006, the Company announced suspension of reliance on previously issued financial statements, which in turn caused the Company's 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 stock options during the remaining contractual term (the "Blackout Period"). To address this issue, the Company's Board of Directors agreed in April 2007 to approve a stock option grant "modification" for these individuals by extending the normal 90-day exercise period after termination date to a date after which the Company became compliant with its SEC filings and the registration of the stock option shares was once again effective. The Company communicated the terms of the tolling agreement with its terminated employees in November 2007. The Company's Board of Directors approved an extension of the stock option expiration date equal to the number of calendar days during the Blackout Period before such stock option would have otherwise expired (the "Tolling Period"). Former employees were able to exercise their vested stock options beginning on the first day after the lifting of the Blackout Period for a period equal to the Tolling Period. The Company accounted for the modification of stock options issued to terminated employees as additional compensation expense in accordance with SFAS 123(R) in the first quarter of fiscal 2008 and adjusted the stock options to market value in the first and second quarters of 2008. All tolled options were either exercised or expired by January 29, 2008.

**Gain from sale of investment.** In June 2008, the Company sold one million shares of Series D Preferred Stock of WorldWater & Solar Technologies Corporation together with 100,000 warrants. Total cash proceeds from the sale approximated \$6.5 million with a gain from the sale totaling \$3.7 million.

**Foreign exchange gain.** The Company recognized a gain on foreign currency exchange primarily due to operations in Spain, the Netherlands and China.

## Liquidity and Capital Resources

## 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 the Company's liquidity requirements, the Company will seek to obtain additional equity or debt financing. Additional funding may not be available when needed, or on terms acceptable to the Company. If the Company 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 the Company's business, financial condition, results of operations, and cash flow.

## Credit Market Conditions

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

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## Auction Rate Securities

Historically, the Company has invested in securities with an auction reset feature (“auction rate securities”). In February 2008, the auction market failed for the Company’s auction rate securities, which meant the Company was unable to sell its investments in auction rate securities. During the three months ended June 30, 2008, the Company received \$2.3 million from the sale of auction rate securities at par value that had previously failed as of March 31, 2008. At June 30, 2008, the Company had approximately \$3.1 million invested in auction rate securities, of which the underlying assets for \$1.7 million are currently AAA rated, the highest rating by a rating agency. The remaining \$1.4 million of investments are securities whose underlying assets are primarily student loans which are substantially backed by the federal government.

As of June 30, 2008, all of the securities are classified as non-current assets. The Company recorded a temporary unrealized loss of approximately \$0.2 million to accumulated other comprehensive loss, a component of shareholders’ equity, primarily due to liquidity factors. Based on expected operating cash flows, and other sources of cash, the Company does not anticipate the potential lack of liquidity on these investments will affect its ability to execute on its current business plan.

There are no assurances that successful auctions of these types of securities will resume, and as a result, the Company’s ability to liquidate its securities and fully recover the carrying value of its investment in the near term may be limited or not exist. If the issuers are unable to successfully close future auctions and their credit ratings deteriorate, the Company may be required to record further temporary or permanent impairment charges on these securities.

## Working Capital

As of June 30, 2008, the Company had working capital of approximately \$82.7 million compared to \$63.2 million as of September 30, 2007. Cash, cash equivalents, and available-for-sale securities at June 30, 2008 totaled \$20.1 million, which reflects a net decrease of \$22.7 million from September 30, 2007. The decrease is primarily due to payment of professional fees incurred with our review of historical stock option granting practices, legal costs associated with our patent infringement lawsuits against Optium Corporation, interest and redemption payments on our convertible subordinated notes, capital expenditures, and various other increases in net working capital requirements.

## Cash Flow

### Cash Used for Operations

Net cash used by operating activities for the nine months ended June 30, 2008 and 2007 was approximately \$35.9 million and \$44.4 million, respectively.

Cash flows used by operating activities decreased 19% in the nine months ended June 30, 2008 to the nine months ended June 30, 2007. The Company experienced an approximate \$30.2 million increase in accounts receivable and a \$8.1 million increase in accounts payable and accrued expenses during the nine months ended June 30, 2008 compared to a \$13.6 million increase in accounts receivable and a \$1.2 million increase in accounts payable and accrued expense during the nine months ended June 30, 2007 due to our recent acquisitions and increase revenue in our fiber optics segment. The Company also saw a decrease in inventory, net of acquisitions of \$10.6 million in the nine months ended June 30, 2008 versus an increase of \$4.6 million in the nine months ended June 30, 2007 primarily due to the utilization of inventory purchased in our recent acquisitions.

### Net Cash Used for Investing Activities

For the nine months ended June 30, 2008, net cash used for investing activities increased by \$107.8 million to \$59.7 million from net cash provided by investing activities of \$48.1 million, as reported in the same period last year. Changes in investing cash flows for the nine months ended June 30, 2008 and 2007 consisted primarily of:

- The cash purchase of the telecom assets from Intel of \$75.0 million in fiscal 2008, plus direct transactions costs of \$0.5 million.
- An increase in capital expenditures to \$15.0 million from \$4.8 million, as reported in the prior year. The increase in capital expenditures primarily relates the expansion of our production lines and upgrades reactors in our photovoltaics segment of approximately \$11.5 million and additional equipment for our fiber optics production of approximately \$3.5 million.
- An investment of \$13.9 million, inclusive of \$0.4 million in transaction costs, in WWAT during fiscal 2007, of which one million shares were sold in 2008 for \$6.5 million.
- Net sales of \$32.8 million in available-for-sale securities compared to \$91.3 million for the same period in the prior year.

### Net Cash Provided by Financing Activities

Cash provided by financing activities was \$101.4 million for the nine months ended June 30, 2008 compared to cash used by financing activities of \$11.0 million for the nine months ended June 30, 2007. The increase in cash was due to proceeds from a private placement of common stock and warrants in fiscal 2008 of \$93.7 million, plus the proceeds from the exercise of stock options of \$7.0 million. In fiscal 2007, the Company paid a principal payment on debt of \$11.4 million.

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## Private Placement of Common Stock and Warrants

On February 20, 2008, the Company consummated the sale of \$100 million of restricted common stock and warrants. In this transaction, investors purchased 8 million shares of our common stock, no par value, and warrants to purchase an additional 1.4 million shares of our common stock. The purchase price was \$12.50 per share, priced at the 20-day volume-weighted average price. The warrants grant the holder the right to purchase one share of our common stock at a price of \$15.06 per share, representing a 20.48% premium over the purchase price. The warrants are immediately exercisable and remain exercisable until February 20, 2013. In addition, the Company entered into a registration rights agreement with the investors to register for resale the shares of common stock issued in this transaction and the shares of common stock to be issued upon exercise of the warrants. Beginning two years after their issuance, the warrants may be called by the Company for a price of \$0.01 per underlying share if the closing price of its common stock has exceeded 150% of the exercise price for at least 20 trading days within a period of any 30 consecutive trading days and other conditions are met. In addition, in the event of certain fundamental transactions, principally the purchase of the Company's outstanding common stock for cash, the holders of the warrants may demand that EMCORE purchase the unexercised portions of their warrants for a price equal to the Black-Scholes Value of such unexercised portions as of the time of the fundamental transaction. Total agent fees incurred were 5.75% of the gross proceeds, or \$5.8 million. The Company used a substantial portion of the net proceeds to acquire the telecom assets of Intel's Optical Platform Division and is using the remainder for working capital requirements.

In the registration rights agreement, the Company agreed to pay liquidated damages in the event it did not file with the SEC a registration statement with respect to the registrable securities, or if the registration statement was not declared effective, within certain deadlines. The Company filed the registration statement, and it was declared effective within the deadlines specified in the registration rights agreement. The Company further agreed to pay liquidated damages if sales of the registrable securities included in the registration statement are unable to be made, or if, after a period of six months following the closing, the Company does not file with the SEC the reports required to be filed pursuant to Rule 144(c)(1) under the Securities Act and, as a result, holders are unable to sell their registrable securities. In such events, the Company agreed to pay as liquidated damages to each holder of registrable securities relating an amount in cash equal to one (1) percent (1%) of the aggregate purchase price of such holder's registrable securities included in such registration statement on the day that such a failure first occurs and on every thirtieth day thereafter until such failure is cured. Liquidated damages shall be paid on the earlier of (i) the last day of the calendar month during which such damages are incurred and (ii) the third business day after the event or failure giving rise to the damages is cured. In the event the Company fails to make such payments in a timely manner, such liquidated damages shall bear simple interest at the rate of four (4) percent (4%) per month until paid in full. In no event shall the aggregate amount of liquidated damages exceed, in the aggregate, ten (10) percent (10%) of the aggregate purchase price of the common stock sold in the private placement.

The Company accounted for the various components of the private placement transaction using the provisions of EITF Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's Own Stock; and FASB Staff Position EITF 00-19-2, Accounting for Registration Payment Arrangements. Warrants issued to the investors were accounted for as equity transaction with a value of \$9.8 million recorded to common stock. The potential future payments to the investors are considered a contingent liability in accordance with SFAS No. 5 Accounting for Contingencies. As of June 30, 2008, the Company did not record any contingent liability associated with the liquidated damages clause.

The costs associated with this offering were \$6.3 million which was recorded as an offset to common stock.

## Share Dilution

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The following table summarizes the Company's equity transactions and effect on share dilution for the nine months ended June 30, 2008:

|  | Number of<br>Common Stock<br>Shares<br>Outstanding |
|--|--|
| Common stock shares outstanding – as of October 1, 2007                      | 51,048,481   |
| Conversion of convertible subordinated notes to equity (see Note 11 - Debt)  | 12,186,656   |
| Private placement transaction  | 8,000,000  |
| Acquisition of Intel's Optical Platform Division (see Note 4 – Acquisitions) | 4,422,688  |
| Stock option exercises and other compensatory stock issuances                | 1,855,403  |
| Common stock shares outstanding – as of June 30, 2008                        | 77,513,228   |

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## Contractual Obligations and Commitments

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

| As of June 30, 2008<br>(in millions)               | Total    | 2008    | 2009 to<br>2010 | 2011 to<br>2012 | 2013<br>and later |
|--|----------|---------|-----------------|-----------------|-------------------|
| Operating lease obligations                        | \$ 6.8   | \$ 0.4  | \$ 2.2          | \$ 1.3          | \$ 2.9            |
| Letters of credit                                  | 2.5      | 2.5     | -               | -               | -                 |
| Purchase commitments (1)                           | 242.8    | 17.2    | 134.9           | 90.7            | -                 |
| Total contractual cash obligations and commitments | \$ 252.1 | \$ 20.1 | \$ 137.1        | \$ 92.0         | \$ 2.9            |

(1) The purchase commitments primarily represent the value of purchase agreements issued for raw materials and services that have been scheduled for fulfillment over the next three to five years.



### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

**Interest Rates.** We maintain an investment portfolio in a variety of high-grade (AAA), short-term debt and money market instruments such as auction-rate securities. 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.

#### Credit Market Conditions

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

#### Auction Rate Securities

Historically, the Company has invested in securities with an auction reset feature ("auction rate securities"). In February 2008, the auction market failed for the Company's auction rate securities, which meant the Company was unable to sell its investments in auction rate securities. During the three months ended June 30, 2008, the Company received \$2.3 million from the sale of auction rate securities at par value that had previously failed as of March 31, 2008. At June 30, 2008, the Company had approximately \$3.1 million invested in auction rate securities, of which the underlying assets for \$1.7 million are currently AAA rated, the highest rating by a rating agency. The remaining \$1.4 million of investments are securities whose underlying assets are primarily student loans which are substantially backed by the federal government.

As of June 30, 2008, all of the securities are classified as non-current assets. The Company recorded a temporary unrealized loss of approximately \$0.2 million to accumulated other comprehensive loss, a component of shareholders' equity, primarily due to liquidity factors. Based on expected operating cash flows, and other sources of cash, the Company does not anticipate the potential lack of liquidity on these investments will affect its ability to execute on its current business plan.



## ITEM 4. CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed under the Securities Exchange Act of 1934 (the “Act”) is recorded, processed, summarized and reported within the specified time periods and accumulated and communicated to management, including its Chief Executive Officer (Principal Executive Officer) and Interim Chief Financial Officer (Principal Financial 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 (Principal Financial Officer), evaluated the effectiveness of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Act), as of the end of the period covered by this report. Based on that evaluation, management concluded that, as of that date, the Company’s disclosure controls and procedures were effective at the reasonable assurance level.

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

### Changes in Internal Control Over Financial Reporting

There have been no changes in the Company’s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Management excluded from its assessment of the effectiveness of the Company’s disclosure controls and procedures and internal control over financial reporting, the disclosure controls and procedures and internal controls of the OPD businesses which were acquired on February 22, 2008 and April 20, 2008. Management was unable to assess the effectiveness of the disclosure controls and procedures and internal control over financial reporting of the OPD businesses because of the timing of the acquisition. Management expects to update its assessment of the effectiveness of the disclosure controls and procedures and internal control over financial reporting to include the OPD businesses as soon as practicable but in any event, no later than in the Form 10-Q for the quarterly period ended March 31, 2009.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

#### Legal Proceedings

The Company is subject to various legal proceedings and claims as 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.

#### 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 U.S. 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").

A motion to approve an agreement among the parties to settle the matter reflected in a stipulation of compromise and settlement was filed with the U.S. District Court for the District of New Jersey on December 3, 2007. The Court granted the motion for preliminary approval of the settlement on January 3, 2008, and, at a hearing held on March 28, 2008, the Court issued an order giving final approval to the settlement. The settlement has become final and effective upon the expiration of the appeal period on April 30, 2008. Thus, the settlement is now binding on all parties and represents a final settlement of both the Federal Court Action and the State Court Actions. For additional information regarding this matter, please see EMCORE's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2008.

#### Intellectual Property Lawsuits

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

We have, from time to time, exchanged correspondence with third parties regarding the assertion of patent or other intellectual property rights in connection with certain of our products and processes. Additionally, on September 11, 2006, we filed a lawsuit against Optium Corporation (Optium) in the U.S. District Court for the Western District of Pennsylvania for patent infringement. In the suit, the Company and JDS Uniphase Corporation (JDSU) allege that Optium is infringing on U.S. patents 6,282,003 and 6,490,071 with its Prisma II 1550nm transmitters. On March 14, 2007, following denial of a motion to add additional claims to its existing lawsuit, the Company and JDSU filed a second patent suit in the same court against Optium alleging infringement of JDSU's patent 6,519,374 ("the '374 patent"). On March 15, 2007, Optium filed a declaratory judgment action against the Company and JDSU. Optium

sought in this litigation a declaration that certain products of Optium do not infringe the '374 patent and that the patent is invalid, but the District Court dismissed the action on January 3, 2008 without addressing the merits. The '374 patent is assigned to JDSU and licensed to the Company.

On December 20, 2007, the Company was served with a complaint in another declaratory relief action which Optium had filed in the Federal District Court for the Western District of Pennsylvania. This action seeks to have U.S. patents 6,282,003 and 6,490,071 declared invalid or unenforceable because of certain conduct alleged to have occurred in connection with the grant of these patents. These allegations are substantially the same as those brought by Optium by motion in the Company's own case against Optium, which motion had been denied by the Court. The Court denied the Company's motion to dismiss this action and has indicated that it will be tried at the same time as the Optium Plaintiff Matters. The Company filed its answer in this matter on May 12, 2008. In its complaint, Optium does not seek monetary damages but asks that the patents in question be declared unenforceable and that it be awarded attorneys' fees. The Company believes that this action is without merit.

#### Commercial Litigation

On July 15, 2008 the Company was served with a complaint filed by Avago Technologies and what appear to be affiliates thereof in the United States District Court for the Northern District of California, San Jose Division. In this complaint, Avago asserts claims for breach of contract and breach of express warranty against defendant Venture Corporation Limited (one of the Company's customers) and asserts a tort claim for negligent interference with prospective economic advantage against the Company. The Company has filed a motion to dismiss this action against the Company for failure to state a claim on which relief can be granted. The Company believes that this action is without merit.

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## ITEM 1A. RISK FACTORS

We have a history of incurring significant net losses and our future profitability is not assured.

We commenced operations in 1984 and as of June 30, 2008, we had an accumulated deficit of \$383.5 million. We incurred a net loss of \$39.6 million in the nine months ended June 30, 2008, net loss of \$58.7 million in fiscal 2007, net income of \$54.9 million in fiscal 2006 and a net loss of \$13.5 million in fiscal 2005. Fiscal 2006 results include the sale of our GELcore joint venture that resulted in a net gain, before tax, of \$88.0 million. Our operating results for future periods are subject to numerous uncertainties and we cannot assure you that we will not continue to experience net losses for the foreseeable future. Although our revenue has grown in recent years, we may be unable to sustain such growth rates in light of potential changes in market or economic conditions. In addition, our revenue growth during the three months ended June 30, 2008 was primarily due to our recent asset acquisitions. If we are not able to increase revenue and reduce our costs, we may not be able to achieve profitability.

Our future revenue is inherently unpredictable. As a result, our operating results are likely to fluctuate from period to period, which may cause volatility in our stock price and may cause our stock price to decline.

Our quarterly and annual operating results have fluctuated substantially in the past and are likely to fluctuate significantly in the future due to a variety of factors, some of which are outside of our control. Factors that could cause our quarterly or annual operating results to fluctuate include:

- market acceptance of our products;
- market demand for the products and services provided by our customers;
- disruptions or delays in our manufacturing processes or in our supply of raw materials or product components;
  - changes in the timing and size of orders by our customers;
  - cancellations and postponements of previously placed orders;
- reductions in prices for our products or increases in the costs of our raw materials; and
  - the introduction of new products and manufacturing processes.

In addition, the limited lead times with which several of our customers order our products restrict our ability to forecast revenue. We may also experience a delay in generating or recognizing revenue for a number of reasons. For example, orders at the beginning of each quarter typically represent a small percentage of expected revenue for that quarter and are generally cancelable at any time. We depend on obtaining orders during each quarter for shipment in that quarter to achieve our revenue objectives. Failure to ship these products by the end of a quarter may adversely affect our results of operations.

As a result of the foregoing, we believe that period-to-period comparisons of our results of operations should not be relied upon as indications of future performance. In addition, our results of operations in one or more future quarters may fail to meet the expectations of securities analysts or investors, which would likely result in a decline in the trading price of our common stock.

We have significant liquidity and capital requirements and may require additional capital in the future. If we are unable to obtain the additional capital necessary to meet our requirements, our business may be adversely affected.

Historically, the Company has consumed cash from operations. We had negative cash flow from operations of approximately \$35.9 million during the nine months ended June 30, 2008. We currently have approximately \$82.7 million in working capital as of June 30, 2008. On a go forward basis we do expect significant improvement from our operations. However, if our cash on hand is not sufficient to fund the cash used by our operating activities and meet

our other liquidity requirements, we will seek to obtain additional equity or debt financing or dispose of assets to provide additional working capital in the future.

Due to the unpredictable nature of the capital markets, particularly in the technology sector, we cannot assure you that we will be able to raise additional capital if and when it is required, especially if we experience disappointing operating results. 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 our business, financial condition, results of operations and cash flow.

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We enter into long-term firm fixed-price contracts in our Photovoltaics division, which could subject us to losses if we have cost overruns.

Many of our contracts in our Photovoltaics division are contracted on a firm fixed-price basis. While firm fixed-price contracts allow us to benefit from cost savings, they also expose us to the risk of cost overruns. If the initial estimates we used to determine the contract price and the cost to perform the work prove to be incorrect, we could incur losses. In addition, some of our contracts have specific provisions relating to cost, schedule, and performance. If we fail to meet the terms specified in those contracts, then our cost to perform the work could increase or our price could be reduced, which would adversely affect our financial condition. These programs have risk for reach-forward losses if our estimated costs exceed our estimated price.

Fixed-price development work inherently has more uncertainty than production contracts and, therefore, more variability in estimates of the cost to complete the work. Many of these development programs have very complex designs. As technical or quality issues arise, we may experience schedule delays and cost impacts, which could increase our estimated cost to perform the work or reduce our estimated price, either of which could adversely affect our financial condition. Some fixed-price development contracts include initial production units in their scope of work. Successful performance of these contracts depends on our ability to meet production specifications and delivery rates. If we are unable to perform and deliver to contract requirements, our contract price could be reduced through the incorporation of liquidated damages, termination of the contract for default, or other financially significant exposure. Management uses its best judgment to estimate the cost to perform the work and the price we will eventually be paid on fixed-price development programs. While we believe the cost and price estimates incorporated in the financial statements are appropriate, future events could result in either favorable or unfavorable adjustments to those estimates.

Our ability to achieve operational and material cost reductions and to realize production efficiencies for our operations is critical to our ability to achieve long-term profitability.

We have implemented a number of operational and material cost reductions and productivity improvement initiatives, particularly with regards to our Fiber Optics segment. Cost reduction initiatives often involve facility consolidation and re-design of our products, which requires our customers to accept and qualify the new designs, potentially creating a competitive disadvantage for our products. These initiatives can be time-consuming and disruptive to our operations and costly in the short-term. Successfully implementing these and other cost-reduction initiatives throughout our operations is critical to our future competitiveness and ability to achieve long-term profitability. However, there can be no assurance that these initiatives will be successful.

We are substantially dependent on a small number of customers and the loss of any one of these customers could adversely affect our business, financial condition and results of operations.

In fiscal 2007, 2006 and 2005, our top five customers accounted for 49%, 39%, and 49%, respectively of our total annual consolidated revenue. There can be no assurance that we will continue to achieve historical levels of sales of our products to our largest customers. The loss of or a reduction in sales to one or more of our largest customers could have a material adverse affect on our business, financial condition and results of operations.

The market for utility-scale applications of our terrestrial solar technology may take time to develop and currently is dependent on the policy decisions of non-US Governments..



We have invested and intend to continue to invest significant resources in the adaptation of our high-efficiency compound semiconductor-based GaAs solar cell products for terrestrial applications, and in mid-2006, we established a wholly-owned subsidiary, EMCORE Solar Power, Inc. (“ESP”) to conduct this business. ESP is in the development stages and the terrestrial solar power business will require substantial additional funding for the hiring of employees, research and development and investment in capital equipment. Factors such as changes in energy prices or the development of new and efficient alternative energy technologies could limit growth in or reduce the market for terrestrial solar power products. In addition, we may experience difficulties in applying our satellite-based solar products to terrestrial applications in competing with new and emerging terrestrial solar power products, and in obtaining financing for utility-scale projects utilizing our technology. The sale of concentrated photovoltaic (“CPV”) systems involve the design, manufacture and installation of large and complex structures intended for outdoor operation, with which the Company has had no previous experience. In addition, it is expected that much of the market for our CPV systems will be outside the U.S. This will involve partnering with non-U.S. entities, which (because terrestrial solar power generation is a relatively new industry) may have little experience in the field and which may be new companies. In addition, participation in non-U.S. markets will involve evaluation and compliance with non-U.S. laws, regulations, and government electric supply contracts, which are also new areas for the Company. The rates available under non-U.S. government electric supply contracts are subject to policy decisions of these governments, which can change in unpredictable ways. There can be no assurance that our bids on solar power installations will be accepted, that we will win any of these bids, that our solar power concentrator systems will be qualified for these projects, or that government electric supply contracts will continue to offer rates which will make our products economically viable. If our terrestrial solar cell products are not cost competitive or accepted by the market, our business, financial condition and results of operations may be materially and adversely affected.

We are a party to several significant U.S. Government contracts, which are subject to unique risks.

In 2007, 13% of our revenue was derived from U.S. Government contracts. In addition to normal business risks, our contracts with the U.S. Government are subject to unique risks, some of which are beyond our control. We have had government contracts modified, curtailed or terminated in the past and we expect this will continue to happen from time to time.

The funding of U.S. Government programs is subject to congressional appropriations. Many of the U.S. Government programs in which we participate may extend for several years; however, these programs are normally funded annually. Long-term government contracts and related orders are subject to cancellation if appropriations for subsequent performance periods are not made. The termination of funding for a U.S. Government program would result in a loss of anticipated future revenue attributable to that program, which could have a material adverse effect on our operations.

The U.S. Government may modify, curtail, or terminate our contracts. The U.S. Government may modify, curtail, or terminate its contracts and subcontracts without prior notice at its convenience upon payment for work done and commitments made at the time of termination. Modification, curtailment or termination of our major programs or contracts could have a material adverse effect on our results of operations and financial condition.

Our contract costs are subject to audits by U.S. Government agencies. U.S. Government representatives may audit the costs we incur on our U.S. Government contracts, including allocated indirect costs. Such audits could result in adjustments to our contract costs. Any costs found to be improperly allocated to a specific contract will not be reimbursed, and such costs already reimbursed must be refunded. We have recorded contract revenue based upon costs we expect to realize upon final audit. However, we do not know the outcome of any future audits and adjustments and we may be required to reduce our revenue or profits upon completion and final negotiation of audits. If any audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines and

suspension or prohibition from doing business with the U.S. Government. We have been audited in the past by the U.S. Government and expect that we will be in the future.

Our business is subject to potential U.S. Government review. We are sometimes subject to certain U.S. Government reviews of our business practices due to our participation in government contracts. Any such inquiry or investigation could potentially result in a material adverse effect on our results of operations and financial condition.

Our U.S. Government business is also subject to specific procurement regulations and other requirements. These requirements, although customary in U.S. Government contracts, increase our performance and compliance costs. These costs might increase in the future, reducing our margins, which could have a negative effect on our financial condition. Failure to comply with these regulations and requirements could lead to suspension or debarment, for cause, from U.S. Government contracting or subcontracting for a period of time and could have an adverse effect on our reputation and ability to secure future U.S. Government contracts.

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If we do not keep pace with rapid technological change, our products may not be competitive.

We compete in markets that are characterized by rapid technological change, frequent new product introductions, changes in customer requirements, evolving industry standards, continuous improvement in products and the use of our existing products in new applications. We may not be able to develop the underlying core technologies necessary to create new products and enhancements at the same rate as or faster than our competitors, or to license the technology from third parties that is necessary for our products.

Product development delays may result from numerous factors, including:

- changing product specifications and customer requirements;
- unanticipated engineering complexities;
- expense reduction measures we have implemented and others we may implement;
- difficulties in hiring and retaining necessary technical personnel; and
- difficulties in allocating engineering resources and overcoming resource limitations.

We cannot assure you that we will be able to identify, develop, manufacture, market or support new or enhanced products successfully, if at all, or on a timely, cost effective or repeatable basis. Our future performance will depend on our successful development and introduction of, as well as market acceptance of, new and enhanced products that address market changes as well as current and potential customer requirements and our ability to respond effectively to product announcements by competitors, technological changes or emerging industry standards. Because it is generally not possible to predict the amount of time required and the costs involved in achieving certain research, development and engineering objectives, actual development costs may exceed budgeted amounts and estimated product development schedules may be extended. If we incur budget overruns or delays in our research and development efforts, our business, financial condition and results of operations may be materially adversely affected.

The competitive and rapidly evolving nature of our industry has in the past resulted and is likely in the future to result in reductions in our product prices and periods of reduced demand for our products.

We face substantial competition in each of our reporting segments from a number of companies, many of which have greater financial, marketing, manufacturing and technical resources than us. Larger-sized competitors often spend more on research and development, which could give those competitors an advantage in meeting customer demands and introducing technologically innovative products before we do. We expect that existing and new competitors will improve the design of their existing products and will introduce new products with enhanced performance characteristics.

The introduction of new products and more efficient production of existing products by our competitors has resulted and is likely in the future to result in price reductions and increases in expenses and reduced demand for our products. In addition, some of our competitors may be willing to provide their products at lower prices, accept a lower profit margin or expend more capital in order to obtain or retain business. Competitive pressures have required us to reduce the prices of some of our products. These competitive forces could diminish our market share and gross margins, resulting in a material adverse affect on our business, financial condition and results of operations.

New competitors may also enter our markets, including some of our current and potential customers who may attempt to integrate their operations by producing their own components and subsystems or acquiring one of our competitors, thereby reducing demand for our products. In addition, rapid product development cycles, increasing price competition due to maturation of technologies, the emergence of new competitors in Asia with lower cost structures and industry consolidation resulting in competitors with greater financial, marketing and technical resources could result in lower prices or reduced demand for our products.

Expected and actual introductions of new and enhanced products may cause our customers to defer or cancel orders for existing products and may cause our products to become obsolete. A slowdown in demand for existing products ahead of a new product introduction could result in a write-down in the value of inventory on hand related to existing products. We have in the past experienced a slowdown in demand for existing products and delays in new product development and such delays may occur in the future. To the extent customers defer or cancel orders for existing products due to a slowdown in demand or in anticipation of a new product release or if there is any delay in development or introduction of our new products or enhancements of our products, our business, financial condition and results of operations could be materially adversely affected.

We may not be successful in implementing our growth strategy if we are unable to identify and acquire suitable acquisition targets. In addition, our acquisitions may not have the anticipated effect on our financial results.

Finding and consummating acquisitions is an important component of our growth strategy. Our continued ability to grow by acquisition is dependent upon the availability of suitable acquisition candidates and may be dependent on our ability to obtain acquisition financing on acceptable terms. We experience competition from larger companies with significantly greater resources in making acquisitions. There can be no assurance that we will be able to procure the necessary funds to effectuate our acquisition strategy on commercially reasonable terms, or at all.

Future acquisitions by us may involve the following:

- use of significant amounts of cash;
- potentially dilutive issuances of equity securities on potentially unfavorable terms; and
- incurrence of debt on potentially unfavorable terms.

In addition, acquisitions involve numerous risks, including:

- inability to achieve anticipated synergies;
- difficulties in the integration of the operations, technologies, products and personnel of the acquired company;
  - diversion of management's attention from other business concerns;
  - risks of entering markets in which we have limited or no prior experience;
  - potential loss of key employees of the acquired company or of us; and
  - risk of assuming unforeseen liabilities or becoming subject to litigation.

If these factors limit our ability to integrate the operations of our acquisitions successfully or on a timely basis, our expectations of future results of operations may not be met. In addition, our growth and operating strategies for businesses we acquire may be different from the strategies that such business currently is pursuing. If our strategies are not the proper strategies for a company we acquire, it could materially adversely affect our business, financial condition and results of operations. Further, there can be no assurance that we will be able to maintain or enhance the profitability of any acquired business or consolidate the operations of any acquired business to achieve cost savings.

In addition, there may be liabilities that we fail, or are unable, to discover in the course of performing due diligence investigations on each company, business or asset we have already acquired or may acquire in the future. Such liabilities could include those arising from employee benefits contribution obligations of a prior owner or non-compliance with, or liability pursuant to, applicable federal, state or local environmental requirements by prior owners for which we, as a successor owner, may be responsible. In addition, there may be additional costs relating to acquisitions including, but not limited to, possible purchase price adjustments. We cannot assure you that rights to indemnification by sellers of assets to us, even if obtained, will be enforceable, collectible or sufficient in amount, scope or duration to fully offset the possible liabilities associated with the business or property acquired. Any such liabilities, individually or in the aggregate, could materially adversely affect our business, financial condition and results of operations.

In the past several years we have completed several acquisitions, which have broadened our product lines within our target markets and increased the level of vertical integration within those product lines. However, if customer demand in these markets does not meet current expectations, our revenue could be significantly reduced and we could suffer a material adverse affect on our business, financial condition and results of operations.

The market price for our common stock has experienced significant price and volume volatility and is likely to continue to experience significant volatility in the future. This volatility may impair our ability to finance strategic transactions with our stock and otherwise harm our business.

The closing price of our common stock fluctuated from a high of \$15.30 per share to a low of \$5.64 per share during the nine months ended June 30, 2008. Our stock price is likely to experience significant volatility in the future as a result of numerous factors outside our control. Significant declines in our stock price may interfere with our ability to raise additional funds through equity financing or to finance strategic transactions with our stock. We have historically used equity incentive compensation as part of our overall compensation arrangements. The effectiveness of equity incentive compensation in retaining key employees may be adversely impacted by volatility in our stock price. In addition, there may be increased risk of securities litigation following periods of fluctuations in our stock price. These and other consequences of volatility in our stock price could have the effect of diverting management's attention and could materially harm our business.

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Our products are difficult to manufacture. Our production could be disrupted and our results will suffer if our production yields are low as a result of manufacturing difficulties.

We manufacture many of our wafers and devices in our own production facilities. Difficulties in the production process, such as contamination, raw material quality issues, human error or equipment failure, can cause a substantial percentage of wafers and devices to be nonfunctional. Lower-than-expected production yields may delay shipments or result in unexpected levels of warranty claims, either of which can materially adversely affect our results of operations. We have experienced difficulties in achieving planned yields in the past, particularly in pre-production and upon initial commencement of full production volumes, which have adversely affected our gross margins. Because the majority of our manufacturing costs are fixed, achieving planned production yields is critical to our results of operations. Because we manufacture many of our products in a single facility, we have greater risk of interruption in manufacturing resulting from fire, natural disaster, equipment failures, or similar events than we would if we had back-up facilities available for manufacturing these products. We could also incur significant costs to repair and/or replace products that are defective and in some cases costly product redesigns and/or rework may be required to correct a defect. Additionally, any defect could adversely affect our reputation and result in the loss of future orders.

We face lengthy sales and qualifications cycles for our new products and, in many cases, must invest a substantial amount of time and funds before we receive orders.

Most of our products are tested by current and potential customers to determine whether they meet customer or industry specifications. The length of the qualification process, which can span a year or more, varies substantially by product and customer, and thus can cause our results of operations to be unpredictable. During a given qualification period, we invest significant resources and allocate substantial production capacity to manufacture these new products prior to any commitment to purchase by customers. In addition, it is difficult to obtain new customers during the qualification period as customers are reluctant to expend the resources necessary to qualify a new supplier if they have one or more existing qualified sources. If we are unable to meet applicable specifications or do not receive sufficient orders to profitably use the allocated production capacity, our business, financial condition and results of operations could be materially adversely affected.

Our historical and future budgets for operating expenses, capital expenditures, operating leases and service contracts are based upon our assumptions as to the future market acceptance of our products. Because of the lengthy lead times required for product development and the changes in technology that typically occur while a product is being developed, it is difficult to accurately estimate customer demand for any given product. If our products do not achieve an adequate level of customer demand, our business, financial condition and results of operations could be materially adversely affected.

If our contract manufacturers fail to deliver quality products at reasonable prices and on a timely basis, our business, financial condition and results of operations could be materially adversely affected.

We are increasing our use of contract manufacturers located outside of the U.S. as a less-expensive alternative to performing our own manufacturing of certain products. Contract manufacturers in Asia currently manufacture a substantial portion of our high-volume parts. If these contract manufacturers do not fulfill their obligations to us, or if we do not properly manage these relationships and the transition of production to these contract manufacturers, our existing customer relationships may suffer. For example, in the past, we experienced difficulties filling orders in our fiber-to-the-premises business due to capacity limitations at one of our contract manufacturers. In addition, by undertaking these activities, we run the risk that the reputation and competitiveness of our products and services may deteriorate as a result of the reduction of our ability to oversee and control quality and delivery schedules.

The use of contract manufacturers located outside of the U.S. also subjects us to the following additional risks that could significantly impair our ability to source our contract manufacturing requirements internationally, including:

- unexpected changes in regulatory requirements;
- legal uncertainties regarding liability, tariffs and other trade barriers;
- inadequate protection of intellectual property in some countries;
  - greater incidence of shipping delays;
- greater difficulty in hiring talent needed to oversee manufacturing operations; and
  - potential political and economic instability.

Prior to our customers accepting products manufactured at our contract manufacturers, they must requalify the product and manufacturing processes. The qualification process can be lengthy and expensive, with no guarantee that any particular product qualification process will lead to profitable product sales. The qualification process determines whether the product manufactured at our contract manufacturer achieves our customers' quality, performance and reliability standards. Our expectations as to the time periods required to qualify a product line and ship products in volumes to customers may be erroneous. Delays in qualification can impair the expected timing of the transfer of a product line to our contract manufacturer and may impair the expected amount of sales of the affected products. We may, in fact, experience delays in obtaining qualification of products produced by our contract manufacturers and, therefore, our operating results and customer relationships could be materially adversely affected.

Our supply chain and manufacturing processes rely on accurate forecasting to provide us with optimal margins and profitability. Because of market uncertainties, forecasting is becoming much more difficult. In addition, as we come to rely more heavily on contract manufacturers, we may have fewer personnel with expertise to manage these third-party arrangements.

Protecting our trade secrets and obtaining patent protection is critical to our ability to effectively compete.

Our success and competitive position depend on protecting our trade secrets and other intellectual property. Our strategy is to rely on trade secrets and patents to protect our manufacturing and sales processes and products. Reliance on trade secrets is only an effective business practice if trade secrets remain undisclosed and a proprietary product or process is not reverse engineered or independently developed. We take measures to protect our trade secrets, including executing non-disclosure agreements with our employees, customers and suppliers. If parties breach these agreements or the measures we take are not properly implemented, we may not have an adequate remedy. Disclosure of our trade secrets or reverse engineering of our proprietary products, processes, or devices could materially adversely affect our business, financial condition and results of operations.

There is also no assurance that any patents will afford us commercially significant protection of our technologies or that we will have adequate financial resources to enforce our patents. Nor can there be any assurance that the significant number of patent applications that we have filed and are pending, or those we may file in the future, will result in patents being issued. In addition, the laws of certain other countries may not protect our intellectual property to the same extent as U.S. laws.

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Our failure to obtain or maintain the right to use certain intellectual property may materially adversely affect our business, financial condition and results of operations.

The compound semiconductor, optoelectronics and fiber optic communications industries are characterized by frequent litigation regarding patent and other intellectual property rights. From time to time we have received, and may receive in the future, notice of claims of infringement of other parties' proprietary rights and licensing offers to commercialize third party patent rights. Although we are not currently involved in any litigation relating to claims of infringement from other parties' intellectual property, there can be no assurance that:

- infringement claims (or claims for indemnification resulting from infringement claims) will not be asserted against us or that such claims will not be successful;
- future assertions will not result in an injunction against the sale of infringing products, which could significantly impair our business and results of operations;
- any patent owned or licensed by us will not be invalidated, circumvented or challenged; or
- we will not be required to obtain licenses, the expense of which may adversely affect our results of operations and profitability.

In addition, effective copyright and trade secret protection may be unavailable or limited in certain foreign countries. Litigation, which could result in substantial cost and diversion of our resources, may be necessary to defend our rights or defend us against claimed infringement of the rights of others. In certain circumstances, our intellectual property rights associated with government contracts may be limited.

In our Fiber Optics business, we generally do not have long-term contracts with our customers and we typically sell our products pursuant to purchase orders with short lead times. As a result, our customers could stop purchasing our products at any time and we must fulfill orders in a timely manner to keep our customers.

Generally, we do not have long-term contracts with customers that purchase our fiber optic products. As a result, our agreements with our customers do not provide any assurance of future sales. Risks associated with the absence of long-term contracts with our customers include the following:

- our customers can stop purchasing our products at any time without penalty;
- our customers may purchase products from our competitors; and
- our customers are not required to make minimum purchases.

We generally sell our products pursuant to individual purchase orders, which often have extremely short lead times. If we are unable to fulfill these orders in a timely manner, it is likely that we will lose sales and customers. In addition, we sell some of our products to the U.S. Government and governmental entities. These contracts are generally subject to termination for convenience provisions and may be cancelled at any time.

We have significant international sales, which expose us to additional risks and uncertainties.

Sales to customers located outside the U.S. accounted for approximately 27% of our consolidated revenue in fiscal 2007, 24% of our revenue in fiscal 2006 and 17% of our revenue in fiscal 2005. Sales to customers in Asia represent the majority of our international sales. We believe that international sales will continue to account for a significant percentage of our revenue and we are seeking international expansion opportunities. Because of this, the following international commercial risks may materially adversely affect our revenue:

- political and economic instability or changes in U.S. Government policy with respect to these foreign countries may inhibit export of our devices and limit potential customers' access to U.S. dollars in a country or region in which those



potential customers are located;

• we may experience difficulties in the timeliness of collection of foreign accounts receivable and be forced to write off these receivables;

- tariffs and other barriers may make our devices less cost competitive;

• the laws of certain foreign countries may not adequately protect our trade secrets and intellectual property or may be burdensome to comply with;

- potentially adverse tax consequences to our customers may damage our cost competitiveness;

• currency fluctuations may make our products less cost competitive, affecting overseas demand for our products; and

• language and other cultural barriers may require us to expend additional resources competing in foreign markets or hinder our ability to effectively compete.

In addition, certain foreign laws and regulations place restrictions on the concentration of certain hazardous materials, including, but not limited to, lead, mercury and cadmium, in our products. Failure to comply with such laws and regulations could subject us to future liabilities or result in the limitation or suspension of the sale or production of our products. These regulations include the European Union's ("EU") Restrictions on Hazardous Substances, Directive on Waste Electrical and Electronic Equipment and the directive on End of Life for Vehicles. Failure to comply with environmental and health and safety laws and regulations may limit our ability to export products to the EU and could materially adversely affect our business, financial condition and results of operations.

We will lose sales if we are unable to obtain government authorization to export our products.

Exports of our products are subject to export controls imposed by the U.S. Government and administered by the U.S. Departments of State and Commerce. In certain instances, these regulations may require pre-shipment authorization from the administering department. For products subject to the Export Administration Regulations ("EAR") administered by the Department of Commerce's Bureau of Industry and Security, the requirement for a license is dependent on the type and end use of the product, the final destination and the identity of the end user. Virtually all exports of products subject to the International Traffic in Arms Regulations ("ITAR") regulations administered by the Department of State's Directorate of Defense Trade Controls require a license. Most of our fiber optics products and our terrestrial solar power products are subject to EAR; however, certain fiber optics products and all of our commercially available solar cell satellite power products are currently subject to ITAR.

Given the current global political climate, obtaining export licenses can be difficult and time-consuming. Failure to obtain export licenses for product shipments could significantly reduce our revenue and could materially adversely affect our business, financial condition and results of operations. Compliance with U.S. Government regulations may also subject us to additional fees and costs. The absence of comparable restrictions on competitors in those countries may adversely affect our competitive position.

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Our operating results could be harmed if we lose access to sole or limited sources of materials, components or services.

We currently obtain some materials, components and services used in our products from limited or single sources. We generally do not carry significant inventories of any raw materials. Because we often do not account for a significant part of our suppliers' businesses, we may not have access to sufficient capacity from these suppliers in periods of high demand. For example, in the past, we experienced difficulties filling orders in our fiber-to-the-premises business due to limited available capacity of one of our contract manufacturers. In addition, since we generally do not have guaranteed supply arrangements with our suppliers, we risk serious disruption to our operations if an important supplier terminates product lines, changes business focus, or goes out of business. Because some of these suppliers are located overseas, we may be faced with higher costs of purchasing these materials if the U.S. dollar weakens against other currencies. If we were to change any of our limited or sole source suppliers, we would be required to re-qualify each new supplier. Re-qualification could prevent or delay product shipments that could materially adversely affect our results of operations. In addition, our reliance on these suppliers may materially adversely affect our production if the components vary in quality or quantity. If we are unable to obtain timely deliveries of sufficient components of acceptable quality or if the prices of components for which we do not have alternative sources increase, our business, financial condition and results of operations could be materially adversely affected.

A failure to attract and retain technical and other key personnel could reduce our revenue and our operational effectiveness.

Our future success depends, in part, on our ability to attract and retain certain key personnel, including scientific, operational, financial, and managerial personnel. The competition for attracting and retaining these employees (especially scientists, technical and financial personnel) is intense. Because of this competition for skilled employees, we may be unable to retain our existing personnel or attract additional qualified employees in the future. If we are unable to retain our skilled employees and attract additional qualified employees to the extent necessary to keep up with our business demands and changes, our business, financial condition and results of operations may be materially adversely affected.

We depend on senior management and key personnel to manage our business effectively and may not be successful in attracting and retaining such personnel.

We depend on the performance of our senior management team and other key employees. Our success also depends on our ability to attract, integrate, train, retain and motivate these individuals and additional highly skilled technical and sales and marketing personnel, both in the United States and abroad. The loss of the services of any of our senior management team or other key employees or failure to attract, integrate, train, retain and motivate additional key employees could harm our business.

Failure to comply with environmental and safety regulations, resulting in improper handling of hazardous raw materials used in our manufacturing processes, could result in costly remediation fees, penalties or damages.

We are subject to laws and regulations and must obtain certain permits and licenses relating to the use of hazardous materials. Our production activities involve the use of certain hazardous raw materials, including, but not limited to, ammonia, gallium, phosphate and arsine. If our control systems are unsuccessful in preventing a release of these materials into the environment or other adverse environmental conditions or human exposures occur, we could experience interruptions in our operations and incur substantial remediation and other costs or liabilities. In addition,

certain foreign laws and regulations place restrictions on the concentration of certain hazardous materials, including, but not limited to, lead, mercury and cadmium, in our products. Failure to comply with such laws and regulations could subject us to future liabilities or result in the limitation or suspension of the sale or production of our products. These regulations include the European Union's ("EU") Restrictions on Hazardous Substances, Directive on Waste Electrical and Electronic Equipment and the directive on End of Life for Vehicles. Failure to comply with environmental and health and safety laws and regulations may limit our ability to export products to the EU and could materially adversely affect our business, financial condition and results of operations.

We are subject to risks associated with the availability and coverage of insurance.

For certain risks, the Company does not maintain insurance coverage because of cost and/or availability. Because the Company retains some portion of its insurable risks, and in some cases self-insures completely, unforeseen or catastrophic losses in excess of insured limits may have a material adverse effect on the Company's results of operations and financial position.

We are increasing operations in China, which exposes us to risks inherent in doing business in China.

In May 2007, EMCORE Hong Kong, Ltd., a wholly owned subsidiary of EMCORE Corporation, announced the opening of a new manufacturing facility in Langfang, China. Our new company, Langfang EMCORE Optoelectronics Co. Ltd., is located approximately 30 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 have begun the transfer of 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 across product lines. We expect to develop and provide improved service to our global customers by having a local presence in Asia. As we continue to consolidate our manufacturing operations, we will incur additional costs to transfer product lines to our China facility, including costs of qualification testing with our customers, which could have a material adverse impact on our operating results and financial condition.

Our China-based activities are subject to greater political, legal and economic risks than those faced by our other operations. In particular, the political, legal and economic climate in China (both at national and regional levels) is extremely fluid and unpredictable. Our ability to operate in China may be adversely affected by changes in Chinese laws and regulations, such as those relating to taxation, import and export tariffs, environmental regulations, land use rights, intellectual property and other matters, which laws and regulations remain highly underdeveloped and subject to change, with little or no prior notice, for political or other reasons. Moreover, the enforceability of applicable existing Chinese laws and regulations is uncertain. In addition, we may not obtain the requisite legal permits to continue to operate in China and costs or operational limitations may be imposed in connection with obtaining and complying with such permits. Our business could be materially harmed by any changes in the political, legal or economic climate in China or the inability to enforce applicable Chinese laws and regulations.

As a result of a government order to ration power for industrial use, operations in our China facility may be subject to possible interruptions or shutdowns, adversely affecting our ability to complete manufacturing commitments on a timely basis. If we are required to make significant investments in generating capacity to sustain uninterrupted operations at our facility, we may not realize the reductions in costs anticipated from our expansion in China. In addition, future outbreaks of avian influenza, or other communicable diseases, could result in quarantines or closures of our facility, thereby disrupting our operations and expansion in China.

We intend to export the majority of the products manufactured at our facilities in China. Accordingly, upon application to and approval by the relevant governmental authorities, we will not be subject to certain Chinese taxes

and are exempt from customs duty assessment on imported components or materials when the finished products are exported from China. We are, however, required to pay income taxes in China, subject to certain tax relief. As the Chinese trade regulations are in a state of flux, we may become subject to other forms of taxation and duty assessments in China or may be required to pay for export license fees in the future. In the event that we become subject to any increased taxes or new forms of taxation imposed by authorities in China, our results of operations could be materially and adversely affected.

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Our corporate or business strategy may change.

We continuously evaluate our assets on an ongoing basis with a view to maximizing their value to us and determining which are core to our operations. We also regularly evaluate our corporate and business strategies, and they are influenced by factors beyond our control, including changes in the competitive landscape we face. Our corporate and business strategies are, therefore, subject to change.

In March 2008, our Board of Directors authorized the management of the Company to prepare a comprehensive operational and strategic plan for the separation of the Company's Fiber Optics and Photovoltaic businesses into separate corporations. The purpose of the review is to determine whether there exists the potential for unlocking additional stockholder value with respect to these strategic assets through some type of separation transaction. A separation may take the form of a spin-off transaction or a public offering of securities, and we may have discussions from time-to-time with third parties involving these possibilities. There can be no assurances that our strategic review will lead to the completion of any separation transactions or as to the impact of these transactions on stockholder value or on us.

Our business and operations would be adversely impacted in the event of a failure of our information technology infrastructure.

We rely upon the capacity, reliability and security of our information technology hardware and software infrastructure and our ability to expand and update this infrastructure in response to our changing needs. We are constantly updating our information technology infrastructure. Any failure to manage, expand and update our information technology infrastructure or any failure in the operation of this infrastructure could harm our business.

Despite our implementation of security measures, our systems are vulnerable to damages from computer viruses, natural disasters, unauthorized access and other similar disruptions. Any system failure, accident or security breach could result in disruptions to our operations. To the extent that any disruptions or security breach results in a loss or damage to our data, or inappropriate disclosure of confidential information, it could harm our business. In addition, we may be required to incur significant costs to protect against damage caused by these disruptions or security breaches in the future.

If we fail to remediate deficiencies in our current system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, our business could be harmed and current and potential investors could lose confidence in our financial reporting, which could have a negative effect on the trading price of our debt and equity securities.

The Company is subject to the ongoing internal control provisions of Section 404 of the Sarbanes-Oxley Act of 2002. These provisions provide for the identification of material weaknesses in internal control over financial reporting, which is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with U.S. GAAP. If we cannot provide reliable financial reports or prevent fraud, our brand, operating results and the market value of our equity securities could be harmed. We have in the past discovered, and may in the future discover, areas of our internal controls that need improvement. In fiscal 2006 and 2007, the Company identified deficiencies in our internal controls over financial reporting.

We have devoted significant resources to remediate and improve our internal controls. We have also been monitoring the effectiveness of these remediated measures. We cannot be certain that these measures will ensure adequate controls over our financial processes and reporting in the future. We intend to continue implementing and monitoring changes to our processes to improve internal controls over financial reporting. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us

to fail to meet our reporting obligations.

Inadequate internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our equity securities. Further, the impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our Board of Directors or as executive officers, which could harm our business. The additions of our manufacturing facility in China and acquisitions increase the burden on our systems and infrastructure, and impose additional risk to the ongoing effectiveness of our internal controls, disclosure controls, and procedures. Consequently, we expect to expend significant resources and effort in this regard, but are not certain that our efforts will be successful.

Our cost reduction programs may be insufficient to achieve long-term profitability.

We are undertaking cost reduction measures intended to reduce our expense structure at both the cost of goods sold and the operating expense levels. We believe these measures are a necessary response to, among other things, declining average sales prices across our product lines. These measures may be unsuccessful in creating profit margins sufficient to sustain our current operating structure and business.

Shifts in industry-wide demands and inventories could result in significant inventory write-downs.

The life cycles of some of our products depend heavily upon the life cycles of the end products into which our products are designed. Products with short life cycles require us to manage production and inventory levels closely. We evaluate our ending inventories on a quarterly basis for excess quantities, impairment of value and obsolescence. This evaluation includes analysis of sales levels by product and projections of future demand based upon input received from our customers, sales team and management estimates. If inventories on hand are in excess of demand, or if they are greater than 12-months old, appropriate reserves are provided. In addition, we write off inventories that are considered obsolete based upon changes in customer demand, manufacturing process changes that result in existing inventory obsolescence or new product introductions, which eliminate demand for existing products. Remaining inventory balances are adjusted to approximate the lower of our manufacturing cost or market value.

If future demand or market conditions are less favorable than our estimates, inventory write-downs may be required. We cannot assure investors that obsolete or excess inventories, which may result from unanticipated changes in the estimated total demand for our products and/or the estimated life cycles of the end products into which our products are designed, will not affect us beyond the inventory charges that we have already taken.

Certain provisions of New Jersey law and our charter may make a takeover of EMCORE difficult even if such takeover could be beneficial to some of our shareholders.

New Jersey law and our certificate of incorporation, as amended, contain certain provisions that could delay or prevent a takeover attempt that our shareholders may consider in their best interests. Our Board of Directors is divided into three classes. Directors are elected to serve staggered three-year terms and are not subject to removal except for cause by the vote of the holders of at least 80% of our capital stock. In addition, approval by the holders of 80% of our voting stock is required for certain business combinations unless these transactions meet certain fair price criteria and procedural requirements or are approved by two-thirds of our continuing directors. We may in the future adopt other measures that may have the effect of delaying or discouraging an unsolicited takeover, even if the takeover were at a premium price or favored by a majority of unaffiliated shareholders. Certain of these measures may be adopted without any further vote or action by our shareholders and this could depress the price of our common stock.

Additional litigation may arise in the future relating to our historical stock option practices and other issues.

Although we have received final court approval of the settlement of the three derivative actions which were filed against certain of our current and former directors and officers relating to historical stock options practices, and the SEC has indicated that it has terminated its investigation of the matters, additional securities-related litigation (including possible litigation involving employees) may still arise. Additional lawsuits, regardless of their underlying merit, could become time consuming and expensive, and if they result in unfavorable outcomes, there could be material adverse effect on our business, financial condition, results of operations and cash flows. We may be required to pay substantial damages or settlement costs in excess of our insurance coverage related to these matters, which would have a further material adverse effect on our financial condition or results of operations.

In addition, subject to certain limitations, we are obligated to indemnify our current and former directors, officers and employees in connection with certain types of expenses, including certain litigation-related expenses.

It may be difficult or costly to obtain director and officer insurance coverage as a result of our historical stock option granting practices.

Although we have recently renewed our directors and officer insurance coverage on what we believe to be favorable terms, it may become more difficult to obtain director and officer insurance coverage in the future. If we are able to obtain this coverage, it could be significantly more expensive than in the past, which would have an adverse effect on our financial results and cash flow. As a result of this and related factors, our directors and officers could face increased risks of personal liability in connection with the performance of their duties. As a result, we may have difficulty attracting and retaining qualified directors and officers, which could adversely affect our business.

If the recent weakness in credit markets conditions continues or worsens, it could adversely impact our investment portfolio.

Historically, the Company has invested in securities with an auction reset feature (“auction rate securities”). In February 2008, the auction market failed for the Company’s auction rate securities, which meant the Company was unable to sell its investments in auction rate securities. During the three months ended June 30, 2008, the Company received \$2.3 million from the sale of auction rate securities at par value that had previously failed as of March 31, 2008. At June 30, 2008, the Company had invested approximately \$3.1 million in auction rate securities, of which the underlying assets for \$1.7 million are currently AAA rated, the highest rating by a rating agency. The remaining \$1.4 million of investments are securities whose underlying assets are primarily student loans which are substantially backed by the federal government.

As of June 30, 2008, all of the securities are classified as non-current assets. The Company recorded a temporary unrealized loss of approximately \$0.2 million to accumulated other comprehensive loss, a component of shareholders’ equity, primarily due to liquidity factors. Based on expected operating cash flows, and other sources of cash, the Company does not anticipate the potential lack of liquidity on these investments will affect its ability to execute on its current business plan.

There are no assurances that successful auctions of these types of securities will resume, and as a result, the Company’s ability to liquidate its securities and fully recover the carrying value of its investment in the near term may be limited or not exist. If the issuers are unable to successfully close future auctions and their credit ratings deteriorate, the Company may be required to record a further temporary or permanent impairment charge on these securities.





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

(a) On July 2, 2008, the Company issued David Caidor 131,259 shares and Allon Caidor 14,584 shares in connections with an earnout payment related to the Opticomm acquisition in April 2007. The issuance and sale of the common stock described above were made in reliance on the exemptions from registration provided by Section 4(2) of the Securities Act of 1933 and/or Rule 506 of Regulation D promulgated thereunder.

(b) Not applicable

(c) Not applicable

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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

| Exhibit No. | Description  |
|-------------|--|
| 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.                                   |

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\* Filed herewith

SIGNATURES

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

EMCORE CORPORATION

Date: August 11, 2008

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

Chief Executive Officer  
(Principal Executive Officer)

Date: August 11, 2008

By: /s/ Adam Gushard  
Adam Gushard

Interim Chief Financial Officer  
(Principal Financial and  
Accounting Officer)

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| Exhibit No. | Description  |
|-------------|--|
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\* Filed herewith.