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## FORM 10-Q

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

For the quarterly period ended December 31, 2019

or

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

For the transition period from \_\_\_ to \_\_\_

Commission File Number 001-36632

**emcore**

**EMCORE Corporation**

(Exact name of registrant as specified in its charter)

**New Jersey**

(State or other jurisdiction of incorporation or organization)

**22-2746503**

(I.R.S. Employer Identification No.)

**2015 W. Chestnut Street, Alhambra, California, 91803**

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(626) 293-3400**

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Trading Symbol</u>	<u>Name of Each Exchange on Which Registered</u>
Common stock, no par value	EMKR	The Nasdaq Stock Market LLC (Nasdaq Global Market)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).  **Yes**  **No**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definition of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.  Large accelerated filer  **Accelerated filer**  Non-accelerated filer  **Smaller reporting company**  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of February 3, 2020, the number of shares outstanding of our no par value common stock totaled 29,078,804.

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**CAUTIONARY STATEMENT  
REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on our current expectations and projections about future events and financial trends affecting the financial condition of our business. Such forward-looking statements include, in particular, projections about our future results included in our Exchange Act reports and statements about our plans, strategies, business prospects, changes and trends in our business and the markets in which we operate. These forward-looking statements may be identified by the use of terms and phrases such as "anticipates," "believes," "can," "could," "estimates," "expects," "forecasts," "intends," "may," "plans," "projects," "should," "targets," "will," "would," and similar expressions or variations of these terms and similar phrases. Additionally, statements concerning future matters such as our expected liquidity, development of new products, enhancements or technologies, sales levels, expense levels, expectations regarding the outcome of legal proceedings and other statements regarding matters that are not historical are forward-looking statements. Management cautions that these forward-looking statements relate to future events or our future financial performance and are subject to business, economic, and other risks and uncertainties, both known and unknown, that may cause actual results, levels of activity, performance, or achievements of our business or our industry to be materially different from those expressed or implied by any forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include without limitation the following: (a) the rapidly evolving markets for the Company's products and uncertainty regarding the development of these markets; (b) the Company's historical dependence on sales to a limited number of customers and fluctuations in the mix of products and customers in any period; (c) delays and other difficulties in commercializing new products; (d) the failure of new 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; (e) uncertainties concerning the availability and cost of commodity materials and specialized product components that we do not make internally; (f) actions by competitors; (g) risks and uncertainties related to applicable laws and regulations, including the impact of changes to applicable tax laws and tariff regulations; (h) acquisition-related risks, including that (i) the revenues and net operating results obtained from the Systron Donner Inertial, Inc. ("SDI") business may not meet our expectations, (ii) the costs and cash expenditures for integration of the SDI business operations may be higher than expected, (iii) there could be losses and liabilities arising from the acquisition of SDI that we will not be able to recover from any source, and (iv) we may not realize sufficient scale in our navigation systems product line from the SDI acquisition and will need to take additional steps, including making additional acquisitions, to achieve our growth objectives for this product line; (i) risks related to our ability to obtain capital; (j) risks related to the transition of certain of our manufacturing operations from our Beijing facility to a contract manufacturer's facility; and (k) other risks and uncertainties discussed in Part I, Item 1A, Risk Factors in our Annual Report on Form 10-K for the fiscal year ended September 30, 2019, as such risk factors may be amended, supplemented or superseded from time to time by our subsequent periodic reports we file with the Securities and Exchange Commission ("SEC"). These cautionary statements apply to all forward-looking statements wherever they appear in this Quarterly Report.

Forward-looking statements are based on certain assumptions and analysis made in light of our experience and perception of historical trends, current conditions and expected future developments as well as other factors that we believe are appropriate under the circumstances. While these statements represent our judgment on what the future may hold, and we believe these judgments are reasonable, these statements are not guarantees of any events or financial results. All forward-looking statements in this Quarterly Report are made as of the date hereof, based on information available to us as of the date hereof, and subsequent facts or circumstances may contradict, obviate, undermine, or otherwise fail to support or substantiate such statements. We caution you not to rely on these statements without also considering the risks and uncertainties associated with these statements and our business that are addressed in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended September 30, 2019. Certain information included in this Quarterly Report may supersede or supplement forward-looking statements in our other reports filed with the SEC. We assume no obligation to update any forward-looking statement to conform such statements to actual results or to changes in our expectations, except as required by applicable law or regulation.

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**EMCORE Corporation**  
**FORM 10-Q**  
**For The Quarterly Period Ended December 31, 2019**

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**PART I. Financial Information.****ITEM 1. Financial Statements**

**EMCORE CORPORATION**  
**Condensed Consolidated Statements of Operations and Comprehensive Loss**  
**For the three months ended December 31, 2019 and 2018**  
**(in thousands, except per share data)**  
**(unaudited)**

	For the three months ended December 31,	
	2019	2018
Revenue	\$ 25,482	\$ 24,001
Cost of revenue	18,008	18,193
Gross profit	7,474	5,808
Operating expense:		
Selling, general, and administrative	5,887	7,593
Research and development	4,642	4,019
Gain on sale of assets	(1,602)	—
Total operating expense	8,927	11,612
Operating loss	(1,453)	(5,804)
Other income:		
Interest (expense) income, net	(15)	267
Foreign exchange gain	147	14
Total other income	132	281
Loss before income tax expense	(1,321)	(5,523)
Income tax expense	(14)	(15)
Net loss	\$ (1,335)	\$ (5,538)
Foreign exchange translation adjustment	(36)	14
Comprehensive loss	\$ (1,371)	\$ (5,524)
<b>Per share data:</b>		
Net loss per basic and diluted share	\$ (0.05)	\$ (0.20)
Weighted-average number of basic and diluted shares outstanding	28,832	27,534

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

**EMCORE CORPORATION**  
**Condensed Consolidated Balance Sheets**  
**As of December 31, 2019 and September 30, 2019**  
**(in thousands)**  
**(unaudited)**

	As of December 31, 2019	As of September 30, 2019
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 15,356	\$ 21,574
Restricted cash	30	403
Accounts receivable, net of allowance of \$258 and \$148, respectively	19,279	18,497
Contract assets	1,625	1,055
Inventory	25,095	24,051
Prepaid expenses and other current assets	4,984	6,389
Assets held for sale	1,678	—
Total current assets	68,047	71,969
Property, plant, and equipment, net	33,996	37,223
Goodwill	69	69
Operating lease right-of-use assets	4,586	—
Other intangible assets, net	229	239
Other non-current assets	62	62
Total assets	\$ 106,989	\$ 109,562
<b>LIABILITIES and SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Borrowings from credit facility	\$ 4,459	\$ 5,497
Accounts payable	10,796	10,701
Accrued expenses and other current liabilities	8,929	14,521
Operating lease liabilities - current	823	—
Total current liabilities	25,007	30,719
Operating lease liabilities - non-current	3,882	—
Asset retirement obligations	1,898	1,890
Other long-term liabilities	73	207
Total liabilities	30,860	32,816
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Common stock, no par value, 50,000 shares authorized; 35,858 shares issued and 28,948 shares outstanding as of December 31, 2019; 35,803 shares issued and 28,893 shares outstanding as of September 30, 2019	740,680	739,926
Treasury stock at cost; 6,910 shares	(47,721)	(47,721)
Accumulated other comprehensive income	914	950
Accumulated deficit	(617,744)	(616,409)
Total shareholders' equity	76,129	76,746
Total liabilities and shareholders' equity	\$ 106,989	\$ 109,562

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

**EMCORE CORPORATION**  
**Condensed Consolidated Statements of Shareholders' Equity**  
**For the three months ended December 31, 2019 and 2018**  
**(in thousands)**  
**(unaudited)**

	For the three months ended December 31,	
	2019	2018
<b>Shares of Common Stock</b>		
Balance, beginning of period	28,893	27,577
Stock-based compensation	55	91
Stock option exercises	—	—
Balance, end of period	<u>28,948</u>	<u>27,668</u>
<b>Value of Common Stock</b>		
Balance, beginning of period	\$ 739,926	\$ 734,066
Stock-based compensation	801	425
Stock option exercises	—	—
Tax withholding paid on behalf of employees for stock-based awards	(47)	(150)
Balance, end of period	<u>740,680</u>	<u>734,341</u>
<b>Treasury stock, beginning and ending of period</b>	<u>(47,721)</u>	<u>(47,721)</u>
<b>Accumulated Other Comprehensive Income</b>		
Balance, beginning of period	950	885
Translation adjustment	(36)	14
Balance, end of period	<u>914</u>	<u>899</u>
<b>Accumulated Deficit</b>		
Balance, beginning of period	(616,409)	(580,425)
Net loss	(1,335)	(5,538)
Balance, end of period	<u>(617,744)</u>	<u>(585,963)</u>
<b>Total Shareholders' Equity</b>	<u>\$ 76,129</u>	<u>\$ 101,556</u>

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

**EMCORE CORPORATION**  
**Condensed Consolidated Statements of Cash Flows**  
**For the three months ended December 31, 2019 and 2018**  
**(in thousands)**  
**(unaudited)**

	For the three months ended December 31,	
	2019	2018
<b>Cash flows from operating activities:</b>		
Net loss	\$ (1,335)	\$ (5,538)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization expense	1,981	1,594
Stock-based compensation expense	801	425
Provision adjustments related to doubtful accounts	111	—
Provision adjustments related to product warranty	49	56
Net gain on disposal of equipment	(1,602)	—
Other	(259)	28
Total non-cash adjustments	1,081	2,103
Changes in operating assets and liabilities:		
Accounts receivable	(1,450)	911
Inventory	(902)	392
Other assets	(2,809)	(436)
Accounts payable	794	(2,064)
Accrued expenses and other current liabilities	(1,358)	1,763
Total change in operating assets and liabilities	(5,725)	566
Net cash used in operating activities	(5,979)	(2,869)
<b>Cash flows from investing activities:</b>		
Purchase of equipment	(1,506)	(2,878)
Proceeds from disposal of property, plant and equipment	1,947	—
Net cash provided by (used in) investing activities	441	(2,878)
<b>Cash flows from financing activities:</b>		
Net payments on credit facilities	(1,038)	—
Taxes paid related to net share settlement of equity awards	(47)	(150)
Net cash used in financing activities	(1,085)	(150)
Effect of exchange rate changes provided by foreign currency	32	(3)
Net decrease in cash, cash equivalents and restricted cash	(6,591)	(5,900)
Cash, cash equivalents and restricted cash at beginning of period	21,977	63,195
Cash, cash equivalents and restricted cash at end of period	\$ 15,386	\$ 57,295
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the period for interest	\$ 47	\$ 25
Cash paid during the period for income taxes	\$ —	\$ 2
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Changes in accounts payable related to purchases of equipment	\$ (725)	\$ (410)

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

**EMCORE Corporation**  
**Notes to our Condensed Consolidated Financial Statements**

**NOTE 1. Description of Business**

Business Overview

EMCORE Corporation (referred to herein, together with its subsidiaries, as the “Company,” “we,” “our,” or “EMCORE”) was established in 1984 as a New Jersey corporation. The Company became publicly traded in 1997 and is listed on the Nasdaq stock exchange under the ticker symbol EMKR. EMCORE pioneered the linear fiber optic transmission technology that enabled the world’s first delivery of Cable TV (“CATV”) directly on fiber, and today is a leading provider of advanced *Mixed-Signal Optics* products that enable communications systems and service providers to meet growing demand for increased bandwidth and connectivity. The *Mixed-Signal Optics* technology at the heart of our broadband communications products is shared with our fiber optic gyros and inertial sensors to provide the aerospace and defense markets with state-of-the-art navigation systems technology. With the acquisition of Systron Donner Inertial, Inc. (“SDI”), a navigation systems provider with a scalable, chip-based platform for higher volume gyro applications utilizing Quartz MEMS technology, in June 2019, EMCORE further expanded its portfolio of gyros and inertial sensors with SDI’s quartz MEMS gyro and accelerometer technology. EMCORE has fully vertically-integrated manufacturing capability through our indium phosphide compound semiconductor wafer fabrication facility at our headquarters in Alhambra, CA, and through our quartz processing and sensor manufacturing facility in Concord, CA. These facilities support EMCORE’s vertically-integrated manufacturing strategy for quartz and fiber optic gyro products, for navigation systems, and for our chip, laser, transmitter, and receiver products for broadband applications.

Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim information, and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X promulgated by the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and notes required by U.S. GAAP for annual financial statements. In our opinion, the interim financial statements reflect all normal adjustments that are necessary to provide a fair presentation of the financial results for the interim periods presented. Operating results for interim periods are not necessarily indicative of results that may be expected for an entire fiscal year. The condensed consolidated balance sheet as of September 30, 2019 has been derived from the audited consolidated financial statements as of such date. For a more complete understanding of our business, financial position, operating results, cash flows, risk factors and other matters, please refer to our Annual Report on Form 10-K for the fiscal year ended September 30, 2019.

**NOTE 2. Recent Accounting Pronouncements**

(a) New Accounting Updates Recently Adopted

- In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)*. ASU 2016-02 introduces a lessee model that requires recognition of assets and liabilities arising from qualified leases on the consolidated balance sheets and disclosure of qualitative and quantitative information about lease transactions. The new standard was effective for our fiscal year beginning October 1, 2019. We adopted Topic 842 using the modified retrospective approach. The modified retrospective approach provides a method for recording existing leases at the beginning of the period of adoption. In addition, we elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed us to carry forward the historical lease classification and we elected the hindsight practical expedient to determine the lease term for existing leases. Additionally, the Company elected an accounting policy to not record operating lease right-of-use assets and lease liabilities for leases with an initial term of twelve months or less on its condensed consolidated balance sheet. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.



Adoption of the new standard resulted in the recording of net operating lease right-of-use assets of \$4.8 million and operating lease liabilities of \$4.8 million, as of October 1, 2019. The standard did not have an impact on our consolidated results of operations or cash flow.

The impact of the adoption of ASC 842 on the balance sheet as of October 1, 2019 was:

(in thousands)	As Reported September 30, 2019	Increase	Balance October 1, 2019
Operating lease right-of-use assets	\$ -	\$ 4,800	\$ 4,800
Total assets	109,562	4,800	114,362
Operating lease liabilities	-	800	800
Total current liabilities	30,719	800	31,519
Operating lease liabilities non-current	-	4,000	4,000
Total liabilities	32,816	4,800	37,616
Total liabilities and equity	109,562	4,800	114,362

(b) Recent Accounting Standards or Updates Not Yet Effective

In June 2016, the FASB issued ASU 2016-13 *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which changes the way entities measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net earnings. The new standard is effective for annual periods beginning after December 15, 2019, including interim periods within those annual periods. The new standard will be effective for our fiscal year beginning October 1, 2020 and early adoption is permitted. The Company is currently evaluating the new guidance to determine the impact it may have on its condensed consolidated financial statements and related disclosures.

**NOTE 3. Summary of Significant Accounting Policies**

Our significant accounting policies are detailed in “Note 2 - Summary of Significant Accounting Policies” of our Annual Report on Form 10-K for the year ended September 30, 2019. Significant changes to our accounting policies as a result of adopting Topic 842 are discussed below:

The Company determines if an arrangement is a lease at its inception. Right-of-use (“ROU”) assets and operating lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Company uses its estimated incremental borrowing rate in determining the present value of lease payments considering the term of the lease, which is derived from information available at the lease commencement date. The lease term includes renewal options when it is reasonably certain that the option will be exercised, and excludes termination options. To the extent that the Company’s agreements have variable lease payments, the Company includes variable lease payments that depend on an index or a rate and excludes those that depend on facts or circumstances occurring after the commencement date, other than the passage of time. Lease expense for these leases is recognized on a straight-line basis over the lease term. The Company has elected not to recognize ROU assets and lease liabilities that arise from short-term (12 months or less) leases for any class of underlying asset. Operating leases are included in operating lease ROU assets, current operating lease liabilities, and non-current operating lease liabilities in the Company’s condensed consolidated balance sheet.

The Company’s lease arrangements consist primarily of corporate, manufacturing and other facility agreements as well as various office equipment agreements. The leases expire at various dates through 2026, some of which include options to extend the lease term. The options with the longest potential total lease term consist of options for extension of up to three years following expiration of the original lease term.

During the three months ended December 31, 2019, the Company recorded \$0.3 million of operating lease expense. During the three months ended December 31, 2018, the Company recorded \$0.3 million of rent expense. The Company’s finance leases and short-term leases are immaterial.

Maturities of operating lease liabilities as of December 31, 2019 were as follows:

	<b>(In Thousands)</b>
2020	\$ 951
2021	854
2022	841
2023	804
2024	658
Thereafter	1,183
Total lease payments	5,291
Less imputed interest	(586)
Total	<u>\$ 4,705</u>

The following is a schedule of future minimum lease payments as of September 30, 2019:

	<b>Operating Leases</b>
	<b>(In thousands)</b>
2020	\$ 988
2021	839
2022	824
2023	853
2024	655
Thereafter	1,350
Total lease payments	<u>\$ 5,509</u>

Weighted-average remaining lease term and discount rate related to operating leases are as follows

	<b>December 31, 2019</b>
Weighted average remaining lease term (years)	6.2
Weighted average discount rate	3.8 %

**Disaggregation of Revenue** - Revenue is classified based on the product line of business. For additional information on the disaggregated revenues by geographical region, see [Note 15 - Geographical Information](#) in the notes to the condensed consolidated financial statements.

Revenue is also classified by major product category and is presented below:

<i>(in thousands)</i>	<b>For the three months ended December 31,</b>			
	<b>2019</b>	<b>% of Revenue</b>	<b>2018</b>	<b>% of Revenue</b>
Navigation and Inertial Sensing	\$ 10,267	40 %	2,459	10 %
Defense Optoelectronics	3,437	13 %	1,681	7 %
CA TV Lasers and Transmitters	9,383	37 %	14,772	62 %
Chip Devices	1,555	6 %	4,215	18 %
Other	840	4 %	874	3 %
Total revenue	<u>\$ 25,482</u>	<u>100 %</u>	<u>\$ 24,001</u>	<u>100 %</u>

**NOTE 4. Acquisition**

On June 7, 2019, we completed the acquisition of Systron Donner Inertial, Inc. (“SDI”), a private-equity backed navigation systems provider with a scalable, chip-based platform for higher volume gyro applications utilizing Quartz MEMS technology. The total purchase price was approximately \$25.0 million, consisting of (i) approximately \$22.0 million in cash after working capital adjustments and (ii) the issuance of 811 thousand shares of common stock with an aggregate value of approximately \$3.0 million as of the closing date.

Following the closing, we incorporated SDI’s products into our navigation product line and have included the financial results of SDI in our condensed consolidated financial statements beginning on the acquisition date. Net revenue and net income of SDI of \$8.1 million and \$0.1 million, respectively, is included in our condensed consolidated statements of operations and comprehensive loss for the three months ended December 31, 2019.

*Preliminary Purchase Price Allocation*

The total purchase price was allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date.

As the Company finalizes the fair values of assets acquired and liabilities assumed, additional purchase price adjustments may be recorded during the measurement period (a period not to exceed 12 months from the date of acquisition). As of December 31, 2019, the Company had not finalized the determination of values allocated to equipment, deferred taxes and goodwill. Any changes in the fair values of the assets acquired and liabilities assumed during the measurement period may result in a material adjustment to goodwill.

*Pro Forma Financial Information*

The following unaudited pro forma financial information presented for the three months ended December 31, 2019 and 2018 does not purport to be indicative of the results of operations that would have been achieved had the acquisition been consummated on October 1, 2018, nor of the results which may occur in the future. The pro forma amounts are based upon available information and certain assumptions that the Company believes are reasonable.

(in thousands, except per share data)	For the three months ended December 31,	
	2019	2018
Revenue	\$ 25,482	\$ 32,395
Net loss	\$ (1,335)	\$ (6,684)
Net loss per basic and diluted share	\$ (0.05)	\$ (0.24)
Weighted-average number of basic and diluted shares outstanding	28,832	27,534

**NOTE 5. Cash, Cash Equivalents and Restricted Cash**

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the unaudited consolidated balance sheets that sum to the total of the same amounts shown in the unaudited statements of consolidated cash flows:

(in thousands)	As of December 31, 2019	As of September 30, 2019	As of December 31, 2018
Cash	\$ 4,356	\$ 4,338	\$ 2,619
Cash equivalents	\$ 11,000	\$ 17,236	\$ 54,665
Restricted cash	30	403	11
Total cash, cash equivalents and restricted cash	\$ 15,386	21,977	57,295

The Company's restricted cash includes cash balances which are legally or contractually restricted to use. The Company's restricted cash is included in current assets as of December 31, 2019, September 30, 2019 and December 31, 2018.

**NOTE 6. Fair Value Accounting**

ASC Topic 820 ("ASC 820"), *Fair Value Measurements*, establishes a valuation hierarchy for disclosure of the inputs to valuation techniques used to measure fair value. This standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value:

- Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the assets or liabilities, either directly or indirectly, through market corroboration, for substantially the full term of the financial instrument.
- Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets or liabilities at fair value.

Classification of an asset or liability within this hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs.

Cash consists primarily of bank deposits or highly liquid short-term investments with a maturity of three months or less at the time of purchase. Restricted cash represents temporarily restricted deposits held as compensating balances against short-term borrowing arrangements. Cash, cash equivalents and restricted cash are based on Level 1 measurements.

The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, other current assets, and accounts payable approximate fair value because of the short maturity of these instruments. See [Note 4 - Acquisition](#) for discussion of the fair value measurement of assets acquired and liabilities assumed in the SDI acquisition.

**NOTE 7. Accounts Receivable**

The components of accounts receivable consisted of the following:

<i>(in thousands)</i>	As of	
	December 31, 2019	September 30, 2019
Accounts receivable, gross	\$ 19,537	\$ 18,645
Allowance for doubtful accounts	(258)	(148)
Accounts receivable, net	<u>\$ 19,279</u>	<u>\$ 18,497</u>

The allowance for doubtful accounts is based on the age of receivables and a specific identification of receivables considered at risk of collection.

**NOTE 8. Inventory**

The components of inventory consisted of the following:

<i>(in thousands)</i>	As of	
	December 31, 2019	September 30, 2019
Raw materials	\$ 13,046	\$ 11,510
Work in-process	7,838	8,176
Finished goods	4,211	4,365
Inventory balance at end of period	<u>\$ 25,095</u>	<u>\$ 24,051</u>

**NOTE 9. Property, Plant, and Equipment, net**

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

<i>(in thousands)</i>	As of	
	December 31, 2019	September 30, 2019
Land	\$ 3,484	\$ 3,484
Building	9,405	9,405
Equipment	33,374	42,308
Furniture and fixtures	1,109	1,109
Computer hardware and software	3,629	3,554
Leasehold improvements	2,688	2,676
Construction in progress	9,639	9,330
Property, plant, and equipment, gross	\$ 63,328	\$ 71,866
Accumulated depreciation	(29,332)	(34,643)
Property, plant, and equipment, net	<u>\$ 33,996</u>	<u>\$ 37,223</u>

During the quarter ended December 31, 2019, the Company sold certain equipment and recognized a gain on sale of approximately \$1.6 million. In addition, the Company entered into agreements to sell additional equipment and these assets have been reclassified to assets held for sale. See [Note 16 – Subsequent Events](#) for additional information related to the agreement to sell the Company's land and building.

**NOTE 10. Accrued Expenses and Other Current Liabilities**

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

<i>(in thousands)</i>	As of	
	December 31, 2019	September 30, 2019
Compensation	\$ 4,478	\$ 5,185
Warranty	673	654
Legal expenses and other professional fees	611	4,407
Contract liabilities	524	541
Income and other taxes	1,170	1,135
Severance and restructuring accruals	78	172
Other	1,395	2,427
Accrued expenses and other current liabilities	<u>\$ 8,929</u>	<u>\$ 14,521</u>

**NOTE 11. Credit Facilities**

On November 11, 2010, we entered into a Credit and Security Agreement (as amended to date, the “Credit Facility”) with Wells Fargo Bank, N.A. The Credit Facility is secured by the Company’s assets and is subject to a borrowing base formula based on the Company’s eligible accounts receivable, inventory, and machinery and equipment accounts.

The Credit Facility matures in November 2021 and currently provides us with a revolving credit line of up to \$15.0 million, subject to a borrowing base formula, that can be used for working capital requirements, letters of credit, acquisitions, and other general corporate purpose subject to a requirement, for certain specific uses, that the Company have liquidity of at least \$25.0 million after such use. The Credit Facility requires us to maintain (a) liquidity of at least \$7.5 million, which amount shall automatically increase to at least \$10.0 million on March 1, 2020 and (b) excess availability of at least \$1.0 million.

As of December 31, 2019, there was \$4.5 million outstanding under this Credit Facility and the Company was in compliance with all financial covenants. Also, as of December 31, 2019, the Credit Facility had approximately \$0.5 million reserved for one outstanding stand-by letter of credit and \$0 available for borrowing.

**NOTE 12. Income and Other Taxes**

For the three months ended December 31, 2019 and 2018, the Company recorded income tax expense of approximately \$14,000 and \$15,000, respectively. Income tax expense for the three months ended December 31, 2019 and 2018 is primarily comprised of state minimum tax expense.

For the three months ended December 31, 2019 and 2018, the effective tax rate on continuing operations was 0.0% and 0.1%, respectively. The lower tax rate for the three months ended December 31, 2019 is primarily due to the state minimum tax expense. The higher tax rate for the three months ended December 31, 2018 is primarily due to the operating loss and state minimum tax expense. Income tax expense is comprised of estimated alternative minimum tax and foreign tax expense. The Company uses some estimates to forecast permanent differences between book and tax accounting.

We have not provided for income taxes on non-U.S. subsidiaries’ undistributed earnings as of December 31, 2019 because we plan to indefinitely reinvest the unremitted earnings of our non-U.S. subsidiaries and all of our non-U.S. subsidiaries historically have negative earnings and profits.

All deferred tax assets have a full valuation allowance at December 31, 2019. On a quarterly basis, the Company evaluates the positive and negative evidence to assess whether the more likely than not criteria has been satisfied in determining whether there will be further adjustments to the valuation allowance.

During the three months ended December 31, 2019 and 2018, there were no material increases or decreases in unrecognized tax benefits. As of December 31, 2019 and September 30, 2019, we had approximately \$0.5 million of interest and penalties accrued as tax liabilities on our balance sheet. We believe that it is reasonably possible that none of the uncertain tax positions will be paid or settled within the next 12 months. Interest that is accrued on tax liabilities is recorded within interest expense on the condensed consolidated statements of operations.

**NOTE 13. Commitments and Contingencies**

**Indemnifications:** We have agreed to indemnify certain customers against claims of infringement of intellectual property rights of others in our sales contracts with these customers. Historically, we have not paid any claims under these indemnification obligations. We enter into indemnification agreements with each of our directors and executive officers pursuant to which we agree to indemnify them for certain potential expenses and liabilities arising from their status as a director or executive officer of the Company. We maintain director and officer insurance, which may cover certain liabilities arising from our obligation to indemnify our directors and executive officers in certain circumstances. It is not possible to determine the aggregate maximum potential loss under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement.

**Legal Proceedings:** We are subject to various legal proceedings, claims, and litigation, either asserted or unasserted, that arise in the ordinary course of business. The outcome of these matters is currently not determinable and we are unable to estimate a range of loss, should a loss occur, from these proceedings. The ultimate outcome of legal proceedings involves judgments, estimates and inherent uncertainties and the results of these matters cannot be predicted with certainty. Professional legal fees are expensed when incurred. We accrue for contingent losses when such losses are probable and reasonably estimable. In the event that estimates or assumptions prove to differ from actual results, adjustments are made in subsequent periods to reflect more current information. Should we fail to prevail in any legal matter or should several legal matters be resolved against the Company in the same reporting period, then the financial results of that particular reporting period could be materially affected.

a) Intellectual Property Lawsuits

We protect our proprietary technology by applying for patents where appropriate and, in other cases, by preserving the technology, related know-how and information as trade secrets. The success and competitive position of our product lines are impacted by our ability to obtain intellectual property protection for our research and development efforts. We have, from time to time, exchanged correspondence with third parties regarding the assertion of patent or other intellectual property rights in connection with certain of our products and processes.

b) Phoenix Navigation Components, LLC (“Phoenix”) Legal Proceedings

On June 12, 2018, Phoenix commenced an arbitration against EMCORE with the American Arbitration Association (“AAA”) in New York. On August 31, 2018, Phoenix filed a First Amended Demand for Arbitration, asserting the following claims: breach of contract, breach of the covenant of good faith and fair dealing, misappropriation of trade secrets (under the Defend Trade Secrets Act, 18 U.S.C. § 1836, and New York law), conversion, unjust enrichment, correction of inventorship relating to U.S. Patent No. 8,773,665, and declaratory relief, relating to EMCORE’s termination of certain agreements entered into between EMCORE and Phoenix related to the purported license of certain intellectual property related to fiber optic gyroscope technology and disputed royalty payments related thereto. On September 14, 2018, EMCORE filed an Answering Statement and Counterclaim, denying all of Phoenix’s claims and asserting counterclaims for breach of the implied covenant of good faith and fair dealing and declaratory relief.

On June 21, 2019, an interim award (the “Interim Award”) was issued in connection with all claims in the AAA proceeding other than the claims related to correction of inventorship and declaratory relief relating to U.S. Patent No. 8,773,665 (the “Patent Claims”). While Phoenix ultimately sought \$21.2 million in total damages, plus attorneys’ fees and costs, in the Interim Award, the arbitrator found in the Interim Award that (i) Phoenix’s claim for breach of the covenant of good faith and fair dealing was denied; (ii) Phoenix’s claim for breach of the agreements entered with EMCORE for failure to provide funding for non-recurring engineering was denied; (iii) Phoenix’s claim for unjust enrichment was denied; (iv) Phoenix’s claim for conversion was granted, but damages for that claim duplicate the damages on the breach of contract and misappropriation of trade secret claims described below and no incremental damages were awarded based on the granting of this claim; (v) EMCORE’s request for a declaration that, as between EMCORE and Phoenix, EMCORE owns its proprietary IOC and transceiver was granted.

The arbitrator also found in the Interim Award that (i) EMCORE breached certain license agreements entered into with Phoenix by failing to make royalty payments due and failing to provide required accountings, (ii) Phoenix and its members are no longer subject to prior exclusivity restrictions; (iii) EMCORE’s claim for breach of the covenant of good faith and fair dealing was denied; and (iv) the proceedings for the Patent Claims and EMCORE’s counterclaim with respect thereto would be established by a future proceeding.

Further, out of the original 97 trade secret subpart claims by Phoenix, the arbitrator found in the Interim Award that EMCORE had misappropriated a total of five trade secret subparts (the “Deemed Trade Secrets”), and found that at least one Deemed Trade Secret was being used in seven EMCORE products (the “EMCORE Products”). The arbitrator found that as a result of the foregoing, royalties of 7.5% of the sale price are owed, to the extent not previously paid, on (i) sales through July 16, 2018 on all fiber optic gyroscopes sold by EMCORE, and (ii) sales from July 16, 2018 through May 31, 2019 of the EMCORE Products whether standalone or incorporated into a larger product, in each case together with interest at the New York statutory rate of 9% simple interest. In addition, the arbitrator found in the Interim Award

that Phoenix was the prevailing party, and Phoenix was awarded attorneys' fees and costs in the amount of approximately \$3.7 million, which amount was reduced 10% from Phoenix's attorneys' fees request.

In the Interim Award, the arbitrator further determined that EMCORE shall pay Phoenix a royalty of 7.5% of the sale price on (i) future customer payments for certain EMCORE product contracts previously entered into and (ii) customer payments for future sales of any product using any Deemed Trade Secret, in each case payable in a single lump sum within one month of completion of the calendar quarter in which payment has been received from the customer, and shall concurrently submit to Phoenix a written report that sets forth the calculation of the amount of the royalty payment in a form similar to previous royalty reports, provided that following the first \$1 million of royalty payments on the EMP-1 product only, inclusive of payments made to date, EMCORE will pay to Phoenix a royalty of 2.25% of the sale price (net of any warranty work, returns, rebates, discounts or credits). EMCORE is required to continue to make royalty payments in this manner until such time as it has in good faith determined, and can so document, that it has completely ceased use of the Deemed Trade Secrets, and at such time, EMCORE shall provide Phoenix written notice of same by certified letter, return receipt requested.

On October 1, 2019, the arbitrator issued a Modified Partial Final Award, which incorporated by reference the terms of the Interim Award and ordered and awarded, among other items, (i) an award to Phoenix of attorneys' fees and costs in the amount of approximately \$3.8 million, (ii) an award to Phoenix of \$1.0 million in damages owing for unpaid royalties through June 30, 2019, of which \$0.6 million remained to be paid as of the issuance of the Modified Partial Final Award; (iii) an award to Phoenix of \$0.1 million in pre-judgment interest, calculated at the New York statutory rate of 9% simple interest, and (iv) an order that EMCORE make the payments in the foregoing items (i), (ii) and (iii) on or before October 14, 2019. On October 10, 2019, EMCORE made the foregoing payments to Phoenix in an aggregate amount equal to approximately \$4.5 million. This amount was accrued as of September 30, 2019.

The Patent Claims were not determined in the Interim Award or the Modified Partial Final Award. In December 2019, EMCORE and Phoenix entered into a settlement agreement with respect to the Patent Claims pursuant to which EMCORE (i) granted Phoenix a fully paid, perpetual nonexclusive license to the disputed patent and (ii) agreed to pay Phoenix a total of \$0.4 million, of which \$0.2 million was paid in January 2020 and an additional \$0.1 million of such amount is required to be paid in each of April 2020 and July 2020.

On June 21, 2018, Phoenix commenced a special proceeding against EMCORE in the New York Supreme Court, Commercial Division (the "Special Proceeding"). As part of the Special Proceeding, Phoenix filed an application for a preliminary injunction in aid of arbitration pursuant to CLPR 7502(c), in connection with the AAA arbitration proceeding in New York. The application resulted in a so-ordered stipulated injunction between EMCORE and Phoenix, which was entered in August 2018. In January 2020, the court granted a motion to confirm the Modified Partial Final Award, vacated the so-ordered stipulated injunction entered in August 2018, and disposed of the Special Proceeding.

**NOTE 14. Equity**

Equity Plans

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

- the 2000 Stock Option Plan,
- the 2010 Equity Incentive Plan ("2010 Plan"),
- the 2012 Equity Incentive Plan ("2012 Plan"), and
- the 2019 Equity Incentive Plan ("2019 Plan").

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



Stock-based compensation

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

<b>Stock-based Compensation Expense - by award type</b> <i>(in thousands)</i>	<b>For the three months ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Employee stock options	\$ 5	\$ 7
Restricted stock units and awards	376	386
Performance stock units and awards	292	(60)
Employee stock purchase plan	47	40
Outside director equity awards and fees in common stock	81	52
Total stock-based compensation expense	<u>\$ 801</u>	<u>\$ 425</u>

<b>Stock-based Compensation Expense - by expense type</b> <i>(in thousands)</i>	<b>For the three months ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Cost of revenue	\$ 136	\$ 111
Selling, general, and administrative	485	159
Research and development	180	155
Total stock-based compensation expense	<u>\$ 801</u>	<u>\$ 425</u>

401(k) Plan

We have a savings plan that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under this savings plan, participating employees may defer a portion of their pretax earnings, up to the Internal Revenue Service annual contribution limit. Since June 2015, all employer contributions are made in cash. Our matching contribution in cash for the three months ended December 31, 2019 and 2018 was approximately \$0.2 million and \$0.1 million, respectively.

Loss Per Share

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

<b>Basic and Diluted Net Loss Per Share</b> <i>(in thousands, except per share)</i>	<b>For the three months ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Numerator:		
Loss from continuing operations	\$ (1,335)	\$ (5,538)
Undistributed earnings allocated to common shareholders for basic and diluted net income per share	(1,335)	(5,538)
Denominator:		
Denominator for basic and fully diluted net loss per share - weighted average shares outstanding	28,832	27,534
Net loss per basic and fully diluted share	<u>\$ (0.05)</u>	<u>\$ (0.20)</u>
Weighted average antidilutive options, unvested restricted stock units and awards, unvested performance stock units and ESPP shares excluded from the computation	1,168	664

For diluted loss per share, the denominator includes all outstanding common shares. The anti-dilutive stock options and unvested stock were excluded from the computation of diluted net loss per share for the three months ended December 31, 2019 and 2018 due to the Company incurring a net loss for the periods.

Employee Stock Purchase Plan

We maintain an Employee Stock Purchase Plan ("ESPP") that provides employees an opportunity to purchase common stock through payroll deductions. The ESPP is a 6-month duration plan with new participation periods beginning on

approximately February 25 and August 26 of each year. The purchase price is set at 85% of the average high and low market price of our common stock on either the first or last trading day of the participation period, whichever is lower, and annual contributions are limited to the lower of 10% of an employee's compensation or \$25,000.

Future Issuances

As of December 31, 2019, we had common stock reserved for the following future issuances:

<b>Future Issuances</b>	<b>Number of Common Stock Shares Available for Future Issuances</b>
Exercise of outstanding stock options	48,684
Unvested restricted stock units and awards	1,754,697
Unvested performance stock units and awards (at 200% maximum payout)	1,812,000
Purchases under the employee stock purchase plan	543,731
Issuance of stock-based awards under the Equity Plans	1,126,981
Purchases under the officer and director share purchase plan	88,741
<b>Total reserved</b>	<b>5,374,834</b>

**NOTE 15. Segment Data and Related Information**

The reportable segments reported below are the Company's segments for which separate financial information is available and upon which operating results are evaluated by the chief operating decision maker to assess performance and to allocate resources. As a result of organizational changes effective in the beginning of fiscal year 2020, the Company has reassessed its reportable segments and determined that it has two reportable segments, (i) Aerospace and Defense and (ii) Broadband. All prior-period amounts have been adjusted retrospectively to reflect our reportable segment changes.

The Company's Chief Executive Officer is the chief operating decision maker and he assesses the performance of the operating segment and allocates resources based on segment profits. We do not allocate sales and marketing, or general and administrative expenses to our segments because management does not include the information in its measurement of the performance of the operating segments. Also, interest expense and interest income are not presented by segment because management does not include this information in its measurement of the performance of the operating segments.

The Aerospace and Defense segment is comprised of two product lines: (i) Navigation and Inertial Sensing, and (ii) Defense Optoelectronics. The Broadband segment is comprised of three product lines: (i) CATV, (ii) Chip Devices, and (iii) Other. Information on reportable segments utilized by our chief operating decision maker is as follows:

<i>(in thousands)</i>	<b>For the three months ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Revenue:</b>		
Aerospace and Defense	\$ 13,704	\$ 4,140
Broadband	11,778	19,861
<b>Total revenue</b>	<b>\$ 25,482</b>	<b>\$ 24,001</b>
<b>Segment Profit:</b>		
Aerospace and Defense gross profit	\$ 4,488	\$ 1,222
Aerospace & Defense R&D expense	3,951	1,551
Aerospace and Defense segment profit/(loss)	\$ 537	\$ (329)
Broadband gross profit	\$ 2,986	\$ 4,586
Broadband R&D expense	691	2,468
Broadband segment profit/(loss)	\$ 2,295	\$ 2,118
Total consolidated segment profit	\$ 2,832	\$ 1,789
<b>Unallocated (income) expense:</b>		
Selling, general and administrative	5,887	7,593
Gain on sale of assets	(1,602)	-
Interest expense (income), net	15	(267)
Foreign exchange gain	(147)	(14)
Total unallocated expense	4,153	7,312
Loss before income tax expense	\$ (1,321)	\$ (5,523)

**Revenue:** The following table sets forth revenue by geographic region with revenue assigned to geographic regions based on our customers' billing address.

<b>Revenue by Geographic Region</b> <i>(in thousands)</i>	<b>For the three months ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
United States and Canada	\$ 20,195	\$ 18,576
Asia	2,266	4,045
Europe	1,889	1,266
Other	1,132	114
<b>Total revenue</b>	<b>\$ 25,482</b>	<b>\$ 24,001</b>

**Significant Customers:** Significant customers are defined as customers representing greater than 10% of our consolidated revenue. Revenue from three of our significant customers represented an aggregate of 50% and 74% of our consolidated revenue for the three months ended December 31, 2019 and 2018, respectively.

**Long-lived Assets:** Long-lived assets consist of land, building and property, plant, and equipment. As of December 31, 2019 and September 30, 2019, approximately 90% and 85%, respectively, of our long-lived assets were located in the United States. The remaining long-lived assets are primarily located in China.

**NOTE 16. Subsequent Events**

SDI entered into a Standard Offer, Agreement and Escrow Instructions for Purchase of Real Estate (Non-Residential) (the “Purchase Agreement”) dated as of December 31, 2019 with Parkview Management Group, Inc. (“Buyer”), pursuant to which the parties agreed to consummate a sale and leaseback transaction (the “Sale and Leaseback Transaction”). Under the terms of the Purchase Agreement, SDI agreed to sell its property located in Concord, California (the “Real Property”) to Buyer, for a total purchase price of \$13.4 million. On January 13, 2020, SDI and Buyer entered into First Amendment to Standard Offer, Agreement and Escrow Instructions for Purchase of Real Estate (Non-Residential) which provided for various amendments to the Purchase Agreement, including a reduction of the total purchase price to \$13.2 million. The net proceeds to be received by SDI will be reduced by transaction commissions and expenses incurred in connection with the sale.

At the consummation of the Sale and Leaseback Transaction, SDI will enter into a Single-Tenant Triple Net Lease (the “Lease Agreement”) with Buyer pursuant to which SDI will lease back from Buyer the Real Property for a term commencing on the consummation of the Sale and Leaseback Transaction and ending fifteen (15) years after the consummation of the Sale and Leaseback Transaction, unless earlier terminated or extended in accordance with the terms of the Lease Agreement. Under the Lease Agreement, SDI’s financial obligations will include base monthly rent of \$0.75 per square feet, or approximately \$77,500 per month, which rent will increase on an annual basis at three percent (3%) over the life of the lease. SDI will also be responsible for all monthly expenses related to the leased facilities, including insurance premiums, taxes and other expenses, such as utilities. In connection with the execution of the Lease Agreement, EMCORE will execute a Lease Guaranty (the “Guaranty”) with Buyer under which EMCORE will guarantee the payment when due of the monthly rent, and all other additional rent, interest and charges to be paid by SDI under the Lease Agreement, and the performance by SDI of all of the material terms, conditions, covenants and agreements of the Lease Agreement.

EMCORE anticipates that the close of the Sale and Leaseback Transaction will occur in the second fiscal quarter of 2020, subject to satisfaction of certain customary closing conditions for transactions of this type.

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

*You should read the following discussion of our financial condition and results of operations in conjunction with the financial statements and the notes thereto included in [Financial Statements](#) under [Item 1](#) within this Quarterly Report. The following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. See [Cautionary Statement Regarding Forward-Looking Statements](#).*

### **Business Overview**

EMCORE Corporation (referred to herein, together with its subsidiaries, as the "Company," "we," "our," or "EMCORE") was established in 1984 as a New Jersey corporation. The Company became publicly traded in 1997 and is listed on the Nasdaq Stock Exchange under the ticker symbol EMKR. EMCORE is a leading provider of sensors for navigation in the Aerospace and Defense market as well as a manufacturer of lasers and optical subsystems for use in the Cable TV ("CATV") industry.

EMCORE pioneered the linear fiber optic transmission technology that enabled the world's first delivery of CATV directly on fiber, and today is a leading provider of advanced Mixed-Signal Optics products serving the broadband communications and Aerospace and Defense markets. The Mixed-Signal Optics technology at the heart of our broadband communications products is shared with our fiber optic gyros and inertial sensors to provide the aerospace and defense markets with state-of-the-art navigations systems technology. With the acquisition of Systron Donner Inertial, Inc. ("SDI"), a navigation systems provider with a scalable, chip-based platform for higher volume gyro applications utilizing Quartz MEMS technology, in June 2019, EMCORE further expanded its portfolio of gyros and inertial sensors with SDI's quartz MEMS gyro and accelerometer technology.

EMCORE has fully vertically-integrated manufacturing capability through our indium phosphide compound semiconductor wafer fabrication facility at our headquarters in Alhambra, CA, and through our quartz processing and sensor manufacturing facility in Concord, CA. These facilities support EMCORE's vertically-integrated manufacturing strategy for quartz and fiber optic gyro products, for navigation systems, and for our chip, laser, transmitter, and receiver products for broadband applications.

We have two reporting segments, Aerospace and Defense, and Broadband. Aerospace and Defense is comprised of two product lines: (i) Navigation and Inertial Sensing, and (ii) Defense Optoelectronics. The Broadband segment is comprised of three product lines: (i) CATV Lasers and Transmitters, (ii) Chip Devices, and (iii) Other. Due to a shift in customer base, the previously existing Satellite/Microwave Communications product line has been renamed "Defense Optoelectronics".

### Recent Developments

#### SDI Acquisition

On June 7, 2019, we completed the acquisition of SDI, a private-equity backed navigation systems provider with a scalable, chip-based platform for higher volume gyro applications utilizing Quartz MEMS technology. See [Note 4 - Acquisition](#) in the notes to our condensed consolidated financial statements for additional information regarding this acquisition. Following the closing, we began integrating SDI into our current navigation product line and have included the financial results of SDI in our consolidated financial statements beginning on the acquisition date.

#### Hytera Transactions

As part of the effort to streamline operations and move to a variable cost model in our CATV Lasers and Transmitters product lines, on October 25, 2019, we entered into an Asset Purchase Agreement (the “Purchase Agreement”) with Hytera Communications (Hong Kong) Company Limited, a limited liability company incorporated in Hong Kong (“Hytera HK”), and Shenzhen Hytera Communications Co., Ltd., a corporation formed under the laws of the P.R.C. (“Shenzhen Hytera”, and together with Hytera HK, the “Buyers”), pursuant to which the Buyers agreed to purchase from EMCORE certain CATV module and transmitter manufacturing equipment (the “Equipment”) owned by EMCORE and currently located at the manufacturing facility of EMCORE’s wholly-owned subsidiary, EMCORE Optoelectronics (Beijing) Co, Ltd., a corporation formed under the laws of the P.R.C., for an aggregate purchase price of approximately \$5.54 million.

The Equipment will be transferred to the Buyers in three separate closings, one of which occurred in the quarter ended December 31, 2019 and the other two of which are expected to occur during the quarter ending March 31, 2020, with payment for each portion of the equipment to be made following each such transfer in an amount equal to (i) 80% of the applicable sale price within three months following the closing of the applicable sale and transfer and (ii) 20% of the applicable sale price within six months following the closing of the applicable sale and transfer. In October 2019, we received the first such payment in an amount equal to approximately \$1.9 million.

Concurrently with entry into the Purchase Agreement, we entered into a Contract Manufacturing Agreement (the “Manufacturing Agreement”), dated as of October 25, 2019, with the Buyers pursuant to which the Buyers agreed to manufacture certain CATV module and transmitter products for EMCORE from a manufacturing facility located in Thailand for an initial five year term at product prices agreed to between the parties. In the Manufacturing Agreement, we agreed to pay certain shortfall penalties in the event that orders for manufactured products are below certain thresholds.

#### Other Actions Related to CATV Business

In the quarter ended September 30, 2019, we also reduced the size of our CATV-related employee headcount and reduced the capacity of our wafer fab to one shift. These actions incurred one-time costs of \$0.4 million in the quarter ended September 30, 2019 and are expected to result in annual cash savings of approximately \$3.0 million beginning in the quarter ended December 31, 2019. These operational changes in CATV also fulfill a strategic objective of better positioning the CATV product lines to generate positive cash flow to help fund the other growth areas of EMCORE in Aerospace and Defense.

#### Sale/Leaseback Transaction

SDI entered into a Standard Offer, Agreement and Escrow Instructions for Purchase of Real Estate (Non-Residential) (the “Purchase Agreement”) dated as of December 31, 2019 with Parkview Management Group, Inc. (“Buyer”), pursuant to which the parties agreed to consummate a sale and leaseback transaction (the “Sale and Leaseback Transaction”). Under the terms of the Purchase Agreement, SDI agreed to sell the property located in Concord, California (the “Real Property”) to Buyer for a total purchase price of \$13.4 million. The net proceeds to be received by SDI will be reduced by transaction commissions and expenses incurred in connection with the sale.

At the consummation of the Sale and Leaseback Transaction, SDI will enter into a Single-Tenant Triple Net Lease (the “Lease Agreement”) with Buyer pursuant to which SDI will lease back from Buyer the Real Property for a term commencing on the consummation of the Sale and Leaseback Transaction and ending fifteen (15) years after the consummation of the Sale and Leaseback Transaction, unless earlier terminated or extended in accordance with the terms of the Lease Agreement. Under the Lease Agreement, SDI’s financial obligations will include base monthly rent of \$0.75 per square foot, or approximately \$77,500 per month, which rent will increase on an annual basis at three percent (3%) over the life of the lease. SDI will also be responsible for all monthly expenses related to the leased facilities, including insurance premiums, taxes and other expenses, such as utilities. In connection with the execution of the Lease Agreement, EMCORE will execute a Lease Guaranty (the “Guaranty”) with Buyer under which EMCORE will guarantee the payment when due of the monthly rent, and all other additional rent, interest and charges to be paid by SDI under the Lease Agreement, and the performance by SDI of all of the material terms, conditions, covenants and agreements of the Lease Agreement.

EMCORE anticipates that the close of the Sale and Leaseback Transaction will occur in the second fiscal quarter of 2020, subject to satisfaction of certain customary closing conditions for transactions of this type.

**Results of Operations**

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

	<b>For the three months ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Revenue	100.0 %	100.0 %
Cost of revenue	70.7	75.8
Gross profit	29.3	24.2
Operating expense:		
Selling, general, and administrative	23.1	31.6
Research and development	18.2	16.8
Gain on sale of assets	(6.3)	—
Total operating expense	35.0	48.4
Operating loss	(5.7)	(24.2)
Other income:		
Interest (expense) income, net	(0.1)	1.1
Foreign exchange gain	0.6	0.1
Total other income	0.5	1.2
Loss before income tax expense	(5.2)	(23.0)
Income tax expense	—	(0.1)
Net loss	(5.2)%	(23.1)%

**Comparison of Financial Results for the Three Months Ended December 31, 2019 and 2018**

	<b>For the three months ended December 31,</b>			
	<b>2019</b>	<b>2018</b>	<b>\$ Change</b>	<b>% Change</b>
<i>(in thousands, except percentages)</i>				
Revenue	\$ 25,482	\$ 24,001	\$ 1,481	6.2%
Cost of revenue	18,008	18,193	(185)	-1.0%
Gross profit	7,474	5,808	1,666	28.7%
Operating expense:				
Selling, general, and administrative	5,887	7,593	(1,706)	-22.5%
Research and development	4,642	4,019	623	15.5%
Gain on sale of assets	(1,602)	—	(1,602)	N/A
Total operating expense	8,927	11,612	(2,685)	-23.1%
Operating loss	(1,453)	(5,804)	4,351	-75.0%
Other income (expense):				
Interest (expense) income, net	(15)	267	(282)	-105.6%
Foreign exchange gain	147	14	133	950.0%
Total other income	132	281	(149)	-53.0%
Loss before income tax expense	(1,321)	(5,523)	4,202	-76.1%
Income tax expense	(14)	(15)	1	-6.7%
Net loss	\$ (1,335)	\$ (5,538)	\$ 4,203	-75.9%

**Revenue**

<i>(in thousands, except percentages)</i>	<b>For the three months ended December 31,</b>			
	<b>2019</b>	<b>2018</b>	<b>\$ Change</b>	<b>% Change</b>
Aerospace and Defense revenue	\$ 13,704	\$ 4,140	\$ 9,564	231.0%
Broadband revenue	11,778	19,861	(8,083)	-40.7%
Total revenue	\$ 25,482	\$ 24,001	\$ 1,481	6.2%

**Aerospace and Defense Revenue:**

For the three months ended December 31, 2019, our Aerospace and Defense revenue increased \$9.6 million or 231% compared to the same period in the prior year. Included in Aerospace and Defense revenue is \$8.1 million of revenue from SDI for the three months ended December 31, 2019. For the three months ended December 31, 2019, our Defense Optoelectronics product line revenue increased \$1.8 million compared to the same period in the prior year primarily due to increased customer demand.

**Broadband Revenue:**

For the three months ended December 31, 2019, our Broadband revenue decreased \$8.1 million or 41% compared to the same period in the prior year primarily due to lower customer demand in the CATV and Chips product lines.

**Gross Profit**

<i>(in thousands, except percentages)</i>	<b>For the three months ended December 31,</b>			
	<b>2019</b>	<b>2018</b>	<b>\$ Change</b>	<b>% Change</b>
Aerospace and Defense gross profit	\$ 4,488	\$ 1,222	\$ 3,266	267.3%
Broadband gross profit	2,986	4,586	(1,600)	-34.9%
Total gross profit	\$ 7,474	\$ 5,808	\$ 1,666	28.7%

Our cost of revenue consists of raw materials, compensation expense including non-cash stock-based compensation expense, depreciation expense and other manufacturing overhead costs, expenses associated with excess and obsolete inventories, and product warranty costs. Historically, our cost of revenue as a percentage of revenue, which we refer to as our gross margin, has fluctuated significantly due to product mix, manufacturing yields and sales volumes, and inventory and specific product warranty charges.

Consolidated gross margins were 29.3% and 24.2% for the three months ended December 31, 2019 and 2018, respectively.

Stock-based compensation expense within cost of revenue totaled approximately \$0.1 million during each of the three months ended December 31, 2019 and 2018.

**Aerospace and Defense Gross Profit:**

For the three months ended December 31, 2019, Aerospace and Defense gross profit increased \$3.3 million or 267% compared to the same period in the prior year primarily due to higher revenue, of which \$2.3 million results from the inclusion of SDI gross profit in the three months ended December 31, 2019. For the three months ended December 31, 2019 and 2018, Aerospace and Defense gross margin was 32.7% and 29.5%, respectively.



**Broadband Gross Profit:**

For the three months ended December 31, 2019, Broadband gross profit decreased \$1.6 million or 35% compared to the same period in the prior year primarily as a result of lower revenues in the three months ended December 31, 2019. For the three months ended December 31, 2019 and 2018, Broadband gross margin was 25.4% and 23.1%, respectively. The higher gross margin in the three months ended December 31, 2019 was primarily the result of product mix and a \$0.4 million inventory reserve on non-current inventory in the three months ended December 31, 2018 due to the decline in sales and future demand of the inventory at such time.

**Selling, General and Administrative (“SG&A”)**

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

Stock-based compensation expense within SG&A totaled approximately \$0.5 million and \$0.2 million for the three months ended December 31, 2019 and 2018, respectively.

SG&A expense for the three months ended December 31, 2019 was lower than the amount reported in the same period in the prior year primarily due to lower attorneys’ fees and costs arising from the litigation proceedings with Phoenix, partially offset by an increase in bad debt expense.

As a percentage of revenue, SG&A expenses were 23.1% and 31.6% for the three months ended December 31, 2019 and 2018, respectively.

**Research and Development (“R&D”)**

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

Stock-based compensation expense within R&D totaled approximately \$0.2 million during each of the three months ended December 31, 2019 and 2018, respectively.

For the three months ended December 31, 2019 and 2018, Aerospace and Defense R&D expense was \$4.0 million and \$1.6 million, respectively. For the three months ended December 31, 2019 and 2018, Broadband R&D expense was \$0.7 million and \$2.5 million, respectively.

R&D expense for the three months ended December 31, 2019 was higher than the amounts reported in the same period in the prior year primarily due to an increase in compensation costs and project spending, primarily in Aerospace and Defense.

As a percentage of revenue, R&D expenses were 18.2% and 15.8% for the three months ended December 31, 2019 and 2018, respectively.

**Operating Loss**

Operating loss represents revenue less the cost of revenue and direct operating expenses incurred. Operating loss is a measure that executive management uses to assess performance and make decisions. As a percentage of revenue, our operating loss was (5.7)% and (24.2)% for the three months ended December 31, 2019 and 2018, respectively. The decrease in operating loss as a percentage of revenue in the three months ended December 31, 2019 compared to the

same period in the prior year is primarily due to the increase in gross profit and the decrease in SG&A expense partially offset by the increase in R&D expense in the three months ended December 31, 2019.

#### **Other Income**

##### Interest Income, net

During the three months ended December 31, 2019 and 2018, we recorded \$0.1 million and \$0.3 million, respectively, of interest income earned on cash and cash equivalents balances, which was partially offset by interest expense and letter of credit fees related to our Credit Facility (as defined below). Interest income for the three months year ended December 31, 2019 was lower than the amount reported in the prior year due to lower cash and cash equivalents balances.

##### Foreign Exchange

Gains or losses from foreign currency transactions denominated in currencies other than the U.S. dollar, both realized and unrealized, are recorded as foreign exchange gain (loss) on our consolidated statements of operations and comprehensive income. The gain (losses) recorded relate to the change in value of the Yuan Renminbi relative to the U.S. dollar.

#### **Income Tax Expense**

For the three months ended December 31, 2019, the Company recorded income tax expense of \$14,000. For the three months ended December 31, 2018, the Company recorded income tax expense of \$15,000. Income tax expense for the three months ended December 31, 2019 is primarily comprised of state minimum tax expense.

#### **Order Backlog**

EMCORE's product sales are made pursuant to purchase orders, often with short lead times. These orders are subject to revision or cancellation and often are made without deposits. In addition, Broadband products typically ship within the same quarter in which a purchase order is received. Therefore, our order backlog at any particular date is not necessarily indicative of actual revenue or the level of orders for any succeeding period and may not be comparable to prior periods.

#### **Liquidity and Capital Resources**

We have historically consumed cash from operations and, in most periods, we have incurred operating losses from continuing operations. We have managed our liquidity position through the sale of assets and cost reduction initiatives, as well as, from time to time in prior periods, borrowings from our Credit Facility (defined below) and capital markets transactions.

As of December 31, 2019, cash and cash equivalents totaled \$15.4 million and net working capital totaled approximately \$43.0 million. Net working capital, calculated as current assets minus current liabilities, is a financial metric we use which represents available operating liquidity.

On November 11, 2010, we entered into a Credit and Security Agreement (as amended to date, the "Credit Facility") with Wells Fargo Bank, N.A. ("Wells Fargo"). The Credit Facility currently provides us with a revolving credit line of up to \$15.0 million that can be used for working capital requirements, letters of credit, acquisitions, and other general corporate purposes subject to requirements that (a) the Company have (i) liquidity of at least \$7.5 million (which amount increases to \$10.0 million as of March 1, 2020), and (ii) for certain specific uses, liquidity of at least \$25.0 million after such use and (b) the Company maintain excess availability of at least \$1.0 million. The Credit Facility has a maturity date expiring in November 2021, is secured by the Company's assets and is subject to a borrowing base formula based on the Company's eligible accounts receivable, inventory, and machinery and equipment accounts. See [Note 11 - Credit Facilities](#) in the notes to the condensed consolidated financial statements for additional disclosures. As of February 3,

2020, there was an outstanding balance under this Credit Facility of \$3.1 million, \$0.5 million reserved for one outstanding stand-by letter of credit and \$5.0 million available for borrowing.

The Company has a history of operating losses and negative cash flows from operations. We believe that our existing balances of cash and cash equivalents, cash flows from operations and amounts expected to be available under our Credit Facility will provide us with sufficient financial resources to meet our cash requirements for operations, working capital, and capital expenditures for at least the next twelve months from the date of the issuance of these financial statements. We have taken a number of actions to continue to support our operations and meet our obligations, including entering into an agreement for the sale of real property, headcount reductions and other cost reductions. In addition, should we require more capital than what is generated by our operations, we could engage in additional sales or other monetization of certain fixed assets, additional cost reductions, or elect to raise capital in the U.S. through debt or equity issuances. These alternatives could result in higher effective tax rates, increased interest expense, and/or dilution of our earnings.

### **Cash Flow**

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

<i>Operating Activities</i> <i>(in thousands, except percentages)</i>	<b>For the three months ended December 31,</b>			
	<b>2019</b>	<b>2018</b>	<b>\$ Change</b>	<b>% Change</b>
Net cash used in operating activities	<b><u>\$(5,979)</u></b>	<b><u>\$(2,869)</u></b>	<b><u>\$(3,110)</u></b>	<b><u>-108.4%</u></b>

#### Fiscal 2020:

For the three months ended December 31, 2019, our operating activities used cash of \$6.0 million, primarily due to our net loss of \$1.3 million, changes in our operating assets and liabilities (or working capital components, which includes non-current inventory) of \$5.7 million and gain on disposal of assets of \$1.6 million, partially offset by depreciation and amortization expense of \$2.0 million, stock-based compensation expense of \$0.8 million and bad debt provision of \$0.1 million. The change in our operating assets and liabilities was primarily the result of an increase in accounts receivable of \$1.5 million, inventory of \$0.9 million and other assets of \$2.8 million and a decrease in accrued expenses and other liabilities of \$1.4 million, partially offset by an increase in accounts payable of \$0.8 million.

#### Fiscal 2019:

For the three months ended December 31, 2018, our operating activities used cash of \$2.9 million primarily due to our net loss of \$5.5 million partially offset by changes in our operating assets and liabilities (or working capital components, which includes non-current inventory) of \$0.6 million, depreciation and amortization expense of \$1.6 million, stock-based compensation expense of \$0.4 million and warranty provision of \$0.1 million. The change in our operating assets and liabilities was primarily the result of a decrease in accounts receivable of \$0.9 million and inventory of \$0.4 million and an increase in other liabilities of \$1.8 million partially offset by an increase in other assets of \$0.4 million and a decrease in accounts payable of \$2.1 million.

#### Working Capital Components:

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

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

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

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

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

<i>Investing Activities</i> <i>(in thousands, except percentages)</i>	<u>For the three months ended December 31,</u>			
	<u>2019</u>	<u>2018</u>	<u>\$ Change</u>	<u>% Change</u>
Net cash provided by (used in) investing activities	<u>\$ 441</u>	<u>\$(2,878)</u>	<u>\$ 3,319</u>	<u>115.3%</u>

#### Fiscal 2020:

For the three months ended December 31, 2019, our investing activities provided cash of \$0.4 million primarily from cash proceeds from the disposal of equipment of \$1.9 million partially offset by capital-related expenditures of \$1.5 million.

#### Fiscal 2019:

For the three months ended December 31, 2018, our investing activities used \$2.9 million of cash for capital related expenditures of \$2.9 million primarily related to investment in our wafer fabrication facility.

#### Net Cash Used In Financing Activities

<i>Financing Activities</i> <i>(in thousands, except percentages)</i>	<u>For the three months ended December 31,</u>			
	<u>2019</u>	<u>2018</u>	<u>\$ Change</u>	<u>% Change</u>
Net cash used in financing activities	<u>\$(1,085)</u>	<u>\$(150)</u>	<u>\$ (935)</u>	<u>-623.3%</u>

#### Fiscal 2020:

For the three months ended December 31, 2019, our financing activities used cash of \$1.1 primarily due to net payments related to borrowings from our bank Credit Facility.

#### Fiscal 2019:

For the three months ended December 31, 2018, our financing activities used cash of \$0.2 million for tax withholding paid on behalf of employees for stock-based awards.

### **Contractual Obligations and Commitments**

As of the date of this report, other than changes related to adoption of the new lease accounting standard as discussed in [Note 2 – Recent Accounting Pronouncements](#) to the condensed consolidated financial statements, there were no material changes to our contractual obligations and commitments outside the ordinary course of business since September 30, 2019 as reported in our 2019 Form 10-K.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements other than our operating leases described above that have or are reasonably likely to have a current or future material effect on our condensed consolidated financial condition, results of operations, liquidity, capital expenditures or capital resources.

### **Critical Accounting Policies and Estimates**

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as of the date of the financial statements, and the reported amounts of revenue and expenses during the reported period. If these estimates differ significantly from actual results, the impact to the condensed consolidated financial statements may be material. There have been no material changes in our critical accounting policies and

estimates from those disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2019. Please refer to Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended September 30, 2019 for a discussion of our critical accounting policies and estimates.

### **ITEM 3. Quantitative and Qualitative Disclosures about Market Risks**

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.

#### **Foreign Currency Exchange Risks**

The United States dollar is the reporting currency for our condensed consolidated financial statements. The functional currency for our China subsidiaries is the Yuan Renminbi.

We recognize translation adjustments due to the effect of changes in the value of the Yuan Renminbi relative to the U.S. dollar associated with our operations in China. The assets and liabilities of our foreign operations are translated from their respective functional currencies into U.S. dollars at the rates in effect at the consolidated balance sheet dates, and the revenue and expense amounts are translated at the average rate during the applicable periods reflected on the consolidated statements of operations and comprehensive income. Foreign currency translation adjustments are recorded as accumulated other comprehensive income.

Gains and losses from foreign currency transactions denominated in currencies other than the U.S. dollar, both realized and unrealized, are recorded as foreign exchange gain (loss) on our consolidated statements of operations and comprehensive income.

During the normal course of business, we are exposed to market risks associated with fluctuations in foreign currency exchange rates due to the Yuan Renminbi. To reduce the impact of these risks on our earnings and to increase the predictability of cash flows, we use 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 U.S. dollars) from time to time to reflect currency exchange fluctuations, and such price changes could impact our future financial condition or results of operations. We do not currently hedge our foreign currency exposure.

#### **Interest Rate Risks**

We monitor our interest rate risk on cash balances primarily through cash flow forecasting. Cash that is surplus to immediate requirements is invested in short-term deposits with banks accessible with short notice and invested in money market accounts. Based on the LIBOR rate loans outstanding under our credit facility during the three months ended December 31, 2019, a hypothetical 50 basis points increase in interest rates would have resulted in an insignificant amount of additional interest expense.

#### **Inflation Risks**

Inflationary factors, such as increases in material costs and operating expenses, may adversely affect our results of operations and cash flows. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, an increase in the rate of inflation in the future may have an adverse effect on the levels of gross profit and operating expenses as a percentage of revenue if the sales prices for our products do not proportionately increase with these increases in expenses.

**Credit Market Conditions**

The U.S. and global capital markets periodically experience turbulent conditions, particularly in the credit markets, which can result in tightening of lending standards, reduced availability of credit, and reductions in certain asset values. This could impact our ability to obtain additional funding through financing or asset sales.

**ITEM 4. Controls and Procedures**

**a. Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of its Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer and Accounting Officer), evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of December 31, 2019. Based upon this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

**b. Changes in Internal Control over Financial Reporting**

As a result of the acquisition of SDI on June 7, 2019, our management is in the process of reviewing and evaluating the design and operating effectiveness of its internal control over financial reporting relating to SDI. Certain changes have been made and will continue to be made to our internal controls until management has completed its evaluation and integrated SDI's information and accounting systems and processes.

There have been no other changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Exchange Act) during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. Other Information**

**ITEM 1. Legal Proceedings**

See the disclosures under the caption "Legal Proceedings" in [Note 13 - Commitments and Contingencies](#) in the notes to our condensed consolidated financial statements for disclosures related to our legal proceedings, which disclosures are incorporated herein by reference.

**ITEM 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2019, which could materially affect our business, financial condition or future results. We do not believe the Company's risks have changed materially since we filed our Annual Report on Form 10-K on December 10, 2019. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem immaterial also may materially adversely affect our business, financial condition and/or operating results.

**ITEM 6. Exhibits and Financial Statement Schedules**

- 2.1 [Asset Purchase Agreement, dated as of October 25, 2019 by and among EMCORE Corporation, Hytera Communications \(Hong Kong\) Company Limited and Shenzhen Hytera Communications Co., Ltd. \(incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8 K filed on October 30, 2019\).](#)
- 10.1 [Contract Manufacturing Agreement, dated as of October 25, 2019 by and among EMCORE Corporation, Hytera Communications \(Hong Kong\) Company Limited and Shenzhen Hytera Communications Co., Ltd. \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8 K filed on October 30, 2019\).](#)
- 10.2 [EMCORE Corporation Fiscal 2020 Bonus Plan \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8 K filed on December 26, 2019\).](#)
- 10.3 [Standard Offer, Agreement and Escrow Instructions for Purchase of Real Estate \(Non-Residential\) dated as of December 31, 2019 by and between Parkview Management Group, Inc. and Systron Donner Inertial, Inc \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8 K filed on January 6, 2020\).](#)
- 10.4 [Form of Single-Tenant Triple Net Lease \(incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8 K filed on January 6, 2020\).](#)
- 10.5 [Form of Lease Guaranty \(incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8 K filed on January 6, 2020\).](#)
- 10.6\*\* [First Amendment to Standard Offer, Agreement and Escrow Instructions for Purchase of Real Estate \(Non-Residential\) dated as of January 13, 2020 by and between Parkview Management Group, Inc. and Systron Donner Inertial, Inc.](#)
- 31.1\*\* [Certificate of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 31.2\*\* [Certificate of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 32.1\*\*\* [Certificate of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 32.2\*\*\* [Certificate of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 101.INS\*\* XBRL Instance Document.
- 101.SCH\*\* XBRL Taxonomy Extension Schema Document.
- 101.CAL\*\* XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.LAB\*\* XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE\*\* XBRL Taxonomy Extension Presentation Linkbase Document.
- 101.DEF\*\* XBRL Taxonomy Extension Definition Linkbase Document.

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\*\* Filed herewith

\*\*\* Furnished herewith

**SIGNATURES**

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

**EMCORE CORPORATION**

Date: **February 10, 2020**

By: **/s/ Jeffrey Rittichier**  
Jeffrey Rittichier  
Chief Executive Officer  
(Principal Executive Officer)

Date: **February 10, 2020**

By: **/s/ Tom Minichiello**  
Tom Minichiello  
Chief Financial Officer  
(Principal Financial and Accounting Officer)



**FIRST AMENDMENT TO STANDARD OFFER, AGREEMENT AND ESCROW  
INSTRUCTIONS FOR PURCHASE OF REAL ESTATE (NON-RESIDENTIAL)**

THIS FIRST AMENDMENT TO STANDARD OFFER, AGREEMENT AND ESCROW INSTRUCTION FOR PURCHASE OF REAL ESTATE (NON-RESIDENTIAL) (this “**Amendment**”) is dated as of January 13, 2020 (the “**Effective Date**”) and made by and between **PARKVIEW MANAGEMENT GROUP, INC.** and/or an affiliated entity (“**Buyer**”) and **SYSTRON DONNER INERTIAL, INC.**, a Delaware corporation (“**Seller**”).

**RECITALS**

A. Buyer and Seller are parties to that certain Standard Offer, Agreement and Escrow Instructions for Purchase of Real Estate (Non-Residential) dated as of December 31, 2019, as amended by that certain First Addendum to Standard Offer, Agreement and Escrow Instructions for Purchase of Real Estate (Non-Residential) dated as of December 31, 2019 (as amended, the “**Purchase Agreement**”).

B. Buyer and Seller desire to reduce the Purchase Price to \$13,200,000.00.

C. Buyer and Seller desire to amend the Expected Closing Date to Monday, February 10, 2020.

D. Buyer desires and Seller consents to the conducting of an earthquake study and the generation of a probable maximum loss report of the Property (the “**Earthquake Study**”).

E. Buyer and Seller desire to extend the contingency period until January 17, 2020, for the sole purpose of the Earthquake Study and Buyer’s review thereof.

F. Capitalized words and phrases used in this Amendment and not otherwise defined shall have the meaning ascribed to such terms in the Purchase Agreement.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Buyer and Seller agree that the following provisions are hereby added, deleted and/or modified, as applicable:

1. Purchase Price. Paragraph 3.1 is amended to replace each reference to the Purchase Price of \$13,400,000.00 with \$13,200,000.00.

2. Expected Closing Date. Paragraph 1.1 is amended to replace the Expected Closing Date with February 10, 2020.

3. Contingency Period. The parties hereby agree that the contingency period shall terminate at 5:00 p.m. Pacific Time on January 17, 2020, solely to allow Buyer to conduct the Earthquake Study. Buyer hereby waives its right to terminate the Agreement in Section 9 of the Agreement and the Deposit is hereby non-refundable, except to the extent that the Earthquake Study finds a probable maximum loss of twenty percent (20%) or higher. Upon such a finding, Buyer may terminate the Agreement on or before 5:00 p.m. Pacific Time on January 17, 2020.

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4. Effect of Amendment. Except as modified herein, the terms and conditions of the Purchase Agreement shall remain unmodified and continue in full force and effect. In the event of any conflict between the terms and conditions of the Purchase Agreement and this Amendment, the terms and conditions of this Amendment shall prevail.

5. Counterparts. This Amendment may be executed in counterparts, including counterparts transmitted by facsimile or electronic email (via PDF), each of which shall be deemed and original, but all of which, together, shall constitute one Amendment.

6. Entire Agreement. This Amendment constitutes the entire understanding of the parties with respect to the subject matter in this Amendment and all prior agreements, representations, and understandings between the parties with respect thereto, whether oral or written, are deemed null and void, all of the foregoing having been merged into this Amendment.

7. Governing Law. The validity, construction, enforcement and interpretation of this Amendment, and any claim, controversy or dispute arising under or related to this Amendment, or the rights, duties and relationship of the parties thereto, shall be governed by the laws of the State of California, without regard to the principles thereof regarding conflict of laws, and any applicable laws of the United States of America.

**[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]**

Buyer and Seller have executed this Amendment as of the date first written above.

**BUYER:**

PARKVIEW MANAGEMENT GROUP, INC.

By: /s/ Fred Afori

Name: Fred Afori

Title: President

**SELLER:**

SYSTRON DONNER INERTIAL, INC.

By: /s/ Ryan Hochgesang

Name: Ryan Hochgesang

Title: Secretary

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**EMCORE CORPORATION**  
**CERTIFICATION PURSUANT TO SECTION 302**  
**OF THE SARBANES-OXLEY ACT OF 2002**

I, Jeffrey Rittichier, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of EMCORE Corporation ("Report");
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
  - d. Disclosed in this Report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 10, 2020

By: /s/ Jeffrey Rittichier  
Jeffrey Rittichier  
Chief Executive Officer  
(Principal Executive Officer)

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**EMCORE CORPORATION**  
**CERTIFICATION PURSUANT TO SECTION 302**  
**OF THE SARBANES-OXLEY ACT OF 2002**

I, Tom Minichiello, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of EMCORE Corporation ("Report");
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
  - d. Disclosed in this Report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **February 10, 2020**

By: **/s/ Tom Minichiello**

Tom Minichiello  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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**STATEMENT REQUIRED BY 18 U.S.C. §1350, AS ADOPTED  
PURSUANT TO §906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of EMCORE Corporation (the "Company") for the quarterly period ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey Rittichier, Chief Executive Officer (Principal Executive Officer) of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: **February 10, 2020**

By: **/s/ Jeffrey Rittichier**

Jeffrey Rittichier  
Chief Executive Officer  
(Principal Executive Officer)

*The foregoing certification is being furnished pursuant to 18 U.S.C. Section 1350. It is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and it is not to be incorporated by reference into any filing of the Company, regardless of any general incorporation language in such filings.*

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**STATEMENT REQUIRED BY 18 U.S.C. §1350, AS ADOPTED  
PURSUANT TO §906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of EMCORE Corporation (the "Company") for the quarterly period ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tom Minichiello, Chief Financial (Principal Financial and Accounting Officer) of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: **February 10, 2020**

By: **/s/ Tom Minichiello**

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Tom Minichiello  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

*The foregoing certification is being furnished pursuant to 18 U.S.C. Section 1350. It is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and it is not to be incorporated by reference into any filing of the Company, regardless of any general incorporation language in such filings.*

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