

EMCORE CORP  
Form 10-Q  
August 02, 2018  
FORM 10-Q

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

For the quarterly period ended June 30, 2018  
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 Corporation  
(Exact name of registrant as specified in its charter)  
New Jersey 22-2746503  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

2015 W. Chestnut Street, Alhambra, California, 91803  
(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 Act). ☐ Yes ☒ No

As of July 30, 2018, the number of shares outstanding of our no par value common stock totaled 27,493,846.

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,” “shall,” “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 (h) 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, 2017, as updated 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 and our Annual Report on Form 10-K for the fiscal year ended September 30, 2017. 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.



EMCORE Corporation  
FORM 10-Q  
For The Quarterly Period Ended June 30, 2018

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## PART I. Financial Information.

ITEM 1. Financial Statements

## EMCORE CORPORATION

## Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income

For the three and nine months ended June 30, 2018 and 2017

(in thousands, except per share data)

(unaudited)

|                                                                              | For the three<br>months ended June<br>30, |          | For the nine months<br>ended June 30, |          |
|------------------------------------------------------------------------------|-------------------------------------------|----------|---------------------------------------|----------|
|                                                                              | 2018                                      | 2017     | 2018                                  | 2017     |
| Revenue                                                                      | \$17,717                                  | \$30,952 | \$60,376                              | \$93,719 |
| Cost of revenue                                                              | 16,519                                    | 20,110   | 46,317                                | 61,796   |
| Gross profit                                                                 | 1,198                                     | 10,842   | 14,059                                | 31,923   |
| Operating expense (income):                                                  |                                           |          |                                       |          |
| Selling, general, and administrative                                         | 5,237                                     | 5,815    | 15,700                                | 17,065   |
| Research and development                                                     | 3,915                                     | 3,340    | 11,015                                | 8,680    |
| Impairments                                                                  | —                                         | —        | —                                     | 468      |
| (Gain) loss on sale of assets                                                | —                                         | (322)    | 39                                    | (322)    |
| Total operating expense                                                      | 9,152                                     | 8,833    | 26,754                                | 25,891   |
| Operating (loss) income                                                      | (7,954)                                   | 2,009    | (12,695)                              | 6,032    |
| Other income (expense):                                                      |                                           |          |                                       |          |
| Interest income, net                                                         | 216                                       | 77       | 490                                   | 146      |
| Foreign exchange (loss) gain                                                 | (676)                                     | 53       | 136                                   | (306)    |
| Other income                                                                 | —                                         | 316      | —                                     | 316      |
| Total other (expense) income                                                 | (460)                                     | 446      | 626                                   | 156      |
| (Loss) income from continuing operations before income tax benefit (expense) | (8,414)                                   | 2,455    | (12,069)                              | 6,188    |
| Income tax benefit (expense)                                                 | —                                         | (19)     | 502                                   | (131)    |
| (Loss) income from continuing operations                                     | (8,414)                                   | 2,436    | (11,567)                              | 6,057    |
| Loss from discontinued operations, net of tax                                | —                                         | (11)     | —                                     | (27)     |
| Net (loss) income                                                            | \$(8,414)                                 | \$2,425  | \$(11,567)                            | \$6,030  |
| Foreign exchange translation adjustment                                      | (54)                                      | (1)      | 320                                   | 15       |
| Comprehensive (loss) income                                                  | \$(8,468)                                 | \$2,424  | \$(11,247)                            | \$6,045  |
| Per share data:                                                              |                                           |          |                                       |          |
| Net (loss) income per basic share:                                           |                                           |          |                                       |          |
| Continuing operations                                                        | \$(0.31)                                  | \$0.09   | \$(0.43)                              | \$0.23   |
| Discontinued operations                                                      | —                                         | (0.00)   | —                                     | (0.00)   |
| Net (loss) income per basic share                                            | \$(0.31)                                  | \$0.09   | \$(0.43)                              | \$0.23   |
| Net (loss) income per diluted share:                                         |                                           |          |                                       |          |
| Continuing operations                                                        | \$(0.31)                                  | \$0.09   | \$(0.43)                              | \$0.22   |
| Discontinued operations                                                      | —                                         | (0.00)   | —                                     | (0.00)   |
| Net (loss) income per diluted share                                          | \$(0.31)                                  | \$0.09   | \$(0.43)                              | \$0.22   |
| Weighted-average number of basic shares outstanding                          | 27,387                                    | 26,833   | 27,204                                | 26,577   |
| Weighted-average number of diluted shares outstanding                        | 27,387                                    | 27,816   | 27,204                                | 27,548   |

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



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## EMCORE CORPORATION

## Condensed Consolidated Balance Sheets

As of June 30, 2018 and September 30, 2017

(in thousands)

(unaudited)

|                                                                                                                                                                                                           | As of<br>June 30,<br>2018 | As of<br>September 30,<br>2017 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|--------------------------------|
| <b>ASSETS</b>                                                                                                                                                                                             |                           |                                |
| Current assets:                                                                                                                                                                                           |                           |                                |
| Cash and cash equivalents                                                                                                                                                                                 | \$65,312                  | \$ 68,333                      |
| Restricted cash                                                                                                                                                                                           | 193                       | 421                            |
| Accounts receivable, net of allowance of \$598 and \$22, respectively                                                                                                                                     | 14,870                    | 22,265                         |
| Inventory                                                                                                                                                                                                 | 24,152                    | 25,139                         |
| Prepaid expenses and other current assets                                                                                                                                                                 | 11,553                    | 8,527                          |
| Total current assets                                                                                                                                                                                      | 116,080                   | 124,685                        |
| Property, plant, and equipment, net                                                                                                                                                                       | 17,577                    | 16,635                         |
| Non-current inventory                                                                                                                                                                                     | 2,092                     | 2,686                          |
| Other non-current assets                                                                                                                                                                                  | 245                       | 78                             |
| Total assets                                                                                                                                                                                              | \$135,994                 | \$ 144,084                     |
| <b>LIABILITIES and SHAREHOLDERS' EQUITY</b>                                                                                                                                                               |                           |                                |
| Current liabilities:                                                                                                                                                                                      |                           |                                |
| Accounts payable                                                                                                                                                                                          | \$11,519                  | \$ 11,818                      |
| Accrued expenses and other current liabilities                                                                                                                                                            | 11,332                    | 9,825                          |
| Total current liabilities                                                                                                                                                                                 | 22,851                    | 21,643                         |
| Asset retirement obligations                                                                                                                                                                              | 1,648                     | 1,638                          |
| Other long-term liabilities                                                                                                                                                                               | 68                        | 29                             |
| Total liabilities                                                                                                                                                                                         | 24,567                    | 23,310                         |
| Commitments and contingencies (Note 11)                                                                                                                                                                   |                           |                                |
| Shareholders' equity:                                                                                                                                                                                     |                           |                                |
| Common stock, no par value, 50,000 shares authorized; 34,396 shares issued and 27,486 shares outstanding as of June 30, 2018; 33,938 shares issued and 27,028 shares outstanding as of September 30, 2017 | 732,806                   | 730,906                        |
| Treasury stock at cost; 6,910 shares                                                                                                                                                                      | (47,721 )                 | (47,721 )                      |
| Accumulated other comprehensive income                                                                                                                                                                    | 881                       | 561                            |
| Accumulated deficit                                                                                                                                                                                       | (574,539 )                | (562,972 )                     |
| Total shareholders' equity                                                                                                                                                                                | 111,427                   | 120,774                        |
| Total liabilities and shareholders' equity                                                                                                                                                                | \$135,994                 | \$ 144,084                     |

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

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## EMCORE CORPORATION

## Condensed Consolidated Statements of Cash Flows

For the nine months ended June 30, 2018 and 2017

(in thousands)

(unaudited)

|                                                                                   | For the nine months<br>ended June 30, |          |
|-----------------------------------------------------------------------------------|---------------------------------------|----------|
|                                                                                   | 2018                                  | 2017     |
| Cash flows from operating activities:                                             |                                       |          |
| Net (loss) income                                                                 | \$(11,567)                            | \$6,030  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                       |          |
| Depreciation and amortization expense                                             | 4,102                                 | 2,646    |
| Stock-based compensation expense                                                  | 2,713                                 | 2,672    |
| Provision adjustments related to doubtful accounts                                | 599                                   | 7        |
| Provision adjustments related to product warranty                                 | 336                                   | 488      |
| Impairments of equipment                                                          | —                                     | 468      |
| Net loss (gain) on disposal of equipment                                          | 39                                    | (322 )   |
| Other                                                                             | 100                                   | 321      |
| Total non-cash adjustments                                                        | 7,889                                 | 6,280    |
| Changes in operating assets and liabilities:                                      |                                       |          |
| Accounts receivable                                                               | 6,796                                 | (3,878 ) |
| Inventory                                                                         | 1,777                                 | (1,782 ) |
| Other assets                                                                      | (3,192 )                              | (2,627 ) |
| Accounts payable                                                                  | (1,662 )                              | 2,951    |
| Accrued expenses and other current liabilities                                    | 1,199                                 | 834      |
| Total change in operating assets and liabilities                                  | 4,918                                 | (4,502 ) |
| Net cash provided by operating activities                                         | 1,240                                 | 7,808    |
| Cash flows from investing activities:                                             |                                       |          |
| Purchase of equipment                                                             | (3,756 )                              | (7,262 ) |
| Proceeds from disposal of property, plant and equipment                           | 77                                    | 339      |
| Net cash used in investing activities                                             | (3,679 )                              | (6,923 ) |
| Cash flows from financing activities:                                             |                                       |          |
| Proceeds from stock plans                                                         | 445                                   | 797      |
| Tax withholding paid on behalf of employees for stock-based awards                | (1,257 )                              | —        |
| Net cash (used in) provided by financing activities                               | (812 )                                | 797      |
| Effect of exchange rate changes on foreign currency                               | 2                                     | (35 )    |
| Net (decrease) increase in cash, cash equivalents and restricted cash             | (3,249 )                              | 1,647    |
| Cash, cash equivalents and restricted cash at beginning of period                 | 68,754                                | 64,870   |
| Cash, cash equivalents and restricted cash at end of period                       | \$65,505                              | \$66,517 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION                                  |                                       |          |
| Cash paid during the period for interest                                          | \$47                                  | \$55     |
| Cash paid during the period for income taxes                                      | \$130                                 | \$79     |
| NON-CASH INVESTING AND FINANCING ACTIVITIES                                       |                                       |          |
| Changes in accounts payable related to purchases of equipment                     | \$1,291                               | \$(549 ) |

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|                                                |     |       |
|------------------------------------------------|-----|-------|
| Issuance of common stock to Board of Directors | \$— | \$410 |
|------------------------------------------------|-----|-------|

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

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EMCORE Corporation

Notes to our Condensed Consolidated Financial Statements

For the three and nine months ended June 30, 2018

(unaudited)

### 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 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 both analog and digital circuits on multiple chips, or even a single chip, the value of Mixed-Signal device solutions is often far greater than traditional digital applications and requires a specialized expertise held by EMCORE which is unique in the optics industry.

We currently have one reporting segment: Fiber Optics. This segment is comprised of three product lines: Broadband (which includes Cable TV (“CATV”) systems and components, radio frequency over glass (“RFOG”) products, satellite/microwave communications products and wireless communication products), Chip Devices and Navigation Systems.

#### 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, 2017 has been derived from the audited consolidated financial statements as of such date as adjusted for discontinued operations. 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, 2017.

### NOTE 2. Recent Accounting Pronouncements and U.S. Tax Reform

There have been no recent accounting pronouncements or changes in accounting pronouncements that are of significance, or of potential significance, to us other than those discussed below:

In May 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-09, Compensation — Stock Compensation (Topic 718): Scope of Modification Accounting. ASU 2017-09 clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The new guidance is intended to reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as a modification. Under ASU 2017-09, an entity will not apply modification accounting to a share-based payment award if the award’s fair value, vesting conditions and classification as an equity or liability

instrument are the same immediately before and after the change. ASU 2017-09 will be applied prospectively to awards modified on or after the adoption date. The new standard is effective for annual periods, beginning after December 15, 2017 and interim periods within those annual periods. The new standard will be effective for our fiscal year beginning October 1, 2018 and early adoption is permitted. The Company does not expect the adoption of ASU 2017-09 will have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13 Financial Instruments - Credit Losses, 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. We are evaluating the impact the adoption of the new standard will have on our consolidated financial statements and related disclosures.

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In February 2016, the FASB issued 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. This guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those years. We are in the process of implementing changes to our systems and processes in conjunction with our review of lease agreements. Topic 842 will be effective for our fiscal year beginning October 1, 2019 and expect to elect certain available transitional practical expedients. Early adoption is permitted.

As currently issued, entities are required to use a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. There are additional optional practical expedients that an entity may elect to apply. The Company is continuing to evaluate the effect of this update on its consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities. This ASU amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments, and supersedes the guidance to classify equity securities with readily determinable fair values into different categories (that is, trading or available-for-sale) and requires equity securities to be measured at fair value with changes in the fair value recognized through net income. This ASU is effective for annual and interim periods beginning after December 15, 2017. The new standard will be effective for our fiscal year beginning October 1, 2018. The Company does not anticipate the adoption will have a material impact on our consolidated financial statements and related disclosures.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This standard requires inventory to be measured at the lower of cost and net realizable value. The guidance clarifies that net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This guidance was effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. The new standard was effective for our fiscal year beginning October 1, 2017, but there was no significant impact on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers which will supersede most current U.S. GAAP guidance on this topic. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing to clarify two aspects of the guidance within ASU No. 2014-09 on identifying performance obligations and the licensing implementation guidance. Under the new standards, recognition of revenue occurs when the seller satisfies a performance obligation by transferring to the customer promised goods or services in an amount that reflects the consideration the entity expects to receive for those goods or services. The new standard, as amended through December 2016, will be effective for our fiscal year beginning October 1, 2018 and early adoption is permitted as of October 1, 2017. The standard permits the use of either the full retrospective or modified retrospective method. We have established a cross-functional implementation team to implement ASU 2014-09. We continue to identify and implement changes to our systems, processes and internal controls to meet the reporting and disclosure requirements upon adoption as of October 1, 2018.

We believe that the key revenue streams will be split between product sales and firm fixed price contracts, which comprise the majority of our business. Based upon the evaluation completed to date, the Company believes that the pattern of revenue recognition for these revenue streams will generally be at a point-in-time for product sales and over a period of time for firm fixed price contracts, which is consistent with current guidance. The Company does not believe the adoption of ASU 2014-09 will have a material impact on the Company's consolidated financial statements and related disclosures. As of June 30, 2018, the Company intends to adopt ASU 2014-09 utilizing a modified

retrospective method on October 1, 2018.

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## U.S. Tax Reform

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act significantly revises the future ongoing U.S. corporate income tax by, among other things, lowering U. S. corporate income tax rates and implementing a territorial tax system. As the Company has a September 30 fiscal year-end, the lower corporate income tax rate will be phased in, resulting in a U.S. statutory federal rate of approximately 25% for our fiscal year ending September 30, 2018, and 21% for subsequent fiscal years. However, the Tax Act provides for a credit for historical Alternative Minimum Taxes (“AMT”) paid against future taxes. As a result, the Company has taken a tax benefit of \$0.5 million in the nine months ended June 30, 2018 for historical AMT payments. In addition, the Tax Act eliminates the domestic manufacturing deduction and moves to a territorial system, which also eliminates the ability to credit certain foreign taxes that existed prior to enactment of the Tax Act. For the nine months ended June 30, 2018, the elimination of the manufacturing deduction and credit for certain foreign taxes paid did not result in a significant impact on our condensed consolidated financial statements.

There are also certain transitional impacts of the Tax Act. As part of the transition to the new territorial tax system, the Tax Act imposes a one-time repatriation tax on deemed repatriation of historical earnings of foreign subsidiaries. In addition, the reduction of the U.S. corporate tax rate will cause us to adjust our U.S. deferred tax assets and liabilities to the lower federal base rate of 21%. Due to historical foreign losses and a full valuation allowance on our deferred tax assets as of September 30, 2017, these transitional impacts did not result in an impact on our condensed consolidated financial statements for the three and nine months ended June 30, 2018.

The changes included in the Tax Act are broad and complex. The final transition impacts of the Tax Act may differ from the above estimate, possibly materially, due to, among other things, changes in interpretations of the Tax Act, any legislative action to address questions that arise because of the Tax Act, any changes in accounting standards for income taxes or related interpretations in response to the Tax Act, or any updates or changes to estimates the Company has utilized to calculate the transition impacts, including impacts from changes to current year earnings estimates and foreign exchange rates of foreign subsidiaries. The SEC has issued rules that allow for a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts. We currently anticipate finalizing and recording any resulting adjustments by the end of our current fiscal year ending September 30, 2018.

## NOTE 3. Cash, Cash Equivalents and Restricted Cash

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

|                                                  | As of<br>June 30,<br>2018 | As of<br>September<br>30, 2017 | As of<br>June 30,<br>2017 |
|--------------------------------------------------|---------------------------|--------------------------------|---------------------------|
| (in thousands)                                   |                           |                                |                           |
| Cash                                             | \$4,440                   | \$ 8,054                       | \$5,949                   |
| Cash equivalents                                 | \$60,872                  | \$ 60,279                      | \$60,145                  |
| Restricted cash                                  | 193                       | 421                            | 423                       |
| Total cash, cash equivalents and restricted cash | \$65,505                  | 68,754                         | 66,517                    |

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 June 30, 2018 and 2017, and September 30, 2017.



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## NOTE 4. 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.

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.

## NOTE 5. Accounts Receivable

The components of accounts receivable consisted of the following:

|                                 | As of<br>June 30,<br>2018 | As of<br>September 30,<br>2017 |
|---------------------------------|---------------------------|--------------------------------|
| (in thousands)                  |                           |                                |
| Accounts receivable, gross      | \$ 15,468                 | \$ 22,287                      |
| Allowance for doubtful accounts | (598)                     | (22)                           |
| Accounts receivable, net        | \$ 14,870                 | \$ 22,265                      |

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

The following table summarizes changes in the allowance for doubtful accounts for the three and nine months ended June 30, 2018 and 2017.

| Allowance for Doubtful Accounts<br>(in thousands) | For the<br>three<br>months | For the nine<br>months<br>ended June |
|---------------------------------------------------|----------------------------|--------------------------------------|
|---------------------------------------------------|----------------------------|--------------------------------------|

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|                                                                      |                |      |       |       |
|----------------------------------------------------------------------|----------------|------|-------|-------|
|                                                                      | ended June 30, |      |       |       |
|                                                                      | 30,            |      |       |       |
|                                                                      | 2018           | 2017 | 2018  | 2017  |
| Balance at beginning of period                                       | \$95           | \$13 | \$22  | \$36  |
| Provision adjustment - expense, net of recoveries                    | 524            | —    | 599   | 7     |
| Write-offs and other adjustments - deductions to receivable balances | (21 )          | (6 ) | (23 ) | (36 ) |
| Balance at end of period                                             | \$598          | \$7  | \$598 | \$7   |

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During the three and nine months ended June 30, 2018, we recorded a \$0.5 million reserve on accounts receivable related to two customers account balances for which management had uncertainty with respect to its respective total collectability.

## NOTE 6. Inventory

The components of inventory consisted of the following:

|                                    | As of<br>June 30,<br>2018 | As of<br>September 30,<br>2017 |
|------------------------------------|---------------------------|--------------------------------|
| (in thousands)                     |                           |                                |
| Raw materials                      | \$14,668                  | \$ 15,826                      |
| Work in-process                    | 5,823                     | 6,586                          |
| Finished goods                     | 5,753                     | 5,413                          |
| Inventory balance at end of period | \$26,244                  | \$ 27,825                      |
| Current portion                    | \$24,152                  | \$ 25,139                      |
| Non-Current portion                | \$2,092                   | \$ 2,686                       |

The non-current inventory balance of \$2.1 million and \$2.7 million as of June 30, 2018 and September 30, 2017, respectively, is comprised entirely of raw materials which we acquired as part of a last time purchase as a result of the vendor announcing it would cease manufacturing a part. During the three and nine months ended June 30, 2018, we recorded a \$0.5 million reserve on non-current inventory due to the decline in sales and future demand of the inventory.

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

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

|                                       | As of<br>June 30,<br>2018 | As of<br>September 30,<br>2017 |
|---------------------------------------|---------------------------|--------------------------------|
| (in thousands)                        |                           |                                |
| Equipment                             | \$35,590                  | \$ 31,507                      |
| Furniture and fixtures                | 1,109                     | 1,109                          |
| Computer hardware and software        | 2,908                     | 2,974                          |
| Leasehold improvements                | 1,908                     | 2,330                          |
| Construction in progress              | 3,335                     | 4,539                          |
| Property, plant, and equipment, gross | \$44,850                  | 42,459                         |
| Accumulated depreciation              | (27,273 )                 | (25,824 )                      |
| Property, plant, and equipment, net   | \$17,577                  | \$ 16,635                      |

In March 2017, in connection with our opening a new manufacturing facility in China, we identified equipment with a net book value of approximately \$0.6 million that would no longer be utilized after the planned move later in fiscal year 2017. After taking into consideration the costs of disposal and estimated net funds from the sale of the equipment of approximately \$0.1 million, we recorded a charge to impairments of approximately \$0.5 million in the nine months ended June 30, 2017.

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## NOTE 8. Accrued Expenses and Other Current Liabilities

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

| (in thousands)                                 | As of<br>June 30,<br>2018 | As of<br>September 30,<br>2017 |
|------------------------------------------------|---------------------------|--------------------------------|
| Compensation                                   | \$2,593                   | \$ 3,904                       |
| Warranty                                       | 765                       | 684                            |
| Professional fees                              | 319                       | 653                            |
| Customer deposits                              | 75                        | 20                             |
| Income and other taxes                         | 5,895                     | 2,920                          |
| Severance and restructuring accruals           | 360                       | 628                            |
| Other                                          | 1,325                     | 1,016                          |
| Accrued expenses and other current liabilities | \$11,332                  | \$ 9,825                       |

Compensation: Compensation is primarily comprised of accrued employee salaries, taxes and benefits.

Severance and restructuring accruals: In an effort to better align our current and future business operations, in November 2016, the Company announced a reduction in the workforce of approximately 5 individuals and recorded a charge of \$0.2 million in the nine months ended June 30, 2017 related to the outsourcing of our satellite communications assembly operations.

In March 2017, the Company announced an additional workforce reduction of approximately 14 individuals and recorded a charge of \$0.1 million in the nine months ended June 30, 2017 related to the outsourcing of a portion of our wafer fabrication lab. During the three and nine months ended June 30, 2017, the Company recorded an additional charge of \$0.4 million for six additional individuals related to the March 2017 workforce reduction. Also, in March 2017, in connection with our anticipated opening later in fiscal year 2017 of a new manufacturing facility in China to reduce costs and improve efficiency, we accrued for a workforce reduction of approximately 265 individuals and recorded a charge of \$0.5 million in the nine months ended June 30, 2017. During the three and nine months ended June 30, 2017, the Company recorded an additional charge of \$0.4 million for the workforce reduction of 72 additional individuals related to the opening of our new manufacturing facility in China.

In September 2017, the Company announced it would close its Ivyland, Pennsylvania location during fiscal year 2018 and reduce its workforce by approximately 11 individuals and recorded a charge for severance for the affected employees in the amount of \$0.3 million in the fiscal year ended September 30, 2017.

In connection with the closing of the Ivyland, Pennsylvania location in January 2018, we accrued for the remaining lease costs of the facility through the lease termination of February 2019. Included in selling, general and administrative expense for the nine months ended June 30, 2018, was \$0.2 million related to the remaining lease costs.

In March 2018, the Company announced an additional workforce reduction of approximately 21 individuals to better align our workforce towards our Chip Devices and Navigation Systems product lines and away from Broadband product lines and recorded a charge of \$0.4 million in the nine months ended June 30, 2018.

Our severance and restructuring-related accruals specifically relate to the separation agreements and reductions in force discussed above and non-cancelable obligations associated with an abandoned leased facility. Expense related to severance and restructuring accruals is included in selling, general, and administrative expense on our statements of

operations and comprehensive income. The following table summarizes the changes in the severance accrual account:

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| (in thousands)                   | Severance-related<br>accruals | Restructuring-<br>related<br>accruals | Total  |
|----------------------------------|-------------------------------|---------------------------------------|--------|
| Balance as of September 30, 2017 | \$ 628                        | \$ —                                  | \$628  |
| Expense - charged to accrual     | 512                           | 186                                   | 698    |
| Payments and accrual adjustments | (898 )                        | (68 )                                 | (966 ) |
| Balance as of June 30, 2018      | \$ 242                        | \$ 118                                | \$360  |

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

|                                                 | For the three<br>months<br>ended June<br>30, |        | For the nine<br>months<br>ended June<br>30, |        |
|-------------------------------------------------|----------------------------------------------|--------|---------------------------------------------|--------|
| (in thousands)                                  | 2018                                         | 2017   | 2018                                        | 2017   |
| Product Warranty Accruals                       |                                              |        |                                             |        |
| Balance at beginning of period                  | \$837                                        | \$899  | \$684                                       | \$871  |
| Provision for product warranty - expense        | 54                                           | 185    | 336                                         | 488    |
| Adjustments and utilization of warranty accrual | (126 )                                       | (286 ) | (255 )                                      | (561 ) |
| Balance at end of period                        | \$765                                        | \$798  | \$765                                       | \$798  |

## NOTE 9. Credit Facilities

On November 11, 2010, we entered into a Credit and Security Agreement (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.

On November 10, 2015, we entered into a Seventh Amendment of the Credit Facility which extended the maturity date of the facility to November 2018. On July 27, 2017, we entered into a Ninth Amendment of the Credit Facility which adjusted the interest rate to LIBOR plus 1.75%. The Credit Facility 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, and other general corporate purposes.

As of June 30, 2018, there were no amounts outstanding under this Credit Facility and the Company was in compliance with all financial covenants. Also, as of June 30, 2018, the Credit Facility had approximately \$0.5 million reserved for one outstanding stand-by letter of credit and \$5.6 million available for borrowing. As of July 30, 2018, there was no outstanding balance under this Credit Facility and \$0.5 million reserved for one outstanding stand-by letter of credit.

## NOTE 10. Income and Other Taxes

For the three months ended June 30, 2018 and 2017, the Company recorded income tax benefit (expense) from continuing operations of approximately \$0 and \$(19,000), respectively. For the three months ended June 30, 2018 and 2017, the Company recorded no income tax benefit from discontinued operations. For the nine months ended June 30, 2018 and 2017, the Company recorded income tax benefit (expense) from continuing operations of approximately \$0.5 million and \$(0.1) million, respectively. For the nine months ended June 30, 2018 and 2017, the Company recorded no income tax benefit from discontinued operations. Income tax benefit for the three months ended June 30, 2018 is primarily due to the current period operating loss. Income tax benefit for the nine months ended June 30, 2018

is primarily comprised of the effect of the Tax Act which eliminates AMT and will result in a refund to the Company of amounts paid in prior fiscal years. Income tax expense is comprised of estimated alternative minimum tax allocated between continuing operations and discontinued operations as prescribed by ASC 740 and foreign tax expense included within continuing operations.

For the three months ended June 30, 2018 and 2017, the effective tax rate on continuing operations was 0.0% and 0.8%, respectively. The lower beneficial tax rate for the three months ended June 30, 2018 was primarily due to the current period benefit. The higher tax rate for the three months ended June 30, 2017 compared to the current period was primarily due to permanent differences, state tax benefits and foreign tax rate differentials.

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For the nine months ended June 30, 2018 and 2017, the effective tax rate on continuing operations was (4.2)% and 2.1%, respectively. The higher beneficial tax rate for the nine months ended June 30, 2018 was primarily due to the effect of the Tax Act, which resulted in a credit to the Company on future tax payments for past AMT amounts paid and the current period operating loss. The lower tax rate for the nine months ended June 30, 2017 compared to the current period was primarily due to permanent differences, state tax benefits and foreign tax rate differentials. The Company uses estimates to forecast the results from continuing operations for the current fiscal year as well as permanent differences between book and tax accounting.

We have not provided for income taxes on non-U.S. subsidiaries' undistributed earnings as of June 30, 2018 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 June 30, 2018. However, on a quarterly basis, the Company will evaluate the positive and negative evidence to assess whether the more likely than not criteria, mandated by ASC 740, has been satisfied in determining whether there will be further adjustments to the valuation allowance.

During the three and nine months ended June 30, 2018 and 2017, there were no material increases or decreases in unrecognized tax benefits. As of June 30, 2018 and September 30, 2017, we had approximately \$0.4 million and \$0.3 million, respectively, of interest and penalties accrued as tax liabilities on our balance sheet. Interest that is accrued on tax liabilities is recorded within interest expense on the statement of condensed consolidated statements of operations.

The Company's Board of Directors has adopted a Tax Benefits Preservation Plan (the "Rights Plan") to help preserve the value of our net operating losses and tax credit carryforwards by reducing the risk of limitation of these deferred tax assets. The Rights Plan was approved by the Company's shareholders on March 10, 2015. On September 26, 2017, the Company extended the final expiration date of the rights contained therein from October 3, 2017 to October 3, 2018 (subject to earlier expiration as described in the Rights Plan), which extension was approved by the Company's shareholders at the Company's 2018 annual meeting of shareholders on March 16, 2018. The Rights Plan is intended to reduce the likelihood that the Company will experience an ownership change for purposes of Internal Revenue Code Section 382 by discouraging any person or group from becoming a "5% shareholder" or increasing their ownership of the Company's common stock if they are already a "5% shareholder."

## NOTE 11. Commitments and Contingencies

**Operating Lease Obligations:** We lease certain facilities and equipment under non-cancelable operating leases. Operating lease amounts exclude renewal option periods, property taxes, insurance, and maintenance expenses on leased properties. Our facility leases typically provide for rental adjustments for increases in base rent (up to specific limits), property taxes, insurance, and general property maintenance that would be recorded as rent expense. Rent expense was approximately \$0.3 million and \$0.4 million for the three months ended June 30, 2018 and 2017, respectively, and approximately \$0.9 million and \$1.1 million for the nine months ended June 30, 2018 and 2017, respectively. There are no off-balance sheet arrangements other than our operating leases.

**Asset Retirement Obligation:** We have known conditional Asset Retirement Obligations ("AROs") such as certain asset decommissioning and restoration of rented facilities to be performed in the future. Our ARO includes assumptions related to renewal option periods for those facilities where we expect to extend lease terms. The Company recognizes its estimate of the fair value of its ARO in the period incurred in long-term liabilities. The fair value of the ARO is also capitalized as property, plant and equipment.

In future periods, the ARO is accreted for the change in its present value and capitalized costs are depreciated over the useful life of the related assets. If the fair value of the estimated ARO changes, an adjustment will be recorded to both the ARO and the asset retirement capitalized cost. Revisions in estimated liabilities can result from revisions of estimated inflation rates, changes in estimated retirement costs, and changes in the estimated timing of settling the

ARO. The fair value of our ARO was estimated by discounting projected cash flows over the estimated life of the related assets using credit adjusted risk-free rates which ranged from 1.20% to 4.20%. There was no ARO settled during the three and nine months ended June 30, 2018 and 2017. Accretion expense of \$17,000 was recorded during each of the three months ended June 30, 2018 and 2017. Accretion expense of \$0.1 million was recorded during each of the nine months ended June 30, 2018 and 2017.

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EMCORE leases its primary facility in Alhambra, California covering six buildings where manufacturing, research and development, and general and administrative work is performed. In September 2017, a new lease for four of the six buildings was signed, which was effective on October 1, 2017. The new lease extends the terms of the lease for three years plus a three year option to extend the lease through September 2023. In connection with the lease agreement, the Company has recorded an ARO liability at June 30, 2018 and September 30, 2017 of \$1.7 million and \$1.6 million, respectively. Leases related to the other two buildings expired in 2011, and these buildings are being occupied on a month-to-month basis.

The Company's ARO consists of legal requirements to return the existing leased facilities to their original state and certain environmental work to be performed due to the presence of a manufacturing fabrication operation and significant changes to the facilities over the past thirty years.

**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.

**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) Mirasol Class Action

On December 15, 2015, Plaintiff Christina Mirasol ("Mirasol"), on her own behalf and on behalf of a putative class of similarly situated individuals composed of current and former non-exempt employees of the Company working in California since December 15, 2011, filed a complaint against the Company in the Superior Court of California, Los Angeles County (the "Court"). The complaint alleged seven causes of action related to: (1) failure to pay overtime; (2) failure to provide meal periods; (3) failure to pay minimum wages; (4) failure to timely pay wages upon termination; (5) failure to provide compliant wage statements; (6) unfair competition under the California Business and Professions Code § 17200 et seq.; and (7) penalties under the Private Attorneys General Act. The claims were premised primarily on the allegation that Mirasol and the putative class members were not provided with their legally required meal periods. Mirasol sought recovery on her own behalf and on behalf of the putative class in an unspecified amount for compensatory and liquidated damages as well as for declaratory relief, injunctive relief, statutory penalties, pre-judgment interest, costs and attorneys' fees.



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In exchange for a one-time cash payment offered by the Company, certain current and former employees previously agreed to release the Company from all potential claims related to the matters alleged in the Mirasol lawsuit. The Company had recorded an accrual for these amounts at September 30, 2016 that was not material to the Company's results of operations, financial condition or cash flows, which had been recorded within Operating Expenses for the fiscal year ended September 30, 2016. On January 6, 2017, the Company and Mirasol agreed to a class action settlement of \$0.3 million with regards to all outstanding claims. On January 24, 2018, the Court granted final approval of the formal settlement agreement entered into between the parties and on February 26, 2018, the Court entered final judgment. The settlement amount of \$0.3 million was paid in May 2018. There remains no outstanding liability related to the settlement as of June 30, 2018. During the nine months ended June 30, 2017, the Company recorded an accrual of \$0.2 million within Operating Expenses related to the settlement.

### c) Mirasol Wrongful Termination Lawsuit

In August 2016, EMCORE was served with a second lawsuit by former employee Mirsaol, in the Superior Court of Los Angeles alleging that the Company violated California's employment laws in terminating her employment in November 2015. By her complaint, Mirasol asserted five causes of action: (1) wrongful termination in violation of public policy; (2) discrimination on the basis of disability and/or medical condition; (3) failure to accommodate; (4) failure to engage in the interactive process; and (5) intentional infliction of emotional distress. On September 26, 2016, Mirasol dismissed the fifth cause of action for intentional infliction of emotional distress. Mirasol alleged that EMCORE wrongfully terminated her at the conclusion of a Family and Medical Act leave, without engaging in the interactive process of offering to provide her with reasonable accommodations. The plaintiff sought general, special, and punitive damages. On January 6, 2017, the Company and Mirasol agreed to a settlement of \$50,000 with regards to all outstanding claims. This amount was paid as of September 30, 2017.

### d) Phoenix Navigation Components, LLC Legal Proceedings

On June 12, 2018, Phoenix Navigation Components, LLC ("Phoenix") filed a Demand for Arbitration against EMCORE with the American Arbitration Association ("AAA") in New York, 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, and unjust enrichment, 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 July 12, 2018, EMCORE filed an Answering Statement, denying all of these claims. No arbitration date has been set.

On June 21, 2018, Phoenix commenced a special proceeding in the New York Supreme Court, Commercial Division, seeking an application for a preliminary injunction in aid of arbitration pursuant to CPLR 7502(c), in connection with the AAA arbitration in New York. On July 20, 2018, EMCORE filed opposition papers to Phoenix's application for a preliminary injunction in aid of arbitration, denying all of these claims. We believe that the claims made by Phoenix in these proceedings are without merit and we intend to vigorously defend ourselves against them.

## NOTE 12. Equity

### Equity Plans

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

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

the 2012 Equity Incentive Plan (“2012 Plan”).

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

#### Stock Options

Most of our stock options vest and become exercisable over a four to five year period and have a contractual life of 10 years. Certain stock options awarded are intended to qualify as incentive stock options pursuant to Section 422A of the Internal Revenue Code.

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The following table summarizes stock option activity under the Equity Plans for the nine months ended June 30, 2018:

|                                                 | Number<br>of Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted Average<br>Remaining Contractual Life<br>(in years) | Aggregate<br>Intrinsic<br>Value (*)<br>(in<br>thousands) |
|-------------------------------------------------|---------------------|------------------------------------------|--------------------------------------------------------------|----------------------------------------------------------|
| Outstanding as of September 30, 2017            | 326,798             | \$19.54                                  |                                                              |                                                          |
| Granted                                         | —                   | —                                        |                                                              |                                                          |
| Exercised                                       | (4,831 )            | \$4.32                                   |                                                              | \$ 14                                                    |
| Forfeited                                       | (4,944 )            | \$4.36                                   |                                                              |                                                          |
| Expired                                         | (242,979)           | \$24.66                                  |                                                              |                                                          |
| Outstanding as of June 30, 2018                 | 74,044              | \$4.74                                   | 5.32                                                         | \$ 45                                                    |
| Exercisable as of June 30, 2018                 | 45,129              | \$4.70                                   | 4.08                                                         | \$ 33                                                    |
| Vested and expected to vest as of June 30, 2018 | 74,044              | \$4.74                                   | 5.32                                                         | \$ 45                                                    |

(\*) Intrinsic value for stock options represents the “in-the-money” portion or the positive variance between a stock option's exercise price and the underlying stock price. For the nine months ended June 30, 2017, the intrinsic value of options exercised was \$0.9 million.

As of June 30, 2018, there was approximately \$0.1 million of unrecognized stock-based compensation expense related to non-vested stock options granted under the Equity Plans which is expected to be recognized over an estimated weighted average life of 2.2 years.

Valuation Assumptions

There were no stock option grants for the three and nine months ended June 30, 2018 and 2017.

Time-Based Restricted Stock

Time-based restricted stock units (“RSUs”) and restricted stock awards (“RSAs”) granted to employees under the 2010 Plan and 2012 Plan typically vest over 3 to 4 years and are subject to forfeiture if employment terminates prior to the lapse of the restrictions. RSUs are not considered issued or outstanding common stock until they vest. RSAs are considered issued and outstanding on the grant date and are subject to forfeiture if specified vesting conditions are not satisfied.

The following table summarizes the activity related to RSUs and RSAs subject to time-based vesting requirements for the nine months ended June 30, 2018:

| Restricted Stock Activity           | Restricted Stock Units |                                           | Restricted Stock Awards |                                           |
|-------------------------------------|------------------------|-------------------------------------------|-------------------------|-------------------------------------------|
|                                     | Number of<br>Shares    | Weighted Average Grant Date<br>Fair Value | Number<br>of<br>Shares  | Weighted Average Grant Date<br>Fair Value |
| Non-vested as of September 30, 2017 | 778,084                | \$5.91                                    | 8,154                   | \$8.20                                    |
| Granted                             | 643,043                | \$5.81                                    | —                       | \$0.00                                    |
| Vested                              | (370,281 )             | \$5.40                                    | —                       | \$0.00                                    |
| Forfeited                           | (22,854 )              | \$5.23                                    | —                       | \$0.00                                    |
| Non-vested as of June 30, 2018      | 1,027,992              | \$6.05                                    | 8,154                   | \$8.20                                    |

As of June 30, 2018, there was approximately \$5.5 million of remaining unamortized stock-based compensation expense associated with RSUs, which will be expensed over a weighted average remaining service period of approximately 3.1 years. The 1.0 million outstanding non-vested and expected to vest RSUs have an aggregate intrinsic value of approximately \$5.2 million and a weighted average remaining contractual term of 1.9 years. For the nine months ended June 30, 2018 and 2017, the intrinsic value of RSUs vested was approximately \$2.3 million and \$3.3 million, respectively. For the nine months ended June 30, 2017, the weighted average grant date fair value of RSUs granted was \$8.44 per share.

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As of June 30, 2018, there was approximately \$0.1 million of remaining unamortized stock-based compensation expense associated with RSAs, which will be expensed over a weighted average remaining service period of approximately 2.3 years.

On December 28, 2017, the Company granted our CEO, Jeffrey Rittichier, our Senior Vice President of Engineering, Albert Lu, and our Vice President of Sales (now co-VP, Broadband), David Wojciechowski, 40,000, 14,000 and 10,000 RSUs with a grant date fair value of \$0.3 million, \$0.1 million and \$0.1 million, respectively, that will vest in 4 equal annual installments beginning on December 28, 2018.

**Performance Stock**

Performance based restricted stock units (“PSUs”) and performance based shares of restricted stock (“PRSAs”) granted to employees under the 2012 Plan typically vest over 1 to 3 years and are subject to forfeiture in whole, if employment terminates, or in whole or in part, if specified vesting conditions are not satisfied, in each case prior to vesting. PSUs are not considered issued or outstanding common stock until they vest. PRSAs are considered issued and outstanding on the grant date (at 200% of the target number of shares) and are subject to forfeiture if specified vesting conditions are not satisfied. PSUs and PRSAs that are granted to our executive officers and key employees are provided as long-term incentive compensation that is based on relative total shareholder return, which measures our performance against that of our competitors.

The following table summarizes the activity related to PSUs and PRSAs for the nine months ended June 30, 2018:

| Performance Stock Activity          | Performance Stock Units      |                                        | Performance Stock Awards     |                                        |
|-------------------------------------|------------------------------|----------------------------------------|------------------------------|----------------------------------------|
|                                     | Number of Shares (at Target) | Weighted Average Grant Date Fair Value | Number of Shares (at Target) | Weighted Average Grant Date Fair Value |
| Non-vested as of September 30, 2017 | 328,708                      | \$8.36                                 | 33,333                       | \$12.25                                |
| Granted                             | 240,164                      | \$7.62                                 | —                            | \$0.00                                 |
| Vested                              | (166,058)                    | \$6.86                                 | —                            | \$0.00                                 |
| Forfeited                           | (5,037 )                     | \$13.36                                | —                            | \$0.00                                 |
| Non-vested as of June 30, 2018      | 397,777                      | \$8.48                                 | 33,333                       | \$12.25                                |

As of June 30, 2018, there was approximately \$1.8 million of remaining unamortized stock-based compensation expense associated with PSUs, which will be expensed over a weighted average remaining service period of approximately 1.6 years. The 0.4 million outstanding non-vested and expected to vest PSUs have an aggregate intrinsic value of approximately \$2.0 million and a weighted average remaining contractual term of 1.6 years. For the nine months ended June 30, 2018, the intrinsic value of PSUs vested was approximately \$1.4 million. There were no PSUs vested in the three months ended June 30, 2018. For the three and nine months ended June 31, 2017, there were no PSUs vested. For the nine months ended June 30, 2017, the weighted average grant date fair value of PSUs granted was \$8.34.

As of June 30, 2018, there was approximately \$0.3 million of remaining unamortized stock-based compensation expense associated with PRSAs, which will be expensed over a weighted average remaining service period of approximately 1.3 years.

On December 28, 2017, the Company granted Messrs. Rittichier, Lu and Wojciechowski, 40,000, 14,000 and 10,000 PSUs with a grant date fair value of \$0.3 million, \$0.1 million and \$0.1 million, respectively. The PSUs issued will vest based on a combination of the relative total shareholder return of EMCORE's stock compared to the Russell Microcap Index and the executive's continued employment. The total number of shares to be issued to each individual ranges from zero (0) to 200% of the target PSUs granted. Between zero (0) and 200% of the target PSUs will vest, if at all, on December 28, 2020.

On December 28, 2017, in addition to the PSUs granted to Messrs. Rittichier, Lu and Wojciechowski, the Company granted 108,500 target PSUs with a grant date fair value of \$0.9 million to certain key non-executive employees. The PSUs issued will vest based on a combination of the relative total shareholder return of EMCORE's stock compared to the Russell Microcap Index and the employee's continued employment. The total number of shares to be issued to each individual may range from zero (0) to 200% of the target PSUs granted. Between zero (0) and 200% of the target PSUs granted will vest, if at all, on December 28, 2020.

Included in the 240,164 PSUs granted and 166,058 PSUs vested during the nine months ended June 30, 2018 are 67,664 PSUs that vested at more than 100% of the target PSUs upon vesting.

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## Stock-based compensation

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

| Stock-based Compensation Expense - by award type        | For the three months ended June 30, |         | For the nine months ended June 30, |         |
|---------------------------------------------------------|-------------------------------------|---------|------------------------------------|---------|
|                                                         | 2018                                | 2017    | 2018                               | 2017    |
| (in thousands)                                          |                                     |         |                                    |         |
| Employee stock options                                  | \$6                                 | \$12    | \$26                               | \$34    |
| Restricted stock units and awards                       | 400                                 | 488     | 1,263                              | 1,211   |
| Performance stock units and awards                      | 330                                 | 410     | 980                                | 1,049   |
| Employee stock purchase plan                            | 64                                  | 92      | 225                                | 210     |
| Outside director equity awards and fees in common stock | 65                                  | 78      | 219                                | 168     |
| Total stock-based compensation expense                  | \$865                               | \$1,080 | \$2,713                            | \$2,672 |

| Stock-based Compensation Expense - by expense type | For the three months ended June 30, |         | For the nine months ended June 30, |         |
|----------------------------------------------------|-------------------------------------|---------|------------------------------------|---------|
|                                                    | 2018                                | 2017    | 2018                               | 2017    |
| (in thousands)                                     |                                     |         |                                    |         |
| Cost of revenue                                    | \$83                                | \$113   | \$337                              | \$353   |
| Selling, general, and administrative               | 625                                 | 824     | 1,915                              | 1,957   |
| Research and development                           | 157                                 | 143     | 461                                | 362     |
| Total stock-based compensation expense             | \$865                               | \$1,080 | \$2,713                            | \$2,672 |

The stock-based compensation expense above relates to continuing operations. Included within discontinued operations is \$0 and \$11,000 of stock-based compensation expense for the three months ended June 30, 2018 and 2017, respectively. Included within discontinued operations is \$0 of stock-based compensation expense for each of the nine months ended June 30, 2018 and 2017.

## 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 each of the three months ended June 30, 2018 and 2017 was approximately \$0.1 million. Our matching contribution in cash for each of the nine months ended June 30, 2018 and 2017 was approximately \$0.4 million.

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## (Loss) Income Per Share

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

| Basic and Diluted Net (Loss) Income Per Share<br><br>(in thousands, except per share)                                                                             | For the three<br>months ended<br>June 30, |         | For the nine<br>months ended June<br>30, |         |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|---------|------------------------------------------|---------|
|                                                                                                                                                                   | 2018                                      | 2017    | 2018                                     | 2017    |
| Numerator:                                                                                                                                                        |                                           |         |                                          |         |
| (Loss) income from continuing operations                                                                                                                          | \$(8,414)                                 | \$2,436 | \$(11,567)                               | \$6,057 |
| Loss from discontinued operations                                                                                                                                 | —                                         | (11 )   | —                                        | (27 )   |
| Undistributed earnings allocated to common shareholders for basic and diluted net income per share                                                                | (8,414 )                                  | 2,425   | (11,567 )                                | 6,030   |
| Denominator:                                                                                                                                                      |                                           |         |                                          |         |
| Denominator for basic net income per share - weighted average shares outstanding                                                                                  | 27,387                                    | 26,833  | 27,204                                   | 26,577  |
| Dilutive options outstanding, unvested stock units, unvested stock awards and ESPP                                                                                | —                                         | 983     | —                                        | 971     |
| Denominator for diluted net income per share - adjusted weighted average shares outstanding                                                                       | 27,387                                    | 27,816  | 27,204                                   | 27,548  |
| Net (loss) income per basic share:                                                                                                                                |                                           |         |                                          |         |
| Continuing operations                                                                                                                                             | \$(0.31 )                                 | \$0.09  | \$(0.43 )                                | \$0.23  |
| Discontinued operations                                                                                                                                           | —                                         | (0.00 ) | —                                        | (0.00 ) |
| Net (loss) income per basic share                                                                                                                                 | \$(0.31 )                                 | \$0.09  | \$(0.43 )                                | \$0.23  |
| Net (loss) income per diluted share:                                                                                                                              |                                           |         |                                          |         |
| Continuing operations                                                                                                                                             | \$(0.31 )                                 | \$0.09  | \$(0.43 )                                | \$0.22  |
| Discontinued operations                                                                                                                                           | —                                         | (0.00 ) | —                                        | (0.00 ) |
| Net (loss) income per diluted share                                                                                                                               | \$(0.31 )                                 | \$0.09  | \$(0.43 )                                | \$0.22  |
| Weighted average antidilutive options, unvested restricted stock units and awards, unvested performance stock units and ESPP shares excluded from the computation | 825                                       | 370     | 725                                      | 400     |
| Average market price of common stock                                                                                                                              | \$5.06                                    | \$10.00 | \$6.20                                   | \$8.66  |

For diluted (loss) income per share, the denominator includes all outstanding common shares and all potential dilutive common shares to be issued. The anti-dilutive stock options and unvested stock were excluded from the computation of diluted net loss per share for the three and nine months ended June 30, 2018 due to the Company incurring a net loss for the period. For the three and nine months ended June 30, 2017, we excluded 0.4 million of weighted average outstanding stock options, RSUs and PSUs from the calculation of diluted net income per share because their effect would have been anti-dilutive.

## 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.



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## Future Issuances

As of June 30, 2018, we had common stock reserved for the following future issuances:

| Future Issuances                                             | Number<br>of<br>Common<br>Stock<br>Shares<br>Available<br>for Future<br>Issuances |
|--------------------------------------------------------------|-----------------------------------------------------------------------------------|
| Exercise of outstanding stock options                        | 74,044                                                                            |
| Unvested restricted stock units                              | 1,027,992                                                                         |
| Unvested performance stock units (at 200% maximum payout)    | 795,554                                                                           |
| Purchases under the employee stock purchase plan             | 818,036                                                                           |
| Issuance of stock-based awards under the Equity Plans        | 1,493,848                                                                         |
| Purchases under the officer and director share purchase plan | 88,741                                                                            |
| Total reserved                                               | 4,298,215                                                                         |

## NOTE 13. Geographical Information

We evaluate our reportable segment pursuant to ASC 280, Segment Reporting. The Company's Chief Executive Officer is the chief operating decision maker and he assesses the performance of the operating segment and allocates resources to the segment based on its business prospects, competitive factors, net revenue, operating results, and other non-U.S. GAAP financial ratios. Based on this evaluation, the Company operates as a single reportable segment. Revenue: The following tables set forth revenue by geographic region with revenue assigned to geographic regions based on our customers' billing address.

| Revenue by Geographic Region | For the three<br>months ended<br>June 30, |          | For the nine<br>months ended<br>June 30, |          |
|------------------------------|-------------------------------------------|----------|------------------------------------------|----------|
| (in thousands)               | 2018                                      | 2017     | 2018                                     | 2017     |
| United States                | \$12,965                                  | \$23,391 | \$47,984                                 | \$74,075 |
| Asia                         | 3,116                                     | 5,699    | 7,919                                    | 14,190   |
| Europe                       | 1,534                                     | 1,653    | 4,266                                    | 4,978    |
| Other                        | 102                                       | 209      | 207                                      | 476      |
| Total revenue                | \$17,717                                  | \$30,952 | \$60,376                                 | \$93,719 |

**Significant Customers:** Significant customers are defined as customers representing greater than 10% of our consolidated revenue. Revenue from two of our significant customers represented an aggregate of 56% of our consolidated revenue for each of the three months ended June 30, 2018 and 2017. Revenue from two and three of our significant customers represented an aggregate of 58% and 71% of our consolidated revenue for the nine months ended June 30, 2018 and 2017, respectively.

**Long-lived Assets:** Long-lived assets consist of property, plant, and equipment. As of June 30, 2018 and September 30, 2017, approximately 43% and 46%, respectively, of our long-lived assets were located in the United States. The remaining long-lived assets are primarily located in China.

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### 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 pioneered the linear fiber optic transmission technology that enabled the world's first delivery of Cable TV 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 navigations systems technology. With both analog and digital circuits on multiple chips, or even a single chip, the value of Mixed-Signal device solutions is often far greater than traditional digital applications and requires a specialized expertise held by EMCORE which is unique in the optics industry.

#### Strategic Plan

In addition to organic growth and development of our existing Fiber Optics business, we intend to pursue other strategies to enhance shareholder value. The Strategy and Alternatives Committee of the Company's Board of Directors (the "Strategy and Alternatives Committee"), which was established in December 2013, is charged with overseeing the Company's strategic plan and evaluating strategic opportunities and alternatives available to the Company, including potential mergers, acquisitions, divestitures and other key strategic transactions outside the ordinary course of the Company's business. Accordingly, the Strategy and Alternatives Committee may from time to time consider strategic opportunities to enhance shareholder value, which may include acquisitions, investments in joint ventures, partnerships, and other strategic alternatives such as dispositions, reorganizations, recapitalizations or other similar transactions, the repurchase of shares of our outstanding common stock or payment of dividends to our shareholders, and may engage financial and other advisers to assist it in these efforts. Accordingly, the Strategy and Alternatives Committee of the Board of Directors and our management may from time to time be engaged in evaluating potential strategic opportunities and we may enter into definitive agreements with respect to such transactions or other strategic alternatives. However, there is no assurance that the Strategy and Alternatives Committee will identify further strategic opportunities that the Company will determine to pursue, or that the consideration of any such opportunity would result in the completion of a strategic transaction.

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## Results of Operations

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

|                                                                              | For the three<br>months ended<br>June 30, |         | For the nine<br>months ended<br>June 30, |         |
|------------------------------------------------------------------------------|-------------------------------------------|---------|------------------------------------------|---------|
|                                                                              | 2018                                      | 2017    | 2018                                     | 2017    |
| Revenue                                                                      | 100.0 %                                   | 100.0 % | 100.0 %                                  | 100.0 % |
| Cost of revenue                                                              | 93.2                                      | 65.0    | 76.7                                     | 65.9    |
| Gross profit                                                                 | 6.8                                       | 35.0    | 23.3                                     | 34.1    |
| Operating expense (income):                                                  |                                           |         |                                          |         |
| Selling, general, and administrative                                         | 29.6                                      | 18.8    | 26.0                                     | 18.2    |
| Research and development                                                     | 22.1                                      | 10.8    | 18.2                                     | 9.3     |
| Impairments                                                                  | —                                         | —       | —                                        | 0.5     |
| (Gain) loss on sale of assets                                                | —                                         | (1.0 )  | 0.1                                      | (0.3 )  |
| Total operating expense                                                      | 51.7                                      | 28.6    | 44.3                                     | 27.7    |
| Operating (loss) income                                                      | (44.9 )                                   | 6.4     | (21.0 )                                  | 6.4     |
| Other income (expense):                                                      |                                           |         |                                          |         |
| Interest income, net                                                         | 1.2                                       | 0.2     | 0.8                                      | 0.1     |
| Foreign exchange (loss) gain                                                 | (3.8 )                                    | 0.2     | 0.2                                      | (0.3 )  |
| Other income                                                                 | —                                         | 1.0     | —                                        | 0.3     |
| Total other (expense) income                                                 | (2.6 )                                    | 1.4     | 1.0                                      | 0.1     |
| (Loss) income from continuing operations before income tax benefit (expense) | (47.5 )                                   | 7.8     | (20.0 )                                  | 6.5     |
| Income tax benefit (expense)                                                 | —                                         | 0.0     | 0.8                                      | (0.1 )  |
| (Loss) income from continuing operations                                     | (47.5 )                                   | 7.8     | (19.2 )                                  | 6.4     |
| Loss from discontinued operations, net of tax                                | —                                         | (0.0 )  | —                                        | (0.0 )  |
| Net (loss) income                                                            | (47.5 )%                                  | 7.8 %   | (19.2 )%                                 | 6.4 %   |

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## Comparison of Financial Results for the Three Months Ended June 30, 2018 and 2017

(in thousands, except percentages)

|                                                                    | For the three months ended June 30, |          |            |            |
|--------------------------------------------------------------------|-------------------------------------|----------|------------|------------|
|                                                                    | 2018                                | 2017     | \$ Change  | % Change   |
| Revenue                                                            | \$17,717                            | \$30,952 | \$(13,235) | (42.8)%    |
| Cost of revenue                                                    | 16,519                              | 20,110   | (3,591)    | (17.9)%    |
| Gross profit                                                       | 1,198                               | 10,842   | (9,644)    | (89.0)%    |
| Operating expense (income):                                        |                                     |          |            |            |
| Selling, general, and administrative                               | 5,237                               | 5,815    | (578)      | (9.9)%     |
| Research and development                                           | 3,915                               | 3,340    | 575        | 17.2%      |
| Gain on sale of assets                                             | —                                   | (322)    | 322        | 100.0%     |
| Total operating expense                                            | 9,152                               | 8,833    | 319        | 3.6%       |
| Operating (loss) income                                            | (7,954)                             | 2,009    | (9,963)    | (495.9)%   |
| Other income (expense):                                            |                                     |          |            |            |
| Interest income, net                                               | 216                                 | 77       | 139        | 180.5%     |
| Foreign exchange (loss) gain                                       | (676)                               | 53       | (729)      | (1,375.5)% |
| Other income                                                       | —                                   | 316      | (316)      | (100.0)%   |
| Total other (expense) income                                       | (460)                               | 446      | (906)      | (203.1)%   |
| (Loss) income from continuing operations before income tax benefit | (8,414)                             | 2,455    | (10,869)   | (442.7)%   |
| (expense)                                                          |                                     |          |            |            |
| Income tax benefit (expense)                                       | —                                   | (19)     | 19         | 100.0%     |
| (Loss) income from continuing operations                           | (8,414)                             | 2,436    | (10,850)   | (445.4)%   |
| Loss from discontinued operations, net of tax                      | —                                   | (11)     | 11         | 100.0%     |
| Net (loss) income                                                  | \$(8,414)                           | \$2,425  | \$(10,839) | (447.0)%   |

## Revenue

For the three months ended June 30, 2018, revenue decreased 42.8% compared to the same period in the prior year driven by lower sales volume of our CATV systems and components, Chip Devices and RFOG products primarily to U.S. customers partially offset by an increase in Navigation Systems product line revenue. The decrease in CATV components is primarily the result of a significant customer experiencing a large inventory accumulation due to the consolidation of contract manufacturers' inventory in the U.S..

## Gross Profit

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 6.8% and 35.0% for the three months ended June 30, 2018 and 2017, respectively.

Stock-based compensation expense within cost of revenue totaled approximately \$0.1 million during each of the three months ended June 30, 2018 and 2017.



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For the three months ended June 30, 2018, gross profit decreased by 89.0% when compared to the same period in the prior year. The decrease in gross profit for the three months ended June 30, 2018 compared to the same period in 2017 was primarily due to lower sales and production volumes, resulting in lower operating leverage due to higher fixed manufacturing labor and expenses as a percentage of our revenues, and higher wafer fabrication expenses.

### 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 \$0.6 million and \$0.8 million during the three months ended June 30, 2018 and 2017, respectively.

SG&A expense for the three months ended June 30, 2018 was lower than the amount reported in the same period in 2017, primarily due to lower employee benefits and severance partially offset by an increase in expense for the allowance for bad debts and professional services.

As a percentage of revenue, SG&A expenses were 29.6% and 18.8% for the three months ended June 30, 2018 and 2017, respectively. The increase in SG&A expense as a percentage of revenue in the three months ended June 30, 2018 compared to the same period in 2017 is due to the decrease in revenues in the three months ended June 30, 2018.

### 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 related 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 and \$0.1 million during the three months ended June 30, 2018 and 2017, respectively.

R&D expense for the three months ended June 30, 2018 was higher than the amounts reported in the same period in 2017 primarily due to an increase in compensation costs and project spending, primarily in navigation systems.

As a percentage of revenue, R&D expenses were 22.1% and 10.8% for the three months ended June 30, 2018 and 2017, respectively. The increase in R&D expense as a percentage of revenue in the three months ended June 30, 2018 compared to the same period in 2017 is due to the decrease in revenues and higher R&D expense in the three months ended June 30, 2018.

### Operating (Loss) Income

Operating (loss) income represents revenue less the cost of revenue and direct operating expenses incurred. Operating (loss) income is a measure of profit and loss that executive management uses to assess performance and make decisions. As a percentage of revenue, our operating (loss) income was (44.9)% and 6.4% for the three months ended

June 30, 2018 and 2017, respectively. The decrease in operating (loss) income as a percentage of revenue in the three months ended June 30, 2018 compared to the same period in 2017 is primarily due to the decrease in gross profit in the three months ended June 30, 2018.

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Other (Expense) Income

Interest Income, net

During the three months ended June 30, 2018 and 2017, we recorded \$0.3 million and \$0.1 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 (defined in “Liquidity and Capital Resources” below). Interest income for the three months ended June 30, 2018 was higher than the amount reported in the same period in 2017 due to higher interest income earned on 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 (loss) gain on our consolidated statements of operations and comprehensive income. The (loss) gain recorded relates to the change in value of the Yuan Renminbi relative to the U.S. dollar.

Income Tax Benefit (Expense)

For the three months ended June 30, 2018, the Company recorded income tax benefit from continuing operations of \$0, and \$0 of income tax benefit within income from discontinued operations. The income tax benefit is primarily due to the current period operating loss. See Note 10 - Income and Other Taxes in the notes to the condensed consolidated financial statements for additional disclosures.

For the three months ended June 30, 2017, the Company recorded income tax expense from continuing operations of approximately \$19,000 and \$0 of income tax expense within income from discontinued operations.

The Company’s Board of Directors has adopted a Tax Benefits Preservation Plan (the “Rights Plan”) to help preserve the value of our net operating losses and tax credit carryforwards by reducing the risk of limitation of these deferred tax assets. The Rights Plan was approved by the Company’s shareholders on March 10, 2015. On September 26, 2017, the Company extended the final expiration date of the rights contained therein from October 3, 2017 to October 3, 2018 (subject to earlier expiration as described in the Rights Plan), which extension was approved by the Company's shareholders at the Company's 2018 annual meeting of shareholders held on March 16, 2018. The Rights Plan is intended to reduce the likelihood that the Company will experience an ownership change for purposes of Internal Revenue Code Section 382 by discouraging any person or group from becoming a “5% shareholder” or increasing their ownership of the Company’s common stock if they are already a “5% shareholder.”

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## Comparison of Financial Results for the Nine Months Ended June 30, 2018 and 2017

(in thousands, except percentages)

|                                                                              | For the nine months ended June 30, |          |             |          |
|------------------------------------------------------------------------------|------------------------------------|----------|-------------|----------|
|                                                                              | 2018                               | 2017     | \$ Change   | % Change |
| Revenue                                                                      | \$60,376                           | \$93,719 | \$ (33,343) | (35.6)%  |
| Cost of revenue                                                              | 46,317                             | 61,796   | (15,479 )   | (25.0)%  |
| Gross profit                                                                 | 14,059                             | 31,923   | (17,864 )   | (56.0)%  |
| Operating expense (income):                                                  |                                    |          |             |          |
| Selling, general, and administrative                                         | 15,700                             | 17,065   | (1,365 )    | (8.0)%   |
| Research and development                                                     | 11,015                             | 8,680    | 2,335       | 26.9%    |
| Impairments                                                                  | —                                  | 468      | (468 )      | (100.0)% |
| Loss (gain) on sale of assets                                                | 39                                 | (322 )   | 361         | 112.1%   |
| Total operating expense                                                      | 26,754                             | 25,891   | 863         | 3.3%     |
| Operating (loss) income                                                      | (12,695 )                          | 6,032    | (18,727 )   | (310.5)% |
| Other income (expense):                                                      |                                    |          |             |          |
| Interest income, net                                                         | 490                                | 146      | 344         | 235.6%   |
| Foreign exchange gain (loss)                                                 | 136                                | (306 )   | 442         | 144.4%   |
| Other income                                                                 | —                                  | 316      | (316 )      | (100.0)% |
| Total other income                                                           | 626                                | 156      | 470         | 301.3%   |
| (Loss) income from continuing operations before income tax benefit (expense) | (12,069 )                          | 6,188    | (18,257 )   | (295.0)% |
| Income tax benefit (expense)                                                 | 502                                | (131 )   | 633         | 483.2%   |
| (Loss) income from continuing operations                                     | (11,567 )                          | 6,057    | (17,624 )   | (291.0)% |
| Loss from discontinued operations, net of tax                                | —                                  | (27 )    | 27          | 100.0%   |
| Net (loss) income                                                            | \$(11,567)                         | \$6,030  | \$(17,597)  | (291.8)% |

## Revenue

For the nine months ended June 30, 2018, revenue decreased 35.6% compared to the same period in the prior year driven by lower sales volume of our CATV components and RFOG products primarily to U.S. customers partially offset by increases in revenue from our Chip Devices and Navigation Systems product lines. The decrease in CATV components is primarily the result of a significant customer experiencing a large inventory accumulation due to the consolidation of contract manufacturers' inventory in the U.S..

## Gross Profit

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 23.3% and 34.1% for the nine months ended June 30, 2018 and 2017, respectively.

Stock-based compensation expense within cost of revenue totaled approximately \$0.3 million and \$0.4 million during the nine months ended June 30, 2018 and 2017, respectively.

For the nine months ended June 30, 2018, gross profit decreased by 56.0% when compared to the same period in the prior year. The decrease in gross profit for the nine months ended June 30, 2018 compared to the same period in 2017

was primarily due to lower sales and production volumes, resulting in lower operating leverage due to higher fixed manufacturing labor and expenses as a percentage of our revenues, and higher wafer fabrication expenses.

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### 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 \$1.9 million and \$2.0 million during the nine months ended June 30, 2018 and 2017, respectively.

SG&A expense for the nine months ended June 30, 2018 was lower than the amount reported in the same period in 2017 primarily due to lower compensation costs, severance and professional services expenses partially offset by an increase in expense for the allowance for bad debts and the costs incurred in connection with the closing of our Pennsylvania facility.

As a percentage of revenue, SG&A expenses were 26.0% and 18.2% for the nine months ended June 30, 2018 and 2017, respectively. The increase in SG&A expense as a percentage of revenue in the nine months ended June 30, 2018 compared to the same period in 2017 is due to the decrease in revenues in the nine months ended June 30, 2018.

### 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 related 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 \$0.5 million and \$0.4 million during the nine months ended June 30, 2018 and 2017, respectively.

R&D expense for the nine months ended June 30, 2018 was higher than the amounts reported in the same period in 2017 primarily due to an increase in compensation costs and project spending, primarily in navigation systems.

As a percentage of revenue, R&D expenses were 18.2% and 9.3% for the nine months ended June 30, 2018 and 2017, respectively. The increase in R&D expense as a percentage of revenue in the nine months ended June 30, 2018 compared to the same period in 2017 is due to the decrease in revenues and higher R&D expense in the nine months ended June 30, 2018.

### Impairments

In March 2017, in connection with our opening of a new manufacturing facility in China, we identified equipment with a net book value of approximately \$0.6 million that would no longer be utilized after the planned move later in fiscal year 2017. After taking into consideration the costs of disposal and estimated net funds from the sale of the equipment of approximately \$0.1 million, we recorded a charge to impairments of approximately \$0.5 million in the nine months ended June 30, 2017. Also see Note 7 - Property, Plant and Equipment, net in the notes to the condensed consolidated financial statements for additional information.

## Operating (Loss) Income

Operating (loss) income represents revenue less the cost of revenue and direct operating expenses incurred. Operating (loss) income is a measure of profit and loss that executive management uses to assess performance and make decisions. As a percentage of revenue, our operating (loss) income was (21.0)% and 6.4% for the nine months ended June 30, 2018 and 2017, respectively. The decrease in operating (loss) income as a percentage of revenue in the nine months ended June 30, 2018 compared to the same period in 2017 is due to the decrease in operating income in the nine months ended June 30, 2018.

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### Other Income (Expense)

#### Interest Income, net

During the nine months ended June 30, 2018 and 2017, we recorded \$0.7 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. Interest income for the nine months ended June 30, 2018 was higher than the amount reported in the same period in 2017 due to higher interest income earned on 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 Benefit (Expense)

For the nine months ended June 30, 2018, the Company recorded income tax benefit from continuing operations of approximately \$0.5 million, and \$0 of income tax benefit within income from discontinued operations. The income tax benefit is primarily comprised of the effect of recent changes in tax laws in December 2017 that eliminates Alternative Minimum Taxes. See Note 10 - Income and Other Taxes in the notes to the condensed consolidated financial statements for additional disclosures.

For the nine months ended June 30, 2017, the Company recorded income tax expense from continuing operations of approximately \$0.1 million and \$0 of income tax expense within income from discontinued operations.

The Company's Board of Directors has adopted a Tax Benefits Preservation Plan (the "Rights Plan") to help preserve the value of our net operating losses and tax credit carryforwards by reducing the risk of limitation of these deferred tax assets. The Rights Plan was approved by the Company's shareholders on March 10, 2015. On September 26, 2017, the Company extended the final expiration date of the rights contained therein from October 3, 2017 to October 3, 2018 (subject to earlier expiration as described in the Rights Plan), which extension was approved by the Company's shareholders at the Company's 2018 annual meeting of shareholders on March 16, 2018. The Rights Plan is intended to reduce the likelihood that the Company will experience an ownership change for purposes of Internal Revenue Code Section 382 by discouraging any person or group from becoming a "5% shareholder" or increasing their ownership of the Company's common stock if they are already a "5% shareholder."

### 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. 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

Other than the fiscal year ended September 30, 2017, in recent years we have historically consumed cash from operations and, until recently, 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 June 30, 2018, cash and cash equivalents totaled \$65.3 million and net working capital totaled approximately \$93.2 million. Net working capital, calculated as current assets minus current liabilities, is a financial metric we use which represents available operating liquidity. With respect to measures related to liquidity:

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Credit Facility: On November 11, 2010, we entered into a Credit and Security Agreement (“Credit Facility”) with Wells Fargo Bank, N.A. (“Wells Fargo”). The Credit Facility, as amended by its seventh amendment on November 10, 2015, currently provides us with a revolving credit of up to \$15.0 million through November 2018 that can be used for working capital requirements, letters of credit, and other general corporate purposes. 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. See Note 9 - Credit Facilities in the notes to the condensed consolidated financial statements for additional disclosures. As of July 30, 2018, there was no outstanding balance under this Credit Facility, \$0.5 million reserved for one outstanding stand-by letter of credit and \$8.6 million available for borrowing.

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, and thereafter for the foreseeable future. At the discretion of our Board, we may use our existing balances of cash and cash equivalents to provide liquidity to our shareholders through one or more additional special dividends or the repurchase of additional shares of our outstanding common stock, make investments in our other businesses, pursue other strategic opportunities or a combination thereof. In addition, should we require more capital than what is generated by our operations, for example to fund significant discretionary activities, such as business acquisitions, we could 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. We have borrowed funds in the past and continue to believe we have the ability to do so at reasonable interest rates.

## Cash Flow

The Condensed Consolidated Statements of Cash Flows for the nine months ended June 30, 2018 and 2017 reflects cash flows from both the continuing and discontinued operations of the Company.

## Net Cash Provided By Operating Activities

| Operating Activities<br>(in thousands, except percentages) | For the nine months ended June 30, |         |              |          |
|------------------------------------------------------------|------------------------------------|---------|--------------|----------|
|                                                            | 2018                               | 2017    | \$<br>Change | % Change |
| Net cash provided by operating activities                  | \$1,240                            | \$7,808 | \$(6,568)    | (84.1)%  |

## Fiscal 2018:

For the nine months ended June 30, 2018, our operating activities provided cash of \$1.2 million primarily due to changes in our operating assets and liabilities (or working capital components, which includes non-current inventory) of \$4.9 million, depreciation and amortization expense of \$4.1 million, stock-based compensation expense of \$2.7 million, provision for doubtful accounts of \$0.6 million, warranty provision of \$0.3 million and loss on disposal of equipment of \$39,000 partially offset by our net loss of \$11.6 million. The change in our operating assets and liabilities was primarily the result of a decrease in accounts receivable of \$6.8 million and inventory of \$1.8 million and an increase in other liabilities of \$1.2 million partially offset by an increase in other assets of \$3.2 million and a decrease in accounts payable of approximately \$1.7 million.

## Fiscal 2017:

For the nine months ended June 30, 2017, our operating activities provided cash of \$7.8 million primarily due to our net income of \$6.0 million, depreciation, amortization and accretion expense of \$2.6 million, stock-based compensation expense of \$2.7 million, other changes of \$0.3 million, impairment charge of \$0.5 million and warranty

provision of \$0.5 million partially offset by a change in our operating assets and liabilities (or working capital components, which includes non-current inventory) of \$4.5 million. The change in our operating assets and liabilities was primarily the result of an increase in accounts receivable of \$3.9 million, inventory of \$1.8 million and other assets of \$2.6 million partially offset an increase in accounts payable of approximately \$3.0 million and accrued expenses and other liabilities of \$0.8 million.

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## Working Capital Components:

**Accounts Receivable:** We generally expect the level of accounts receivable at any given quarter 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 to reflect the change in our expectations of forecasted sales. 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 Used In Investing Activities

| Investing Activities<br>(in thousands, except percentages) | For the nine months ended June 30, |           |              |          |
|------------------------------------------------------------|------------------------------------|-----------|--------------|----------|
|                                                            | 2018                               | 2017      | \$<br>Change | % Change |
| Net cash used in investing activities                      | \$(3,679)                          | \$(6,923) | \$ 3,244     | 46.9%    |

## Fiscal 2018:

For the nine months ended June 30, 2018, our investing activities used \$3.7 million of cash for capital related expenditures of \$3.8 million partially offset by cash proceeds from the disposal of equipment of \$0.1 million.

## Fiscal 2017:

For the nine months ended June 30, 2017, our investing activities used \$6.9 million of cash primarily for capital related expenditures of \$7.3 million partially offset by the receipt of proceeds from the disposal of equipment of \$0.3 million.

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

| Financing Activities<br>(in thousands, except percentages) | For the nine months ended June 30, |       |              |          |
|------------------------------------------------------------|------------------------------------|-------|--------------|----------|
|                                                            | 2018                               | 2017  | \$<br>Change | % Change |
| Net cash (used in) provided by financing activities        | \$(812)                            | \$797 | \$(1,609)    | (201.9)% |

## Fiscal 2018:

For the nine months ended June 30, 2018, our financing activities used cash of \$0.8 million primarily for tax withholding paid on behalf of employees for stock-based awards of \$1.3 million partially offset by proceeds from

stock plan transactions of \$0.4 million.

Fiscal 2017:

For the nine months ended June 30, 2017, our financing activities provided cash of \$0.8 million from proceeds from stock plan transactions.

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## Contractual Obligations and Commitments

Our contractual obligations and commitments for the remainder of fiscal 2018 and over the next five fiscal years are summarized in the table below:

(in thousands)

|                                               | Total     | Less<br>than 1<br>year | 1 to 3<br>years | 4 to 5<br>years | Over 5<br>years |
|-----------------------------------------------|-----------|------------------------|-----------------|-----------------|-----------------|
| Purchase obligations                          | \$ 14,070 | \$ 13,611              | \$ 160          | \$ 160          | \$ 139          |
| Asset retirement obligations                  | 1,860     | —                      | 40              | 59              | 1,761           |
| Operating lease obligations                   | 3,699     | 211                    | 1,592           | 1,254           | 642             |
| Total contractual obligations and commitments | \$ 19,629 | \$ 13,822              | \$ 1,792        | \$ 1,473        | \$ 2,542        |

Interest payments are not included in the contractual obligations and commitments table above since they are insignificant to our consolidated results of operations.

The contractual obligations and commitments table above also excludes unrecognized tax benefits because we are unable to reasonably estimate the period during which this obligation may be incurred, if at all. As of June 30, 2018, we had unrecognized tax benefits of \$0.4 million.

## Purchase Obligations

Our purchase obligations represent agreements to purchase goods or services that are enforceable and legally binding, that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transactions.

## Asset Retirement Obligations

We have known conditional ARO conditions, such as certain asset decommissioning and restoration of rented facilities to be performed in the future. Our ARO includes assumptions related to renewal option periods where we expect to extend facility lease terms. Revisions in estimated liabilities can result from revisions of estimated inflation rates, escalating retirement costs, and changes in the estimated timing of settling the ARO. See Note 11 - Commitments and Contingencies in the notes to the condensed consolidated financial statements for additional information related to our ARO's.

## Operating Leases

Operating leases include non-cancelable terms and exclude renewal option periods, property taxes, insurance and maintenance expenses on leased properties. See Note 11 - Commitments and Contingencies in the notes to the condensed consolidated financial statements for additional information related to our operating lease obligations.

## 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 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 year ended September 30, 2017. Please refer to Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended September 30, 2017 for a discussion of our critical accounting policies and estimates.

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### Geographical Information

See Note 13- Geographical Information in the notes to the condensed consolidated financial statements for disclosures related to geographic revenue and significant customers.

### Recent Accounting Pronouncements

See Note 2 - Recent Accounting Pronouncements in the notes to the condensed consolidated financial statements for disclosures related to recent accounting pronouncements.

### Restructuring Accruals

See Note 8 - Accrued Expenses and Other Current Liabilities in the notes to the condensed consolidated financial statements for disclosures related to our severance and restructuring-related accrual accounts.

## 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 consolidated financial statements. The functional currency for our China subsidiary 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 US 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. We believe our current interest rate risk is immaterial.

#### 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

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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 have periodically experienced turbulent conditions, particularly in the credit markets, as evidenced by tightening of lending standards, reduced availability of credit, and reductions in certain asset values. This could impact 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 Exchange Act) as of June 30, 2018. 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

There were no 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 June 30, 2018 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 11 - 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 year ended September 30, 2017, 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 6, 2017. 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 2.** Unregistered Sales of Equity Securities and Use of Proceeds

Not Applicable.

**ITEM 3.** Defaults Upon Senior Securities

Not Applicable.

**ITEM 4.** Mine Safety Disclosures

Not Applicable.

**ITEM 5.** Other Information

Not Applicable.

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

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: August 2, 2018 By: /s/ Jeffrey Rittichier  
Jeffrey Rittichier  
Chief Executive Officer  
(Principal Executive Officer)

Date: August 2, 2018 By: /s/ Jikun Kim  
Jikun Kim  
Chief Financial Officer  
(Principal Financial and Accounting Officer)