

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,” “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 months ended June 30,		For the nine months 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 June 30, 2018	As of September 30, 2017
ASSETS		
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
LIABILITIES and SHAREHOLDERS' EQUITY		
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 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
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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:

(in thousands)	As of June 30, 2018	As of September 30, 2017	As of June 30, 2017
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:

(in thousands)	As of June 30, 2018	As of September 30, 2017
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 (in thousands)	For the three months	For the nine months ended June
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	ended June 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:

(in thousands)	As of June 30, 2018	As of September 30, 2017
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:

(in thousands)	As of June 30, 2018	As of September 30, 2017
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 June 30, 2018	As of September 30, 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 accruals	Restructuring- related 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:

Product Warranty Accruals (in thousands)	For the three months ended June 30,		For the nine months ended June 30,	
	2018	2017	2018	2017
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 of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (*) (in 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 Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date 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 (in thousands, except per share)	For the three months ended June 30,		For the nine months ended June 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 of Common Stock Shares Available for Future 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 (in thousands)	For the three months ended June 30,		For the nine months ended June 30,	
	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 months ended June 30,		For the nine months ended 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)			