

Edgar Filing: EMCORE CORP - Form 10-K

EMCORE CORP  
Form 10-K  
December 12, 2014

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended September 30, 2014  
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  
(State or other jurisdiction of incorporation or organization)

22-2746503  
(I.R.S. Employer Identification No.)

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

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

Securities registered pursuant to Section 12(b) of the Act:  
Common Stock, no par value  
(Title of each class)

NASDAQ Stock Market  
(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None  
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
" Yes  No  
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. " Yes   
x No

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. x 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). x Yes " No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer", "accelerated filer", and "smaller reporting

company” in Rule 12b-2 of the Exchange Act. “ Large accelerated filer  Accelerated filer “ Non-accelerated filer “  
Smaller reporting company

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

The aggregate market value of our common stock held by non-affiliates as of March 31, 2014 (the last business day of our most recently completed second fiscal quarter) was approximately \$142.1 million, based on the closing sale price of \$5.05 per share of common stock as reported on the NASDAQ Global Market. For purposes of this disclosure, shares of common stock held by officers and directors and by each person known by us to own 5% or more of our outstanding common stock have been excluded.

As of December 5, 2014, the number of shares outstanding of our no par value common stock totaled 31,149,792.

---

## DOCUMENTS INCORPORATED BY REFERENCE

In accordance with General Instruction G(3) of Form 10-K, certain information required by Part III hereof will either be incorporated into this Form 10-K by reference to our Definitive Proxy Statement for our Annual Meeting of Stockholders filed within 120 days of September 30, 2014 or will be included in an amendment to this Form 10-K filed within 120 days of September 30, 2014.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Securities and 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 largely 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, 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”, “targets”, “will”, “would”, and similar expressions or variations of these terms and similar phrases. Additionally, statements concerning future matters such as our expected liquidity, development of new products, enhancements or technologies, sales levels, expense levels, 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 those discussed under Item 1A - Risk Factors as well as those discussed elsewhere in this Annual Report. These cautionary statements apply to all forward-looking statements wherever they appear in this Annual 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 Annual 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 Annual Report. Certain information included in this Annual Report may supersede or supplement forward-looking statements in our other reports filed with the Securities and Exchange Commission. 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-K  
For The Fiscal Year Ended September 30, 2014

## TABLE OF CONTENTS

	Page
<b><u>Part I:</u></b>	
<u>Item 1. Business</u>	<u>4</u>
<u>Item 1A. Risk Factors</u>	<u>14</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>37</u>
<u>Item 2. Properties</u>	<u>37</u>
<u>Item 3. Legal Proceedings</u>	<u>37</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>37</u>
<b><u>Part II:</u></b>	
<u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities</u>	<u>38</u>
<u>Item 6. Selected Financial Data</u>	<u>40</u>
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>44</u>
<u>Item 7A. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>66</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>67</u>
<u>Consolidated Statements of Operations and Comprehensive Income (Loss) for the fiscal years ended September 30, 2014, 2013 and 2012</u>	<u>67</u>
<u>Consolidated Balance Sheets as of September 30, 2014 and 2013</u>	<u>68</u>
<u>Consolidated Statements of Shareholders' Equity for the fiscal years ended September 30, 2014, 2013 and 2012</u>	<u>69</u>
<u>Consolidated Statements of Cash Flows for the fiscal years ended September 30, 2014, 2013, and 2012</u>	<u>70</u>
<u>Notes to Consolidated Financial Statements</u>	<u>72</u>
<u>Report of Independent Registered Public Accounting Firm - KPMG LLP</u>	<u>106</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>107</u>
<u>Item 9A. Controls and Procedures</u>	<u>107</u>
<u>Item 9B. Other Information</u>	<u>111</u>
<b><u>Part III:</u></b>	
<u>Item 10. Directors, Executive Officers, and Corporate Governance</u>	<u>111</u>
<u>Item 11. Executive Compensation</u>	<u>111</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>111</u>
<u>Item 13. Certain Relationships, Related Transactions, and Director Independence</u>	<u>111</u>
<u>Item 14. Principal Accounting Fees and Services</u>	<u>111</u>
<b><u>Part IV:</u></b>	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	<u>112</u>
<u>SIGNATURES</u>	<u>116</u>



Table of Contents

PART I.

ITEM 1. Business

Company Overview

EMCORE Corporation and its subsidiaries (the “Company”, “we”, “our”, or “EMCORE”) offers a broad portfolio of compound semiconductor-based products for the broadband, fiber optics, satellite, and solar power markets. We were established in 1984 as a New Jersey corporation and we have two reporting segments: Fiber Optics and Photovoltaics. EMCORE's Fiber Optics business segment provides optical components, subsystems and systems for high-speed telecommunications, Cable Television (CATV), Wireless and Fiber-To-The-Premise (FTTP) networks, as well as products for satellite communications, video transport and specialty photonics technologies for defense and homeland security applications. EMCORE's Solar Photovoltaics business segment provides products for space power applications including high-efficiency multi-junction solar cells, Coverglass Interconnected Cells (CICs) and complete satellite solar panels, and terrestrial applications, including high-efficiency multi-junction solar cells for concentrating photovoltaic (CPV) power systems.

On December 10, 2014, after our 2014 fiscal year end, we completed the sale of our photovoltaics business, which was substantially all of the assets and liabilities of our Photovoltaics reporting segment, to Photon Acquisition Corporation. See also “Recent Developments” in Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations and Note 18 - Subsequent Events in the notes to the consolidated financial statements for additional information.

Our headquarters and principal executive offices are located at 2015 W.Chestnut Avenue, Alhambra, California, 91803 and our main telephone number is (626) 293-3400. For specific information about us, our products or the markets we serve, please visit our website at <http://www.emcore.com>. The information contained in or linked to our website is not a part of, nor incorporated by reference into, this Annual Report on Form 10-K or a part of any other report or filing with the Securities and Exchange Commission (SEC).

We are subject to the information requirements of the Securities Exchange Act of 1934. We file periodic reports, current reports, proxy statements, and other information with the SEC. The SEC maintains a website at <http://www.sec.gov> that contains all of our information that has been filed electronically. We make available free of charge on our website a link to our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonable practicable, after such material is electronically filed with, or furnished to, the SEC.

Overview of Our Industry and Markets We Serve

Compound semiconductor-based products provide the foundation of components, subsystems, and systems used in a broad range of technology markets. Compound semiconductor materials are capable of providing electrical or electro-optical functions, such as emitting optical communications signals, detecting optical communications signals, and converting sunlight into electricity.

Collectively, our products serve the telecommunications, CATV, FTTP, defense and homeland security, satellite communications, broadcast and professional audio video markets, and space solar power markets.





Table of Contents

Fiber Optics

Our fiber optics products enable information that is modulated on light signals to be transmitted, routed (switched) and received in communication systems and networks. Our Fiber Optics segment primarily offers the following product lines:

Telecom Optical Products - We believe that we are a leading supplier for tunable 10, 40, 100 and 400 gigabits per second (Gb/s) transmission applications for dense wavelength division multiplexed (DWDM) transponders and transceivers essential for telecommunications transport systems. We are one of few suppliers who offer vertically-integrated products, including external-cavity laser modules, integrable tunable laser assemblies (ITLAs), micro integrable tunable laser assemblies (micro-ITLA) and tunable 10 gigabits small form factor pluggable (T-XFP) transceivers. Our internally developed laser technology is highly suited for applications of 400 Gb/s and 1 terrabits per second due to its superior narrow linewidth and low noise characteristics. All of our DWDM products are fully Telcordia® qualified and comply with industry multi-source agreements (MSAs).

Laser/Photodetector Component Products - We believe that we are a leading provider of optical components including lasers, photodetectors, and various forms of packaged subassemblies. Our products include bare die (or chip), transmitter optical subassemblies (TOSA), distributed feedback (DFB) lasers, positive-intrinsic-negative (PIN) and avalanche photodiode (APD) components for 10 Gb/s Ethernet, InfiniBand, FTTP, and telecom applications. We provide component products to the global fiber optics industry, and we also leverage the benefits of our vertically-integrated infrastructure through low-cost manufacturing and early access to newly developed internally-produced components.

Table of Contents

Cable Television (CATV) Products - We believe that we are a market leader in providing radio frequency (RF) over fiber products for the CATV industry. Our products are used in hybrid fiber coaxial (HFC) networks that enable cable service operators to offer multiple advanced services to meet the expanding demand for high-speed Internet, on-demand and interactive video, and other advanced services, such as high-definition television (HDTV) and voice over IP (VoIP). Our CATV products include forward and return-path analog and digital lasers, photodetectors and subassembly components, broadcast analog and digital fiber-optic transmitters, and quadrature amplitude modulation (QAM) transmitters and receivers. Our products provide our customers with increased data transmission distance, speed and bandwidth, lower noise video reception, and lower power consumption.

Fiber-To-The-Premises (FTTP) Products - Telecommunications companies are extending their optical infrastructure to their business enterprise and residential customers because of higher bandwidth requirements. We have developed customer qualified FTTP components and subsystem products to support plans by telephone companies to offer voice, video, and data services through the deployment of new fiber optics-based access networks. Our FTTP products include passive optical network (PON) transceivers, radio frequency over glass (RFoG) optical transceivers, analog fiber optic transmitters for video overlay and high-power erbium-doped fiber amplifiers (EDFA), analog and digital lasers, photodetectors and subassembly components, analog video receivers, and multi-dwelling unit (MDU) video receivers. Our products provide our customers with higher performance innovative analog and digital designs, that support exceptional network performance capabilities for service providers.

Table of Contents

Satellite Communications (Satcom) Products - We believe that we are a leading provider of optical components and systems for use in equipment that provides high-performance optical data links for the terrestrial portion of satellite communications networks. Our products include transmitters, receivers, subsystems, and systems that transport wideband radio frequency and microwave signals between satellite hub equipment and antenna dishes. Our products provide our customers with increased bandwidth and lower power consumption.

Video Transport Products - Our video transport product line focuses on developing targeted solutions that meet the evolving technology needs of our customers in broadcasting, government, transportation, IP television (IPTV), and security and surveillance applications over private and public networks. Our video, audio, data, and RF transmission systems serve both analog and digital requirements, providing cost-effective, flexible solutions geared for infrastructure upgrades and expansion.

## Table of Contents

Defense and Homeland Security Products - Leveraging our expertise in RF module design and high-speed parallel optics, we provide a suite of ruggedized products that meet the reliability and durability requirements of the U.S. government and defense markets. Our specialty defense products include fiber optic gyro components used in commercial and military applications, high-frequency RF fiber optic link components for towed decoy systems, optical delay lines for radar systems, erbium-doped fiber amplifiers, terahertz spectroscopy systems, pulse lasers for light detection and ranging (LIDAR) spectroscopy systems and other products. Our products provide our customers with high frequency and dynamic range, compact form-factor, and extreme temperature, shock and vibration tolerance.

Customers for our Fiber Optics segment include: Alcatel Lucent, Arris, BUPT-GUOAN Broadband, Ciena, Cisco Systems, Fujitsu, Huawei, NEC, Coriant, Pace plc., Tellabs, and ZTE. For the fiscal years ended September 30, 2014, 2013 and 2012, no Fiber Optics customer accounted for more than 10% of our total consolidated revenue.

## Photovoltaics

We believe our high-efficiency compound semiconductor-based multi-junction solar cell products provide our customers with compelling cost and performance advantages over competitive solutions. These advantages include higher solar array efficiency, reduced mass and stowage volume and resistance to radiation environments, all of which can benefit satellite launch costs. The high efficiency of our products enables our customers to reduce their solar product footprint by providing more power output with fewer solar cells.

Our Photovoltaics segment targets the following markets:

Satellite Solar Power Generation - We believe that we are a leading provider of satellite/spacecraft solar power solutions to the space exploration, defense, intelligence, and global communications industries. A satellite's operational success depends on its available power and its capacity to transmit data. We provide advanced, compound semiconductor-based solar cells and solar panel products that are highly resistant to space radiation environments and generate more power from sunlight than competitive technologies. Satellite power systems using our multi-junction solar cells weigh less per unit of power than traditional silicon-based solar cells and provide our customers with reduced solar array size and launch costs.

We currently manufacture and sell one of the most efficient, reliable, and radiation resistant advanced triple-junction solar cells in the world, with an average "beginning of life" conversion efficiency of 29.5%. We are the only U.S. manufacturer to supply true monolithic bypass diodes for shadow protection by utilizing several EMCORE patented methods.

Additionally, we are developing an entirely new class of advanced multi-junction solar cells with even higher conversion efficiency. This new architecture, called inverted metamorphic multi-junction (IMM), to date has demonstrated conversion efficiencies above 34% in laboratory measurements.

We also offer covered interconnected cells and solar panel lay-down services that allow us to provide our customers with fully integrated solar panels for satellite applications. We provide satellite manufacturers with proven integrated power solutions that improve satellite economics. Satellite manufacturers and solar array integrators rely on us to meet their demanding satellite power needs with our proven flight heritage.

## Table of Contents

Terrestrial Solar Power Generation - Solar power generation systems utilize photovoltaic cells to convert sunlight into electricity and have been used in terrestrial applications for several decades. We believe the market for terrestrial solar power generation solutions will grow as solar power generation technologies improve in efficiency, as global prices for non-renewable energy sources (i.e., fossil fuels) continue to fluctuate, and as concern over the effects of fossil fuel-based carbon emissions on global warming grows. Terrestrial solar power generation has emerged as a rapidly expanding renewable energy source because it has certain advantages when compared to other energy sources, including reduced environmental impact, elimination of fuel price risk, installation flexibility, scalability, distributed power generation (i.e., electric power is generated at the point of use rather than transmitted from a central station to the user), and reliability. The rapid increase in demand for solar power has created a growing demand for highly efficient, reliable, and cost-effective concentrating solar power systems.

We have adapted our high-efficiency, compound semiconductor-based, multi-junction solar cell products for terrestrial applications in commercial and utility-scale concentrator photovoltaic (CPV) power systems. We have attained >42% conversion efficiency under 500x illumination with our terrestrial concentrating solar cell products. This compares favorably to the 15%-21% efficiency of silicon-based solar cells. We believe that solar concentrator systems assembled using our compound semiconductor-based solar cells can be competitive with silicon-based solar power generation systems in certain geographic regions with high direct normal irradiance (DNI). We currently serve the terrestrial solar market with solar cells designed for CPV terrestrial solar power systems.

While the terrestrial power generation market is still developing, we have shipped nearly 10,000,000 solar cells, providing over 100 megawatts of power as part of production orders for CPV components and systems. Our customers include major solar concentrating systems companies in the United States, Europe, and Asia.

Current customers for our Photovoltaics segment include: Applied Physics Labs - Johns Hopkins University, ATK Space Systems, Dutch Space, NASA-Jet Propulsion Laboratory, Northrop Grumman, Orbital Sciences Corporation, Space Systems Loral and Suncore Corporation. For the fiscal years ended September 30, 2014 and 2013, no Photovoltaics customer accounted for more than 10% of our total consolidated revenue. For the fiscal year ended September 30, 2012, SSL represented 14%, of our total consolidated revenue.

On December 10, 2014, after our 2014 fiscal year end, we completed the sale of our photovoltaics business, which was substantially all of the assets and liabilities of our Photovoltaics reporting segment, to Photon Acquisition Corporation. See "Recent Developments" in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 18 - Subsequent Events in the notes to the consolidated financial statements for additional information.

### Segment Data

See Note 16 - Segment Data and Related Information in the notes to our consolidated financial statements for disclosures related to business segment revenue, geographic revenue, and operating loss by business segment.

### Strategic Plan

On September 17, 2014, EMCORE entered into an Asset Purchase Agreement (the "Photovoltaics Agreement") with Photon Acquisition Corporation ("Photon"), a Delaware corporation and an affiliate of private equity firm Veritas Capital, pursuant to which Photon agreed to acquire substantially all of the assets, and assume substantially all of the liabilities, primarily related to or used in connection with the Company's photovoltaics business, including EMCORE's subsidiaries EMCORE Solar Power, Inc. and EMCORE IRB Company, LLC (collectively, the "Photovoltaics Business" and, the sale of the Photovoltaics Business, the "Photovoltaics Asset Sale") for \$150.0 million in cash,

subject to a working capital adjustment pursuant to the Photovoltaics Agreement. At a special meeting of EMCORE's shareholders held on December 5, 2014, EMCORE's shareholders approved the Photovoltaics Asset Sale, and on December 10, 2014 EMCORE completed the Photovoltaics Asset Sale.

On October 22, 2014, EMCORE entered into an Asset Purchase Agreement (the "Digital Products Agreement" ) with NeoPhotonics Corporation, a Delaware Corporation ("NeoPhotonics") pursuant to which the Company has agreed to sell certain assets, and transfer certain liabilities of the Company's telecommunications business (collectively, the "Digital Products Business" and, the sale of the Digital Products Business, the "Digital Products Assets Sale") to NeoPhotonics for an aggregate purchase price of \$17.5 million, subject to certain adjustments, consisting of \$1.5 million in cash at closing and a promissory note in the principal amount of \$16.0 million (the "Promissory Note"). The Promissory Note will bear interest of 5.0% per

## Table of Contents

annum for the first year and 13.0% per annum for the second year, payable semi-annually in cash, and matures two years from the closing of the transaction contemplated by the Digital Products Agreement. In addition, the promissory note will be subject to prepayments under certain circumstances, and will be secured by certain of the assets to be sold to NeoPhotonics in the transaction. The assets sold pursuant to the Digital Products Agreement include fixed assets, inventory, and intellectual property for the ITLA, micro-ITLA, T-TOSA and T-XFP product lines within the Company's telecommunications business. The purchase price is subject to certain adjustments for inventory, net accounts receivable and pre-closing revenue levels, which will increase or decrease the principal amount under the Promissory Note as applicable. The transaction is subject to customary closing conditions and is expected to close by early January 2015.

We will use a portion of the proceeds from the Asset Sales to pay for transaction costs associated with the Asset Sales, make payments required pursuant to existing retention award agreements, repay certain indebtedness and for general working capital purposes. The remaining proceeds from the Asset Sales may be used, at the discretion of our Board, to repay other indebtedness, provide liquidity to the Company's shareholders through one or more special dividends or repurchases of outstanding shares of the Company's common stock, invest in our Other Businesses, or a combination thereof.

Following the closing of the Asset Sales, we will continue to operate our fiber optics division, which provides optical components, subsystems and systems for high-speed telecommunications, Cable Television (CATV) and Fiber-To-The-Premise (FTTP) networks, as well as products for satellite communications, video transport and specialty photonics technologies for defense and homeland security applications.

### Government Research Contracts

We derive a portion of our revenue from funding by various agencies of the U.S. government through research contracts and subcontracts. These contracts typically cover work performed over extended periods of time, from several months up to several years. These contracts may be modified or terminated at the convenience of the U.S. government and may be subject to governmental budgetary fluctuations. In addition, government funding for these contracts could be reduced as a result of a combination of federal income tax increases and restrictions on government spending as a result of sequestration.

### Sources of Raw Materials

We depend on a limited number of suppliers for certain raw materials, components, and equipment used in our products. We continually review our supplier relationships to mitigate risks and lower costs, especially where we depend on one or two suppliers for critical components or raw materials. While maintaining inventories that we believe are sufficient to meet our near-term needs, we strive not to carry significant inventories of raw materials. Accordingly, we maintain ongoing communications with our suppliers in order to prevent any interruptions in supply, and have implemented a supply-chain management program to maintain quality and lower purchase prices through standardized purchasing efficiencies and design requirements. To date, we generally have been able to obtain sufficient quantities of critical supplies in a timely manner.

We are subject to rules promulgated by the SEC pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act regarding the use of "conflict minerals." These rules will impose additional costs and may introduce new risks related to our ability to verify the origin of any "conflict minerals" used in our products.

### Manufacturing

We utilize MOCVD (metal-organic chemical vapor deposition) systems that are capable of processing virtually all compound semiconductor-based materials. Our operations include wafer fabrication, device design and production, fiber optic module, subsystem and system design and manufacture, and solar panel engineering and assembly. Many of our manufacturing operations are computer monitored or controlled to enhance production output and statistical control. We employ a strategy of minimizing ongoing capital investments, while maximizing the variable nature of our cost structure. We maintain supply agreements with key suppliers. Where we can gain cost advantages while maintaining quality and intellectual property control, we outsource the production of certain products, subsystems, components, and subassemblies to contract manufacturers located overseas. Our contract manufacturers maintain comprehensive quality assurance and delivery systems, and we continuously monitor them for compliance.

All solar cell products, including terrestrial solar cells to be incorporated into the CPV receivers will continue to be manufactured at our manufacturing facility in Albuquerque, NM.



## Table of Contents

Our various manufacturing processes involve extensive quality assurance systems and performance testing. Our facilities have acquired and maintain certification status for their quality management systems. Our manufacturing facilities located in Albuquerque, New Mexico, Alhambra, California, Ivyland, Pennsylvania, and Langfang, China are registered to ISO 9001 standards.

On December 10, 2014 after our 2014 fiscal year end, we completed the sale of our photovoltaics business, which sale included the transfer of our facilities located in Albuquerque, New Mexico, to Photon Acquisition Corporation. See “Recent Developments” in Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations and Note 18 - Subsequent Events in the notes to the consolidated financial statements for additional information.

## Sales and Marketing

We sell our products worldwide through our direct sales force, third party sales representatives and distributors, and application engineers. Our sales force communicates with our customers' engineering, manufacturing, and purchasing personnel to determine product design, qualifications, performance, and price. Our strategy is to use our direct sales force to sell to key accounts and to expand our use of third party sales representatives for increased coverage in international markets and certain domestic segments.

Throughout our sales cycle, we work closely with our customers to qualify our products into their product lines. As a result, we develop strategic and long-lasting customer relationships with products and services that are tailored to our customers' requirements. We focus our marketing communication efforts on increasing brand awareness, communicating our technologies' advantages, and generating leads for our sales force. We use a variety of marketing methods, including our website, participation at trade shows, and selective advertising to achieve these goals.

Externally, our marketing group works with customers to define requirements, characterize market trends, define new product development activities, identify cost reduction initiatives, and manage new product introductions. Internally, our marketing group communicates and manages customer requirements with the goal of ensuring that our product development activities are aligned with our customers' needs. These product development activities allow our marketing group to manage new product introductions and new product and market trends. See Note 16 - Segment Data and Related Information in the notes to the consolidated financial statements for disclosures related to business segment revenue, geographic revenue, and significant customers by business segment.

## Research and Development

Our research and development efforts have been focused on maintaining our technological competitive edge by working to improve the quality and features of our product lines. We are also making investments to expand our existing technology and infrastructure in an effort to develop new products and production technology that we can use to expand into new markets. Our industry is characterized by rapid changes in process technologies with increasing levels of functional integration. Our efforts are focused on designing new proprietary processes and products, on improving the performance of our existing materials, components, and subsystems, and on reducing costs in the product manufacturing process.

As part of the ongoing effort to cut costs, many of our projects have focused on developing lower cost versions of our existing products. We also actively compete for research and development funds from U.S. government agencies and other entities. In view of the high cost of development, we solicit research contracts that provide opportunities to

enhance our core technology base and promote the commercialization of targeted products. Generally, internal research and development funding is used for the development of products that will be released within twelve months and external funding is used for long-term research and development efforts.

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. Research and development expense was \$19.1 million, \$20.0 million and \$22.3 million for the fiscal years ended September 30, 2014, 2013 and 2012, respectively. As a percentage of revenue, research and development expenses were 10.9%, 11.9% and 13.6% for the fiscal years ended September 30, 2014, 2013 and 2012, respectively. Our research and development expense 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. These costs are expensed as incurred.

## Table of Contents

### Intellectual Property and Licensing

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 advantage enjoyed by our product lines depends heavily on our ability to obtain intellectual property protection for our proprietary technologies. We also acquire, through license grants or assignments, rights to patents on inventions originally developed by others. As of September 30, 2014, we held approximately 160 U.S. patents and approximately 90 foreign patents and had over 200 additional patent applications pending. The issued patents cover various products in the major markets we serve. Our U.S. patents will expire on varying dates between 2014 and 2031. These patents and patent applications claim protection for various aspects of current or planned commercial versions of our materials, components, subsystems, and systems.

We also have entered into license agreements with the licensing agencies of universities and other organizations, under which we have obtained exclusive or non-exclusive rights to practice inventions claimed in various patents and applications issued or pending in the U.S. or other foreign jurisdictions. We do not believe our financial obligations under any of these agreements adversely affects our business, financial condition, or results of operations.

We rely on trade secrets to protect our intellectual property when we believe that publishing patents would make it easier for others to reverse engineer our proprietary processes. We also rely on other intellectual property rights such as trademarks and copyrights where appropriate. See Note 9 - Intangible Assets in the notes to our consolidated financial statements for additional disclosures related to intellectual property.

### Environmental Regulations

We are subject to U.S. federal, state, and local laws and regulations concerning the use, storage, handling, generation, treatment, emission, release, discharge, and disposal of certain materials used in our research and development and production operations, as well as laws and regulations concerning environmental remediation, homeland security, and employee health and safety. The production of wafers and devices involves the use of certain hazardous raw materials, including, but not limited to, ammonia, phosphine, and arsine. We have in-house professionals to address compliance with applicable environmental, homeland security, and health and safety laws and regulations. We believe that we are currently in compliance with all applicable federal, state, and local environmental protection laws and regulations.

### Competition

The markets for our products in each of our reporting segments are extremely competitive and are characterized by rapid technological change, frequent introduction of new products, short product life cycles, and significant price erosion. We face actual and potential competition from numerous domestic and international companies. Many of these companies have greater engineering, manufacturing, marketing, and financial resources than we have.

Partial lists of our competitors in the markets in which we participate include:

#### Fiber Optics

CATV Networks. Our primary competitors include Applied Optoelectronics and Finisar at the subsystem level and Applied Optoelectronics and Sumitomo Electric Device Innovations at the component product level.

Telecommunications Networks. For 10, 40 and 100 Gb/s transmitter products, our primary competitors include Finisar, Furukawa, JDSU, NeoPhotonics, and Oclaro.

Satellite Communications Networks. Our primary competitors include Foxcom and MITEQ, Inc.

Video Transport Products. Our primary competitors include Evertz and Telecast.

## Table of Contents

### Photovoltaics

**Satellite Solar Power Generation.** In the satellite solar power products market, we primarily compete with Azur Space, Sharp, and Spectrolab, a subsidiary of Boeing.

**Terrestrial Solar Power Generation.** In the terrestrial solar power products market, we primarily compete with Azur Space and Spectrolab on the terrestrial CPV solar cells.

In addition to the companies listed above, we compete with many research institutions and universities for research funding. We also sell our products to current competitors and companies with the capability of becoming competitors. As the markets for our products grow, new competitors are likely to emerge and current competitors may increase their market share. In the European Union (“EU”), political and legal arrangements encourage the purchase of EU-produced goods, which places us at a disadvantage against European competitors.

There are substantial barriers to entry by new competitors across our product lines. These barriers include the large number of existing patents, the time and costs required to develop products, the technical difficulty in manufacturing semiconductor-based products, the lengthy sales and qualification cycles, and the difficulties in hiring and retaining skilled employees with the required scientific and technical backgrounds. We believe that the primary competitive factors within our current markets are product cost, yield, throughput, performance and reliability, breadth of product line, product heritage, customer satisfaction, and customer commitment to competing technologies. Competitors may develop enhancements to or future generations of competitive products that offer superior price and performance characteristics. 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.

### Order Backlog

As of September 30, 2014, order backlog for our Photovoltaics segment totaled \$71.2 million, an increase of 25% from \$57.1 million reported as of September 30, 2013 primarily due to two customer orders. Order backlog is defined as purchase orders or supply agreements accepted by us and deferred revenue with expected product delivery and/or services to be performed within the next twelve months. From time to time, our customers may request that we delay shipment of certain orders and our order backlog could also be adversely affected if our customers unexpectedly cancel purchase orders that we have previously accepted.

Product sales from our Fiber Optics segment 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. Fiber optics 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.

### Employees

As of September 30, 2014, we had approximately 769 employees, including approximately 280 international employees that are located primarily in China. This represents a decrease of approximately 88 employees when compared to September 30, 2013. None of our employees are covered by a collective bargaining agreement. We have never experienced any labor-related work stoppage and believe that our employee relations are good.

Competition is intense in the recruiting of personnel in the semiconductor industry. Our ability to attract and retain qualified personnel is essential to our continued success. We are focused on retaining key contributors, developing our staff, and cultivating their commitment to our Company.

Table of Contents

ITEM 1A. Risk Factors

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

For the fiscal years ended September 30, 2014 and 2013, net income was \$4.9 million and \$5.0 million, respectively. We incurred a net loss of \$39.2 million for the fiscal year ended September 30, 2012. Our operating results for future periods are subject to numerous uncertainties and we cannot assure you that we will not experience net losses in the future. If we are not able to increase revenue and reduce our costs, we may not be able to achieve profitability in future periods.

We have significant liquidity and capital requirements and may require additional capital in the future. We may not be able to obtain capital when desired on favorable terms, if at all, or without dilution to our stockholders. If we are unable to obtain the additional capital necessary to meet our needs, our business may be adversely affected.

Historically, we have consumed cash from operations and incurred significant net losses. We have managed our liquidity position through a series of cost reduction initiatives, borrowings under our line of credit agreement, capital markets transactions, and the sale of assets.

In order to meet our liquidity requirements, we may have to raise additional funds by any one or a combination of the following: issuing equity, debt or convertible debt, or selling certain product lines and/or portions of our business. There can be no guarantee that we will be able to raise additional funds on terms acceptable to us, or at all. A significant contraction in the capital markets, particularly in the technology sector, may make it difficult for us to raise additional capital if or when it is required, especially if we experience negative operating results. In the event of unforeseen circumstances, unfavorable market or economic developments, unfavorable results from operations, or if Wells Fargo Bank declares an event of default under our credit facility, our capital needs will be even greater. If adequate capital is not available to us as required, or is not available on favorable terms, our business, financial condition, results of operations, and cash flows may be materially adversely affected.

If we raise additional funds through the issuance of equity or convertible debt securities, as we have done in the past, the percentage ownership of our stockholders could be significantly diluted, and these newly-issued securities may have rights, preferences, or privileges senior to those of existing stockholders. We cannot assure you that additional financing will be available on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, if and when needed, our ability to fund our operations, take advantage of unanticipated opportunities, develop or enhance our products, or otherwise respond to competitive pressures could be significantly limited.

Our future revenue is inherently unpredictable. As a result, our operating results are likely to fluctuate from period to period, and we may fail to meet the expectations of our analysts and/or investors, which may cause volatility in our stock price and may cause our stock price to decline.

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

- a downturn in the markets for our customers' products;
- discontinuation by our vendors, or unavailability of, components or services used in our products;
- disruptions or delays in our manufacturing processes or in our supply of raw materials or product components;

- a failure to anticipate changing customer product requirements;
- market acceptance of our products;
- cancellations or postponements of previously placed orders;
- increased financing costs or any inability to obtain necessary financing;
- the impact on our business of current or future cost reduction measures;
- a loss of key personnel or the shortage of available skilled workers;
- economic conditions in various geographic areas where we or our customers do business;
  - the impact of political uncertainties, such as government sequestration and uncertainties surrounding the federal budget, customer spending and demand for our products;
- significant warranty claims, including those not covered by our suppliers;
- other conditions affecting the timing of customer orders;
- reductions in prices for our products or increases in the costs of our raw materials;



Table of Contents

effects of competitive pricing pressures, including decreases in average selling prices of our products;  
fluctuations in manufacturing yields;  
obsolescence of products;  
research and development expenses incurred associated with new product introductions;  
natural disasters, such as hurricanes, earthquakes, fires, and floods;  
the emergence of new industry standards;  
the loss or gain of significant customers;  
the introduction of new products and manufacturing processes;  
intellectual property disputes;  
customs, import/export, and other regulations of the countries in which we do business;  
timing of M&A activities; and acts of terrorism or violence and international conflicts or crises.

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

As a result of the foregoing factors, we believe that period-to-period comparisons of our results of operations should not be solely relied upon as indicators of future performance.

Because the Photovoltaics Business represented approximately 42% of our total revenues for fiscal year 2014, our business following the Asset Sale will be substantially different.

The Photovoltaics Business represented approximately 42% of our total revenues for the fiscal year 2014. Following the consummation of the Asset Sale, our results of operations and financial condition may be materially adversely affected if we fail to effectively reduce our overhead costs to reflect the reduced scale of our operations or we fail to grow our remaining businesses. Our smaller size may result in the recognition of less revenues from the operations of our remaining businesses, which may negatively affect our overall net earnings.

The announcement and dependency of the Digital Products Sale, whether or not consummated, may adversely affect our business.

The announcement and dependency of the Digital Products Sale, whether or not consummated, may adversely affect the trading price of our common stock, our business or our relationships with customers, suppliers and employees. In addition, while the completion of the Digital Products Sale is pending, we may be unable to attract and retain key personnel and our management's focus and attention and employee resources may be diverted from operational matters.

In the event that either of the Digital Products Sale is not completed, the announcement of the termination of the relevant purchase agreement may also adversely affect the trading price of our common stock, our business or our relationships with customers, suppliers and employees.

We cannot be sure if or when the Digital Products Sale will be completed.

The consummation of the Digital Products Sale is subject to the satisfaction or waiver of various conditions. We cannot guarantee that the closing conditions for the Digital Products Sale will be satisfied. If we are unable to satisfy the closing conditions for the Digital Products Sale, the purchaser will not be obligated to complete the transaction. If the Digital Products Sale is not completed, we may have difficulty recouping the costs incurred in connection with negotiating the Digital Products Sale, our relationships with our customers, suppliers and employees may be damaged, and our business may be harmed.

If the Digital Products Sale is not completed, our board of directors may similarly evaluate other strategic alternatives that may be available with respect to the Digital Products Business, which alternatives may not be as favorable to our shareholders as the Digital Products Sale.

Table of Contents

We cannot predict the timing, amount or nature of any distributions to our shareholders.

Our credit and security agreement, as amended, with Wells Fargo Bank, National Association, currently prohibits distributions to our shareholders (other than distributions payable solely in our stock), and our board of directors is unable to predict the timing, amount or nature of, or the record dates for distributions, if any, to be made to our shareholders. If we are unable to make a distribution of proceeds from the Asset Sales to our shareholders or our board of directors determines not to make such a distribution, our shareholders will only benefit from the Asset Sales if we are able to successfully implement our strategy for our remaining businesses and your stock appreciates in value or we subsequently sell the Company at a price that represents a premium over your basis in our common stock.

We may undergo an "ownership change" within the meaning of Section 382 of the Code, which could affect our ability to offset U.S. federal income tax against our net operating losses and certain of our tax credit carryovers.

Section 382 of the Internal Revenue Code, as amended (the "Code") contains rules that limit the ability of a company that undergoes an ownership change to utilize its net operating losses and tax credits (the "Tax Benefits") existing as of the date of such ownership change. Under the rules, such an ownership change is generally any change in ownership of more than 50% of a company's stock within a rolling three-year period. The rules generally operate by focusing on changes in ownership among shareholders considered by the rules as owning, directly or indirectly, 5% or more of the stock of a company and any change in ownership arising from new issuances of stock by the company.

If we were to undergo one or more "ownership changes" within the meaning of Section 382 of the Code, our net operating losses and certain of our tax credits existing as of the date of each ownership change may be unavailable, in whole or in part, to offset U.S. federal income tax resulting from our operations or any gains from the disposition of any of our assets and/or business, which could result in increased U.S. federal income tax liability.

On September 17, 2014, our Board of Directors adopted a Tax Benefits Preservation Plan (the "Rights Plan") to help preserve the value of our Tax Benefits by reducing the risk of limitation of our Tax Benefits. The Rights Plan is intended to reduce the likelihood that we will experience an ownership change by discouraging any person or group from becoming a "5% shareholder" or increasing their ownership of our common stock if they are already a "5% shareholder." Although the Rights Plan is intended to reduce the likelihood of an "ownership change" that could adversely affect us, there is no assurance that the Rights Plan will prevent all transfers of our common stock that could result in such an "ownership change. If our shareholders do not approve the Rights Plan, it will expire.

Our executive officers and directors may have interests in the Photovoltaics Sale other than, or in addition to, the interests of our shareholders generally.

Members of our board of directors and our executive officers may have interests in the Photovoltaics Sale that are different from, or are in addition to, the interests of our shareholders generally. Our board of directors was aware of these interests and considered them, among other matters, in approving the Photovoltaics Sale Agreement.

Certain of our executive officers have employment agreements or separation agreements that provide for payments and the vesting of equity awards in connection with a "change of control." Certain of our directors and officers have received equity awards that provide for full vesting of all unvested equity awards upon a "change of control." The consummation of the Photovoltaics Sale would constitute a "change of control" under these agreements and equity awards.

Also, certain of our executive officers have retention agreements that provide for cash payments in connection with the closing of the Photovoltaics Sale.

Table of Contents

If we fail to complete the Digital Products Sale, our business may be harmed.

As a result of our announcement of the Digital Products Sale, third parties may be unwilling to enter into material agreements with respect to the Digital Products Business or our other businesses. New or existing customers and business partners may prefer to enter into agreements with our competitors who have not expressed an intention to sell their business because customers and business partners may perceive that such new relationships are likely to be more stable. Employees working in the Digital Products Business may become concerned about the future of the business and lose focus or seek other employment. If we fail to complete the Digital Products Sale, the failure to maintain existing business relationships or enter into new ones could adversely affect our business, results of operations, and financial condition. If we fail to complete the Digital Products Sale, we will also retain and continue to operate the assets that were proposed to be sold. The potential for loss or disaffection of employees or customers of the Digital Products Business following a failure to consummate the Digital Products Sale could have a material, negative impact on the value of our business.

In addition, if the Digital Products Sale is not consummated, our directors, executive officers and other employees will have expended extensive time and effort and will have experienced significant distractions from their work during the dependency of the transaction, and we will have incurred significant third party transaction costs, in each case, without any commensurate benefit, which may have a material and adverse effect on our stock price and results of operations.

The Digital Products Sale Agreement limits our ability to pursue alternatives to the Digital Products Sale.

The Digital Products Sale Agreement contain provisions that make it more difficult for us to sell the Digital Products Business to any party other than purchasers under the agreement. These provisions could make it less advantageous for a third party that might have an interest in acquiring EMCORE or all of or a significant part of the Digital Products Business to consider or propose an alternative transaction, even if that party were prepared to pay consideration with a higher value than the consideration to be paid by Purchaser.

Our operating losses are currently projected to be greater on a pro forma basis following the Photovoltaics Sale until the full implementation of the Company's restructuring plans for its other businesses.

On a pro forma basis, giving effect to the Photovoltaics Sale as of the beginning of each respective period, the Company incurred net losses of approximately \$41.9 million, \$2.3 million and \$26.9 million for the fiscal years ended September 30, 2012 and 2013 and 2014, respectively, as compared to our actual net loss of approximately \$39.2 million, net income of approximately \$5.0 million and net income of approximately \$4.9 million in the respective periods. There can be no assurance that we will achieve profitability thereafter or that profitability, if achieved, will be sustained. We expect to incur expenses to implement our restructuring plans for our other businesses. There can be no assurance that we will succeed in fully implementing such restructuring plans.

Because our business will be smaller following the sale of the Photovoltaics Business and Digital Products Business, there is a possibility that our common stock may be delisted from The NASDAQ Global Market if we fail to satisfy the continued listing standards of that market.

Even though we currently satisfy the continued listing standards for The NASDAQ Global Market, following the sale of the Photovoltaics Business or Digital Products Business our business will be smaller and, therefore, we may fail to satisfy the continued listing standards of The NASDAQ Global Market. In the event that we are unable to satisfy the

continued listing standards of The NASDAQ Global Market, our common stock may be delisted from that market. Any delisting of our common stock from the NASDAQ Global Market could adversely affect our ability to attract new investors, decrease the liquidity of our outstanding shares of common stock, reduce our flexibility to raise additional capital, reduce the price at which our common stock trades and increase the transaction costs inherent in trading such shares with overall negative effects for our shareholders. In addition, delisting of our common stock could deter broker-dealers from making a market in or otherwise seeking or generating interest in our common stock, and might deter certain institutions and persons from investing in our securities at all. For these reasons and others, delisting could adversely affect the price of our common stock and our business, financial condition and results of operations.

## Table of Contents

We will continue to incur the expenses of complying with public company reporting requirements following the closing of the Asset Sales.

After the Asset Sales, we will continue to be required to comply with the applicable reporting requirements of the Exchange

Act, even though compliance with such reporting requirements is economically burdensome.

Our business and results of operations may continue to be negatively impacted by general economic, financial market conditions and market conditions in the industries in which we operate, and such conditions may increase the other risks that affect our business.

In recent years, the world's financial markets have experienced significant turmoil, resulting in reductions in available credit, increased costs of credit, extreme volatility in security prices, potential changes to existing credit terms, and rating downgrades of investments. In light of these economic conditions, many of our customers reduced their spending plans, leading them to draw down their existing inventory and reduce orders for our products. It is possible that economic conditions could result in further setbacks, and that these customers, or others, could as a result significantly reduce their capital expenditures, draw down their inventories, reduce production levels of existing products, defer introduction of new products or place orders and accept delivery for products for which they do not pay us due to their economic difficulties or other reasons. These conditions have contributed materially and adversely affected the market conditions in the industries in which we operate, and have had a material adverse impact on our revenues.

We expect to consider from time to time further strategic opportunities that may involve acquisitions, dispositions, investments in joint ventures, partnerships, and other strategic alternatives that may enhance shareholder value, any of which may result in the use of a significant amount of our management resources or significant costs, and we may not be able to fully realize the potential benefit of such transactions.

We expect to continue to consider acquisitions, dispositions, investments in joint ventures, partnerships, and other strategic alternatives that may enhance shareholder value. The Strategy Committee of the Board and our management may from time to time be engaged in evaluating potential transactions and other strategic alternatives. In addition, from time to time, we may engage financial advisor's, enter into non-disclosure agreements, conduct discussions, and undertake other actions that may result in one or more transactions. Although there would be uncertainty that any of these activities or discussions would result in definitive agreements or the completion of any transaction, we may devote a significant amount of our management resources to analyzing and pursuing such a transaction, which could negatively impact our operations. In addition, we may incur significant costs in connection with seeking such transactions or other strategic alternatives regardless of whether the transaction is completed. In the event that we consummate an acquisition, dispositions, partnerships, or other or strategic alternatives in the future, we cannot assure you that we would fully realize the potential benefit of such a transaction and cannot predict the impact that such strategic transaction might have on our operations or stock price. We do not undertake to provide updates or make further comments regarding the evaluation of strategic alternatives, unless otherwise required by law.

Acquisitions of other companies or investments in joint ventures with other companies could adversely affect our operating results, dilute our shareholders' equity, or cause us to incur additional debt or assume contingent liabilities.

To increase our business, maintain our competitive position or for other business or strategic reasons, we may acquire other companies or engage in joint ventures or similar transactions in the future. Acquisitions, joint ventures and

similar transactions involve a number of risks that could harm our business and result in the acquired business or joint venture not performing as expected, including:

- insufficient experience with technologies and markets in which the acquired business is involved, which may be necessary to successfully operate and integrate the business;
- problems integrating the acquired operations, personnel, technologies, or products with the existing business and products;
- diversion of management's time and attention from our core business to the acquired business or joint venture;
- potential failure to retain key technical, management, sales, and other personnel of the acquired business or



Table of Contents

joint venture;

• difficulties in retaining relationships with suppliers and customers of the acquired business, particularly where such customers or suppliers compete with us;

• reliance upon joint ventures which we do not control;

• subsequent impairment of goodwill and acquired long-lived assets, including intangible assets; and

• assumption of liabilities including, but not limited to, lawsuits, tax examinations, warranty issues, etc.

We may decide that it is in our best interests to enter into acquisition, joint ventures or similar transactions that are dilutive to earnings per share or that adversely impact margins as a whole. In addition, acquisitions or joint ventures could require investment of significant financial resources and require us to obtain additional equity financing, which may dilute our shareholders' equity, or require us to incur additional indebtedness.

We are subject to the cyclical nature of the markets in which we compete and any future downturn may reduce demand for our products and revenue.

In the past, the markets in which we compete have experienced significant downturns, often connected with, or in anticipation of, the maturation of product cycles, for both manufacturers' and their customers' products, and declining general economic conditions. These downturns have been characterized by diminished product demand, production overcapacity, high inventory levels, and accelerated erosion of average selling prices. These markets are impacted by the aggregate capital expenditures of service providers and enterprises as they build out and upgrade their network infrastructure. These markets are highly cyclical and characterized by constant and rapid technological change, pricing pressures, evolving standards, and wide fluctuations in product supply and demand.

We may experience substantial period-to-period fluctuations in future results of operations. Any future downturn in the markets in which we compete, or changes in demand for our products from our customers, could result in a significant reduction in our revenue. It may also increase the volatility of the price of our common stock.

In addition, the communication networks industry from time to time has experienced and may again experience a pronounced downturn. To respond to a downturn, many service providers and enterprises may slow their capital expenditures, cancel or delay new developments, reduce their workforces and inventories, and take a cautious approach to acquiring new equipment and technologies, any of which could cause our results of operations to fluctuate from period to period and harm our business.

If spending for optical communications networks declines, our business may suffer.

Our future success depends on continued capital investment in global communications networks infrastructure and on continued demand for high-bandwidth, high-speed communications networks and the ability of original equipment manufacturers to meet this demand. Spending on communications networks is limited by several factors, including limited investment resources, uncertainty regarding the long-term evolution and sustainability of service provider business models, and a changing regulatory environment. We cannot be certain that demand for bandwidth-intensive content will continue to grow at the same pace in the future or that communications service providers will continue to increase spending to meet such demand. If expectations for growth of communications networks and bandwidth consumption are not realized and investment in communications networks does not grow as anticipated, our business,

results of operations, and gross margins could be harmed.

Table of Contents

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

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

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. During the preparation of this Annual Report, we determined that there was a material weakness in our internal control over financial reporting as of September 30, 2014 relating to the accounting for the deferred tax valuation allowance. We have provided additional information regarding this material weakness, including our proposed remediation, in Part II, Item 9A, "Controls and Procedures."

Management has dedicated resources to improving its control environment and initiated a remediation plan to improve our internal controls. We cannot be certain that these plans will ensure adequate controls over our financial processes and reporting in the future. We intend to continue implementing and monitoring changes to our processes to improve internal controls over financial reporting. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations.

Inadequate internal controls could also cause investors to lose confidence in our reported financial information, which could have an adverse effect on the trading price of our equity securities. Further, the impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our Board of Directors (the "Board") or as executive officers, which could harm our business.

We could be required to record an impairment charge as a result of changes to assumptions used in our impairment testing.

We have significant intangible assets and long-lived assets recorded on our balance sheet. We will continue to evaluate the recoverability of the carrying amount of our goodwill and intangible assets on an ongoing basis, and we may incur substantial impairment charges, which would adversely affect our financial results. There can be no assurance that the outcome of such reviews in the future will not result in substantial impairment charges. Impairment assessment inherently involves judgment as to assumptions about expected future cash flows and the impact of market conditions on those assumptions. Future events and changing market conditions may impact our assumptions as to prices, costs, holding periods, or other factors that may result in changes in our estimates of future cash flows. Although we believe the assumptions we used in testing for impairment are reasonable, significant changes in any one of our assumptions could produce a significantly different result. In any period where our stock price, as determined by our market capitalization, is less than our book value, this too could indicate a potential impairment and we may be required to record an impairment charge in that period.

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

We have implemented a number of operational and material cost reductions and productivity improvement initiatives, which are intended to reduce our expense structure at both the cost of goods sold and the operating expense levels. Cost reduction initiatives often involve the re-design of our products, which requires our customers to accept and qualify the new designs, potentially creating a competitive disadvantage for our products. These initiatives can be time-consuming, disruptive to our operations, and costly in the short-term. Successfully implementing these and other cost-reduction initiatives throughout our operations is critical to our future competitiveness and ability to achieve long-term profitability. However, there can be no assurance that these initiatives will be successful in creating profit margins sufficient to sustain our current operating structure and business.

## Table of Contents

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

Our stock price has experienced significant price and volume volatility for the past several years, and our stock price is likely to experience significant volatility in the future as a result of numerous factors outside our control. Significant declines in our stock price may interfere with our ability to raise additional funds through equity financing or to finance strategic transactions with our stock. A significant adverse change in the market value of our common stock could also trigger a goodwill impairment that would result in a non-cash impairment charge. We have historically used equity incentive compensation as part of our overall compensation arrangements. The effectiveness of equity incentive compensation in retaining key employees may be adversely impacted by volatility in our stock price. In addition, there may be increased risk of securities litigation following periods of fluctuations in our stock price. Securities class action lawsuits are often brought against companies after periods of volatility in the market price of their securities. These and other consequences of volatility in our stock price which could be exacerbated by the recent worldwide financial crisis could have the effect of diverting management's attention and could materially harm our business.

Our Photovoltaics segment recognizes certain contract revenue on a “percentage-of-completion” basis and upon the achievement of contractual milestones. Any delay or cancellation of a project could adversely affect our business.

Our Photovoltaics segment recognizes certain revenue on a “percentage-of-completion” basis and, as a result, revenue from this segment is driven by the performance of our contractual obligations. The percentage-of-completion method of accounting for revenue recognition is inherently subjective because it relies on estimates of total project cost as a basis for recognizing revenue and profit. Accordingly, revenue and profit recognized under the percentage-of-completion method is potentially subject to adjustments in subsequent periods based on refinements in estimated costs of project completion that could have a material adverse impact our future revenue and profit.

As with any project-related business, there is the potential for delays within, or cancellation of, any particular customer project. Variation of project timelines and estimates may impact our ability to recognize revenue in a particular period. Moreover, incurring penalties involving the return of the contract price to the customer for failure to timely install one project could adversely impact our ability to continue to recognize revenue on a “percentage-of-completion” basis generally for other projects. In addition, certain customer contracts may include payment milestones due at specified points during a project. Because our Photovoltaics segment usually must invest substantial time and incur expense in advance of achieving milestones and receiving payment, failure to achieve such milestones could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

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

For the fiscal years ended September 30, 2014, 2013 and 2012, our top five customers accounted for 35%, 34% and 33%, respectively, of our annual consolidated revenue. There can be no assurance that we will continue to achieve historical levels of sales of our products to our largest customers. Even though our customer base is expected to increase and our revenue streams to diversify, a substantial portion of our revenue continues to depend on sales to a limited number of customers. Our agreements with these customers may be cancelled if we fail to meet certain product specifications or materially breach the agreement, and our customers may seek to renegotiate the terms of current agreements or renewals. The loss of or a reduction in sales to one or more of our larger customers could have a

material adverse effect on our business, financial condition, results of operations, and cash flows.

Table of Contents

Customer demand is difficult to forecast and, as a result, we may be unable to optimally match production with customer demand.

We make planning and spending decisions, including determining the levels of business that we will seek and accept, production schedules, component procurement commitments, personnel needs and other resource requirements, based on our estimates of customer demand. The majority of our products are purchased pursuant to individual purchase orders. While our customers generally provide us with their demand forecasts, they are typically not contractually committed to buy any quantity of products beyond firm purchase orders. The short-term nature of our customer commitments and the possibility of unexpected changes in demand for their products limit our ability to accurately predict future customer demand. On occasion, customers have required rapid increases in production, which has strained our resources. We may not have sufficient capacity at any given time to meet the volume demands of our customers, or one or more of our suppliers may not have sufficient capacity at any given time to meet our volume demands. Conversely, a downturn in the markets in which our customers compete can cause, and in the past has caused, our customers to significantly reduce the amount of products ordered from us or to cancel existing orders, leading to lower utilization of our facilities. Because many of our costs and operating expenses are relatively fixed, reduction in customer demand would have an adverse effect on our gross margin, income (loss) from operations, and cash flow. During an industry downturn, there is also a higher risk that our trade receivables would be uncollectible.

Long-term, firm commitment supply agreements could result in insufficient or excess inventory or place us at a competitive disadvantage.

We manufacture our products utilizing materials, components, and services provided by third parties. For certain products, we seek to obtain a lower cost of inventory by negotiating multi-year, binding contractual commitments directly with our suppliers. Under such agreements, we may be required to purchase a specified quantity of products or use a certain amount of services, which is often over a period of twelve months or more. We also may be required to make substantial prepayments or issue secured letters of credit to these suppliers against future deliveries. These types of contractual commitments allow the supplier to invoice us for the full purchase price of product or services that we are under contract for, whether or not we actually order the required volume or services. If for any reason we fail to order the required volume or services, the resulting monetary damages could have an adverse effect on our business, financial condition, results of operations, and cash flows.

We do not obtain contracts or commitments from customers for all of our products manufactured with materials purchased under such firm commitment contracts. Instead, we rely on our long-term internal forecasts to determine the timing of our production schedules and the volume and mix of products to be manufactured. The level and timing of orders placed by customers may vary for many reasons. As a result, at any particular time, we may have insufficient or excess inventory, which could render us unable to fulfill customer orders or increase our cost of production. This would place us at a competitive disadvantage, and could have an adverse effect on our business, financial condition, results of operations, and cash flows.

Long-term contractual commitments also expose us to specific counter-party risk, which can be magnified when dealing with suppliers without a long, stable production and financial history. For example, if one or more of our contractual counterparties is unable or unwilling to provide us with the contracted amount of product, we could be required to attempt to obtain product in the open market, which could be unavailable at that time, or only available at prices in excess of our contracted prices. In addition, in the event any such supplier experiences financial difficulties, it may be difficult or impossible, or may require substantial time and expense, for us to recover any or all of our prepayments. Any of the foregoing could have a material adverse effect on our business, financial condition, results of operations, and cash flows.





## Table of Contents

Our operating results could be harmed if we are unable to obtain timely deliveries of sufficient components of acceptable quality from sole or limited sources of materials, components, or services, or if the prices of components for which we do not have alternative sources increase.

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

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

We use contract manufacturers located outside of the U.S. as a less-expensive alternative to performing our own manufacturing of certain products. Contract manufacturers in Asia currently manufacture a significant portion of our high-volume fiber optics products. We supply inventory to our contract manufacturers, and we bear the risk of loss, theft, or damage to our inventory while it is held in their facilities.

If these contract manufacturers do not fulfill their obligations to us, or if we do not properly manage these relationships and the transition of production to these contract manufacturers, our existing customer relationships may suffer. In addition, by undertaking these activities, we run the risk that the reputation and competitiveness of our products and services may deteriorate as a result of the reduction of our ability to oversee and control quality and delivery schedules.

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

- unexpected changes in regulatory requirements;
- legal uncertainties regarding liability, tariffs, and other trade barriers;
- inadequate protection of intellectual property in some countries;
- greater incidence of shipping delays;
- greater difficulty in overseeing manufacturing operations;
- greater difficulty in hiring talent needed to oversee manufacturing operations;
- potential political and economic instability and natural disasters;
- potential adverse actions by the U.S. government pursuant to its stated intention to reduce the loss of U.S. jobs;
- trade and travel restrictions; and
- the outbreak of infectious diseases which could result in travel restrictions or the closure of the facilities of our contract manufacturers.

Any of these factors could significantly impair our ability to source our contract manufacturing requirements internationally. Prior to our customers accepting products manufactured at our contract manufacturers, they must qualify the product and manufacturing processes. The qualification process can be lengthy and expensive, with no guarantee that any particular product qualification process will lead to profitable product sales. The qualification process determines whether the product manufactured at our contract manufacturer achieves our customers' quality, performance, and reliability standards. Our expectations as to the time periods required to qualify a product line and ship products in volumes to our customers may be erroneous. Delays in qualification can impair our expected timing of the transfer of a product line to our contract manufacturer and may impair our expected amount of sales of the affected products. Any of these uncertainties could materially adversely affect our operating results and customer relationships.

## Table of Contents

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

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

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

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

Spending to develop and improve our technology may adversely impact our financial results.

We may need to increase our research and development and/or capital expenditures and expenses above our historical run-rate model in order to attempt to improve our existing technology and develop new technology. Increasing our investments in research and development of technology could cause our cost structure to fall out of alignment with demand for our products, which would have a negative impact on our financial results. If we are unable to obtain financing or implement cost reduction measures necessary to fund these type of expenditures, we may be unable to improve our technology or develop new technologies, which could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

## Table of Contents

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

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

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

We manufacture many of our wafers and devices in our own production facilities. Difficulties in the production process, such as contamination, raw material quality issues, human error, or equipment failure, could cause a substantial percentage of wafers and devices to be nonfunctional. These problems may be difficult to detect at an early stage of the manufacturing process and often are time-consuming and expensive to correct. Lower-than-expected production yields may delay shipments or result in unexpected levels of warranty claims, either of which could adversely affect our results of operations and cash flows. We have experienced difficulties in achieving planned yields in the past, particularly in pre-production and upon initial commencement of full production volumes, which have adversely affected our gross margins. Because the majority of our manufacturing costs are fixed, achieving planned production yields is critical to our results of operations and cash flows. Changes in manufacturing processes required as a result of changes in product specifications, changing customer needs and the introduction of new product lines could significantly reduce our manufacturing yields, resulting in low or negative margins on those products.

Also, we have substantial risk of interruption in manufacturing resulting from fire, natural disaster, equipment failures, or similar events, because we manufacture most of our products using a few facilities, and do not have back-up facilities available for manufacturing these products. We could also incur significant costs to repair and/or replace products that are defective and in some cases costly product redesigns and/or rework may be required to correct a defect. Additionally, any defect could adversely affect our reputation and result in the loss of future orders.

Some of the capital equipment used in the manufacture of our products have been developed and made specifically for us, is not readily available from multiple vendors, and would be difficult to repair or replace if it were to become damaged or stop working. If any of these suppliers were to experience financial difficulties or go out of business, or if there were any damage to, or a breakdown of our manufacturing equipment at a time when we are manufacturing commercial quantities of our products, our business, financial condition, results of operations, and cash flows could be materially adversely affected.

We are subject to warranty claims, product recalls, and product liability.

We may be subject to warranty or product liability claims that may lead to increased expenses in order to defend or settle such claims. We maintain product liability insurance, but such insurance is subject to significant deductibles and there is no guarantee that such insurance will be available or adequate to protect against any or all such claims. We may incur costs and expenses relating to a recall of one of our customers' products containing one of our products. The process of identifying a recalled product in devices that have been widely distributed may be lengthy and require significant resources, and we may incur significant replacement costs, contract damage claims from our customers, and harm to our reputation. Payments and expenses in connection with warranty and product liability claims could materially adversely affect our business, financial condition, results of operations, and cash flows.

## Table of Contents

It could be discovered that our products contain defects that may cause us to incur significant costs, divert management's attention, result in a loss of customers, and result in product liability claims.

Our products are complex and undergo quality testing and formal qualification by our customers and us. However, defects may occur from time to time. Our customers' testing procedures involve evaluating our products under likely and foreseeable failure scenarios and over varying amounts of time. For various reasons, such as the occurrence of performance problems that are unforeseeable in testing or that are detected only when products age or are operated under peak stress conditions, our products may fail to perform as expected long after customer acceptance. Failures could result from faulty components or design, problems in manufacturing, or other unforeseen reasons. For the majority of our products, we provide a product warranty of one year or less from date of shipment. For select customers, we provide extended warranties beyond our normal product warranty period for specified failures on a case-by-case basis. As a result, we could incur significant costs to repair or replace defective products under warranty, particularly when such failures occur in installed systems. We have experienced failures in the past and will continue to face this risk going forward, as our products are widely deployed throughout the world in multiple demanding environments and applications. In addition, we may in certain circumstances honor warranty claims after the warranty has expired or for problems not covered by warranty in order to maintain customer relationships. Any significant product failure could result in lost future sales of the affected product and other products, as well as customer relations problems, litigation, and damage to our reputation.

In addition, our products are typically embedded in, or deployed in conjunction with, our customers' products, which incorporate a variety of components, modules and subsystems and may be expected to interpolate with modules and subsystems produced by third parties. As a result, not all defects are immediately detectable and when problems occur, it may be difficult to identify the source of the problem. These problems may cause us to incur significant damages or warranty and repair costs, divert the attention of our engineering personnel from our product development efforts, and cause significant customer relations problems or loss of customers, all of which would harm our business. The occurrence of any defects in our products could also give rise to liability for damages caused by such defects. Although we carry product liability insurance to mitigate this risk, insurance may not adequately cover costs that may arise from defects in our products or otherwise, nor will it protect us from reputational harm that may result from such defects.

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

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

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

be materially adversely affected.



Table of Contents

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

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

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

The types of sales contracts we use in the markets we serve subject us to unique risks in each of those markets.

In our Fiber Optics reporting segment, we generally do not have long-term supply contracts with our customers, and we typically sell our products pursuant to purchase orders with short lead times, and even where we do have supply contracts, our customers are not obligated to purchase any minimum amount of our products. As a result, our customers could stop purchasing our products at any time, and we must fulfill orders in a timely manner to keep our customers.

Risks associated with the absence of long-term purchase commitments with our customers include the following:

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

These risks are increased by the fact that our customers in this market are large sophisticated companies which have considerable purchasing power and control over their suppliers. In the Fiber Optics market, we generally sell our products pursuant to individual purchase orders, which often have extremely short lead times. If we are unable to fulfill these orders in a timely manner, it is likely that we will lose sales and customers. In addition, we sell some of our products to the U.S. government and related entities. These contracts are generally subject to termination for convenience provisions and may be cancelled at any time.

Cancellations or rescheduling of customer orders could result in the delay or loss of anticipated sales without allowing us sufficient time to reduce, or delay the incurrence of, our corresponding inventory and operating expenses. In addition, changes in forecasts or the timing of orders expose us to the risks of inventory shortages or excess inventory.

In contrast, in our Photovoltaics reporting segment, we generally enter into long-term firm fixed-price contracts. While firm fixed-price contracts allow us to benefit from cost savings, these types of contracts also expose us to the risk of cost overruns. If the initial estimates we used to determine the contract price and the cost to perform the work prove to be incorrect, we could incur losses. In addition, some of our contracts have specific provisions relating to schedule and performance. If we fail to meet the terms specified in those contracts, then our cost to perform the work could increase, which would adversely affect our financial condition. These programs have risk for reach-forward

losses if our estimated costs exceed our estimated price.

## Table of Contents

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

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

We intend to continue our policy of selectively pursuing contract research, product development, and market development programs funded by various agencies of the U.S. federal and state governments to complement and enhance our own resources. Depending on the type of contract, funding from government grants is either recorded as revenue or as an offset to our research and development expense.

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

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

The U.S. government may modify, curtail, or terminate its contracts and subcontracts with us without prior notice, and at its convenience upon payment for work done and commitments made at the time of termination. A reduction or discontinuance of these programs or of our participation in these programs would increase our research and development expenses, which could adversely affect our profitability and could impair our ability to develop our solar power products and services. It is possible that restrictions on government spending resulting from the government shutdown occurring in 2013 or a “fiscal cliff” potentially occurring in calendar year 2014 could reduce government funding available for our business with the U.S. government. Modification, curtailment, or termination of major programs or contracts could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

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

the future. Any adverse finding in such an audit could have an adverse effect on our business, results of operations, and cash flows.

Our business is subject to U.S. government review. We are sometimes subject to certain U.S. government reviews of our business practices due to our participation in government contracts. Any adverse finding in such inquiry or investigation could have an adverse effect on our business, results of operations, and cash flows.

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

Table of Contents

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

For the fiscal years ended September 30, 2014, 2013 and 2012, sales to customers located outside the U.S. accounted for approximately 36%, 36% and 32%, respectively, of our annual consolidated revenue, with revenue assigned to geographic regions based on our customers' billing address. Sales to customers in Asia represent the majority of our international sales. We believe that international sales will continue to account for a significant percentage of our revenue as we seek international expansion opportunities. Because of this, the following international commercial risks may adversely affect our revenue:

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

-we may experience difficulties in enforcing our legal contracts or the collecting of foreign accounts receivable in a timely manner and we may be forced to write off these receivables;

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

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

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

-customs, import/export, and other regulations of the countries in which we do business may adversely affect our business;

-currency fluctuations may make our products less cost competitive, affecting overseas demand for our products or otherwise adversely affecting our business; and

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

In addition, we may be exposed to additional legal risks under the laws of both the countries in which we operate and in the United States, including the Foreign Corrupt Practices Act.

We have substantial operations in China, which exposes us to risks inherent in doing business in China.

EMCORE Hong Kong, Ltd., a wholly owned subsidiary of EMCORE, has a manufacturing facility in Langfang, China. Our Chinese subsidiary, Langfang EMCORE Optoelectronics Co. Ltd., is located approximately 20 miles southeast of Beijing and currently occupies a space of 52,000 square feet with a Class-10,000 clean room for optoelectronic device packaging. Another 36,000 square feet is available for future expansion. We have transferred the manufacturing of cost sensitive optoelectronic device packaging and testing to this facility. This facility, along with a strategic alignment with our existing contract-manufacturing partners, should enable us to improve our cost structure and gross margins across product lines in our Fiber Optics segment. We expect to develop and provide improved service to our global customers by having a local presence in Asia.

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

Table of Contents

As a result of a government order to ration power for industrial use, operations in our China facility may be subject to possible interruptions or shutdowns, adversely affecting our ability to complete manufacturing commitments on a timely basis. If we are required to make significant investments in generating capacity to sustain uninterrupted operations at our facility, we may not realize the reductions in costs anticipated from our expansion in China.

We intend to export the majority of the products manufactured at our facilities in China. Accordingly, upon application to and approval by the relevant governmental authorities, we will not be subject to certain Chinese taxes and are exempt from customs duty assessment on imported components or materials when the finished products are exported from China. We are, however, required to pay income taxes in China, subject to certain tax relief. We may become subject to other forms of taxation and duty assessments in China or may be required to pay for export license fees in the future. In the event that we become subject to any increased taxes or new forms of taxation imposed by authorities in China, our results of operations and cash flows could be adversely affected.

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

Exports of our products are subject to export controls imposed by the U.S. government and administered by the U.S. Departments of State and Commerce. In certain instances, these regulations may require pre-shipment authorization from the administering department. For products subject to the Export Administration Regulations (EAR) administered by the Department of Commerce's Bureau of Industry and Security, the requirement for a license is dependent on the type and end use of the product, the final destination, and the identity of the end user. All exports of products subject to the International Traffic in Arms Regulations (ITAR) regulations administered by the Department of State's Directorate of Defense Trade Controls require a license. Most of our fiber optics products, terrestrial solar power products, and commercially available solar cell space power products are subject to EAR; however, a certain number of our fiber optics products and solar cell space power products with an efficiency rating above 31% are currently subject to ITAR.

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

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

Our success and competitive position depends on protecting our trade secrets and other intellectual property. Our strategy is to rely on trade secrets and patents to protect our manufacturing and sales processes and products. Effective trade secret and patent protection may be unavailable or limited in certain foreign jurisdictions. In addition, in certain circumstances, our intellectual property rights associated with government contracts may be limited. Also, reliance on trade secrets is only an effective business practice if trade secrets remain undisclosed and a proprietary product or process is not reverse engineered or independently developed. We take measures to protect our trade secrets, including executing non-disclosure agreements with our employees, customers, suppliers, and joint venture partners. If parties breach these agreements, the measures we take are not properly implemented, or if a competitor is able to reproduce or otherwise capitalize on our technology despite the safeguards we have in place, it may be difficult, expensive, or impossible for us to obtain necessary legal protection. Disclosure of our trade secrets or reverse engineering of our proprietary products, processes, or devices could adversely affect our business, financial condition, results of operations, and cash flows.

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

Our industries are characterized by frequent litigation regarding patent and other intellectual property rights. From time to time we have received, and may receive in the future, notice of claims of infringement of other parties' proprietary rights and licensing offers to commercialize third party patent rights. There can be no assurance that:

infringement claims (or claims for indemnification resulting from infringement claims) will not be asserted against us or that such claims will not be successful;

30

---



Table of Contents

future assertions will not result in an injunction against the sale of infringing products, which could adversely affect our business, results of operations, and cash flows;

-any patent owned or licensed by us will not be invalidated, circumvented, or challenged; or

we will not be required to obtain licenses, the expense of which may adversely affect our results of operations, and cash flows.

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

Protection of the intellectual property owned or licensed to us may require us to initiate litigation, which can be an extremely expensive protracted procedure with an uncertain outcome. The availability of financial resources may limit our ability to commence or defend such litigation.

If we fail to protect, or incur significant costs in defending, our intellectual property and other proprietary rights, our business and results of operations could be materially harmed.

Our success depends to a significant degree on our ability to protect our intellectual property and other proprietary rights. We rely on a combination of patent, trademark, trade secret and unfair competition laws, as well as license agreements and other contractual provisions, to establish and protect our intellectual property and other proprietary rights. We have applied for patent registrations in the United States and selected international jurisdictions, most of which have been issued. We cannot guarantee that our pending applications will be approved by the applicable governmental authorities. Moreover, our existing and future patents and trademarks may not be sufficiently broad to protect our proprietary rights or may be held invalid or unenforceable in court. Failure to obtain patents registrations or a successful challenge to our registrations in the United States or other foreign countries may limit our ability to protect the intellectual property rights that these applications and registrations are intended to cover.

We also attempt to protect our intellectual property, including our trade secrets and know-how, through the use of trade secret and other intellectual property laws, and contractual provisions. We enter into confidentiality and invention assignment agreements with our employees and independent consultants. We also use non-disclosure agreements with other third parties who may have access to our proprietary technologies and information. Such measures, however, provide only limited protection, and there can be no assurance that our confidentiality and non-disclosure agreements will not be breached, especially after our employees or those of our third-party contract manufacturers end their employment or engagement, and that our trade secrets will not otherwise become known by competitors or that we will have adequate remedies in the event of unauthorized use or disclosure of proprietary information. Unauthorized third parties may try to copy or reverse engineer our products or portions of our products, otherwise obtain and use our intellectual property, or may independently develop similar or equivalent trade secrets or know-how. If we fail to protect our intellectual property and other proprietary rights, or if such intellectual property and proprietary rights are infringed or misappropriated, our business, results of operations or financial condition could be materially harmed.

Policing unauthorized use of our technology is difficult, and we cannot be certain that the steps we have taken will prevent the misappropriation, unauthorized use, or other infringement of our intellectual property rights. Further, we may not be able to effectively protect our intellectual property rights from misappropriation or other infringement in

foreign countries where we have not applied for patent protections, and where effective patent, trademark, trade secret, and other intellectual property laws may be unavailable, or may not protect our proprietary rights as fully as U.S. law.

In the future, we may need to take legal actions to prevent third parties from infringing upon or misappropriating our intellectual property or from otherwise gaining access to our technology. Protecting and enforcing our intellectual property rights and determining their validity and scope could result in significant litigation costs and require significant time and attention from our technical and management personnel, which could significantly harm our business. In addition, we may not prevail in such proceedings. An adverse outcome of such proceedings may reduce our competitive advantage or otherwise harm our financial condition and our business.

Table of Contents

We may be involved in intellectual property disputes in the future, which could divert management's attention, cause us to incur significant costs, and prevent us from selling or using the challenged technology.

Participants in the markets in which we sell our products have experienced litigation regarding patent and other intellectual property rights. Regardless of their merit, responding to claims against us alleging infringement of certain patents or other intellectual property rights of others can be time consuming, divert management's attention and resources, and may cause us to incur significant expenses. While we do not believe that our products infringe upon the intellectual property rights of other parties and meritorious defenses would exist with respect to any assertions to the contrary, we cannot be certain that our products would not be found infringing the intellectual property rights of others.

We may be obligated to indemnify our customers and vendors for claims that our intellectual property infringes the rights of others, which may result in substantial expenses to us.

We may be required to indemnify our customers or vendors for intellectual property claims made against them for products incorporating our technology. As such, claims against our customers and vendors may require us to incur substantial expenses, such as legal expenses, damages for past infringement or royalties for future use. Future indemnity claims could adversely affect our business relationships and result in substantial costs to us.

We face certain litigation risks that could harm our business.

We are and may become subject to various legal proceedings and claims that arise in or outside the ordinary course of business. The results of complex legal proceedings are difficult to predict. Moreover, many of the complaints filed against us do not specify the amount of damages that plaintiffs seek, and we therefore are unable to estimate the possible range of damages that might be incurred should these lawsuits be resolved against us. While we are unable to estimate the potential damages arising from such lawsuits, certain of them assert types of claims that, if resolved against us, could give rise to substantial damages. Thus, an unfavorable outcome or settlement of one or more of these lawsuits could have a material adverse effect on our financial condition, liquidity, and results of operations. Even if these lawsuits are not resolved against us, the uncertainty and expense associated with unresolved lawsuits could seriously harm our business, financial condition, and reputation. Litigation is costly, time-consuming and disruptive to normal business operations. The costs of defending these lawsuits, particularly the securities class actions and stockholder derivative actions, have been significant, will continue to be costly, and may not be covered by our insurance policies. The defense of these lawsuits could also result in continued diversion of our management's time and attention away from business operations, which could harm our business. For additional discussion regarding litigation in which we are involved, see Note 14 - Commitments and Contingencies in the notes to our consolidated financial statements.

The costs of compliance with state, federal and international legal and regulatory requirements, such as environmental, labor, trade and tax regulations, and customers' standards of corporate citizenship could cause an increase in our operating costs.

We are subject to environmental and health and safety laws and regulations and must obtain certain permits and licenses relating to the use of hazardous materials. Our production activities involve the use of certain hazardous raw materials, including, but not limited to, ammonia, gallium, phosphine, and arsine. If our control systems are unsuccessful in preventing a release of these materials into the environment or other adverse environmental conditions

or human exposure occurs, we could experience interruptions in our operations and incur substantial remediation and other costs or liabilities. In addition, certain foreign laws and regulations place restrictions on the concentration of certain hazardous materials, including, but not limited to, lead, mercury, and cadmium, in our products. Failure to comply with such laws and regulations could subject us to future liabilities or result in the limitation or suspension of the sale or production of our products. These regulations include the European Union's (EU) Restrictions on Hazardous Substances and Directive on Waste Electrical and Electronic Equipment. Failure to comply with environmental and health and safety laws and regulations may limit our ability to export products to the EU and could adversely affect our business, financial condition, results of operations, and cash flows. In addition, the Department of Homeland Security has commenced a program to evaluate the security of certain chemicals which may be of interest to terrorists, including chemicals utilized by us. This evaluation may lead to regulations or restrictions affecting our ability to utilize these chemicals or the costs of doing so.

## Table of Contents

In connection with our compliance with such environmental laws and regulations, as well as our compliance with industry environmental initiatives, the standards of business conduct required by some of our customers, and our commitment to sound corporate citizenship in all aspects of our business, we could incur substantial compliance and operating costs and be subject to disruptions to our operations. In addition, in the last few years, there has been increased media scrutiny and associated reports focusing on a potential link between working in semiconductor manufacturing clean room environments and certain illnesses, primarily different types of cancers. Regulatory agencies and industry associations have begun to study the issue to see if any actual correlation exists. Because we utilize clean rooms, we may become subject to liability claims. These reports may also affect our ability to recruit and retain employees. If we were found to be in violation of environmental and safety regulations laws or noncompliance with industry initiatives or standards of conduct, we could be subject to government fines or liabilities owed to our customers, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

In addition, climate change is a significant topic of discussion and potential regulatory activity and has generated and may continue to generate federal or other regulatory responses in the near future. If we or our component suppliers fail to timely comply with applicable legislation, our customers may refuse to purchase our products or we may face increased operating costs as a result of taxes, fines or penalties, which would have a materially adverse effect on our business, financial condition and operating results.

In connection with our compliance with such environmental laws and regulations, as well as our compliance with industry environmental initiatives, the standards of business conduct required by some of our customers, and our commitment to sound corporate citizenship in all aspects of our business, we could incur substantial compliance and operating costs and be subject to disruptions to our operations and logistics. In addition, if we were found to be in violation of these laws or noncompliant with these initiatives or standards of conduct, we could be subject to governmental fines, liability to our customers and damage to our reputation and corporate brand which could cause our financial condition or operating results to suffer.

Provisions of the Dodd-Frank Act relating to “Conflict Minerals” has required us to disclose our use of “conflict minerals,” which will increase our costs and could raise reputational and other risks. The SEC has promulgated final rules in connection with the Dodd-Frank Wall Street Reform and Consumer Protection Act, regarding disclosure of the use of certain minerals, known as conflict minerals, that are mined from the Democratic Republic of the Congo and adjoining countries. These new requirements have required due diligence efforts in fiscal year 2013 and will continue to require additional due diligence efforts going forward, with initial disclosure requirements effective in May 2014. There are costs associated with complying with these disclosure requirements, including costs to determine the source of any conflict minerals used in our products. In addition, the implementation of these rules could adversely affect the sourcing, supply, and pricing of materials used in our products. Also, we may face reputational challenges if we are unable to verify the origins for all metals used in our products through the procedures we may implement. We may also encounter challenges to satisfy customers that may require all of the components of products purchased to be certified as conflict free. If we are not able to meet customer requirements, customers may choose to disqualify us as a supplier.

We are subject to anti-corruption laws in the jurisdictions in which we operate, including the U.S. Foreign Corrupt Practices Act (“FCPA”). Our failure to comply with these laws could result in penalties which could harm our reputation and have a material adverse effect on our business, results of operations and financial condition.

We are subject to the FCPA, which generally prohibits companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business and/or other benefits, along with various other anticorruption laws. Although we have implemented policies and procedures designed to ensure that we, our employees and other intermediaries comply with the FCPA and other anticorruption laws to which we are subject,

there is no assurance that such policies or procedures will work effectively all of the time or protect us against liability under the FCPA or other laws for actions taken by our employees and other intermediaries with respect to our business or any businesses that we may acquire.

Table of Contents

We have manufacturing operations in China and other jurisdictions, many of which pose elevated risks of anti-corruption violations, and we export our products for sale internationally. This puts us in frequent contact with persons who may be considered “foreign officials” under the FCPA, resulting in an elevated risk of potential FCPA violations. If we are not in compliance with the FCPA and other laws governing the conduct of business with government entities (including local laws), we may be subject to criminal and civil penalties and other remedial measures, which could have an adverse impact on our business, financial condition, results of operations and liquidity. Any investigation of any potential violations of the FCPA or other anticorruption laws by U.S. or foreign authorities could harm our reputation and have an adverse impact on our business, financial condition and results of operations.

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

Our future success depends, in part, on our ability to attract and retain certain key personnel, including scientific, operational, financial, and managerial personnel. In addition, our technical personnel represent a significant asset and serve as the source of our technological and product innovations. The competition for attracting and retaining key employees (especially scientists, technical personnel, and senior managers and executives) is intense. Because of this competition for skilled employees, we may be unable to retain our existing personnel or attract additional qualified employees in the future to keep up with our business demands and changes, and our business, financial condition, results of operations, and cash flows could be materially adversely affected. The risks involved in recruiting and retaining these key personnel may be increased by our lack of profitability, the volatility of our stock price, and the perceived effect of previously implemented reductions in force and other cost reduction efforts.

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

For certain risks, we do not maintain insurance coverage because of cost or availability. Because we retain some portion of our insurable risks, and in some cases self-insure completely, unforeseen or catastrophic losses in excess of insured limits may have a material adverse effect on our business, financial position, results of operations, and cash flows.

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

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

Despite our implementation of security measures, our systems are vulnerable to damages from computer viruses, natural disasters, unauthorized access, and other similar disruptions. Our business is also subject to break-ins, sabotage, and intentional acts of vandalism by third parties as well as employees. Any system failure, accident, or security breach could result in disruptions to our operations. To the extent that any disruption or security breach results in a loss or damage to our data, or inappropriate disclosure of confidential information, it could harm our business. In addition, we may be required to incur significant costs to protect against damage caused by these disruptions or security breaches in the future.

In addition, implementation of new software programs, including the implementation of an enterprise resource planning program which we intend to install at one or more of our divisions during 2014, may have adverse impact on

us, including interruption of operations, loss of data, budget overruns, and the consumption of management time and resources.



## Table of Contents

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

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

On September 17, 2014, our Board of Directors adopted the Rights Plan to help preserve the value of our Tax Benefits by reducing the risk of limitation of our Tax Benefits. The Rights Plan is intended to reduce the likelihood that we will experience an ownership change by discouraging any person or group from becoming a “5% shareholder” or increasing their ownership of our common stock if they are already a “5% shareholder.” The Rights Plan could make it more difficult for a third party to acquire, or could discourage a third party from acquiring, us or a large block of our common stock. A third party that acquires 5% or more of our common stock could suffer substantial dilution of its ownership interest under the terms of the Rights Plan through the issuance of common stock or common stock equivalents to all stockholders other than such acquiring person.

We can issue shares of preferred stock that may adversely affect rights of the stockholders of our common stock.

Our certificate of incorporation authorizes us to issue up to 5.8 million shares of preferred stock with designations, rights and preferences determined from time-to-time by our Board of Directors. Accordingly, our Board of Directors is empowered, without stockholder approval, to issue preferred stock with dividend, liquidation, conversion, voting or other rights superior to those of holders of our common stock. For example, an issuance of shares of preferred stock could:

- adversely affect the voting power of the holders of our common stock;
- make it more difficult for a third-party to gain control of us;
- discourage bids for our common stock at a premium;
- limit or eliminate any payments that the holders of our common stock could expect to receive upon our liquidation; or
- otherwise adversely affect the market price of our common stock.

We may in the future issue shares of authorized preferred stock at any time.

Changes to financial accounting standards may affect our results of operations and cause us to change our business practices.

We prepare our financial statements to conform to accounting principles generally accepted in the United States of America (U.S. GAAP). These accounting principles are subject to interpretation by the Financial Accounting Standards Board (FASB), the SEC, and various bodies formed to interpret and create appropriate accounting standards. A change in those policies can have a significant effect on our consolidated reported results and may affect our reporting of transactions completed before a change in accounting principle is announced. Changes to those rules

or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business. For example, the SEC issued its long-anticipated proposed International Financial Reporting Standards (IFRS) roadmap outlining milestones that, if achieved, could lead to mandatory transition to IFRS for U.S. domestic registrants. IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board. Under the proposed roadmap, we could be required to prepare financial statements in accordance with IFRS. We are currently assessing the impact that this potential change could have on our consolidated financial statements and will continue to monitor the development of the potential implementation of IFRS.

Table of Contents

Natural disasters or other catastrophic events could have a material adverse effect on our business.

Natural disasters, such as hurricanes, earthquakes, fires, and floods, could materially adversely affect our operations and financial performance. Such events could result in physical damage to one or more of our facilities, the temporary closure of one or more of our facilities or those of our suppliers, a temporary lack of an adequate work force in a market, a temporary or long-term disruption in the supply of products from some local and overseas suppliers, a temporary disruption in the transport of goods from overseas, and delays in the delivery of goods. Public health issues, whether occurring in the United States or abroad, could disrupt our operations, disrupt the operations of suppliers or customers, or have an adverse impact on customer demand. As a result of any of these events, we may be required to suspend operations in some or all of our locations, which could have a material adverse effect on our business, financial condition, results of operations, and cash flows. These events could also reduce demand for our products or make it difficult or impossible to receive products from suppliers. Although we maintain business interruption insurance and other insurance intended to cover some or all of these risks, such insurance may be inadequate, whether because of coverage amount, policy limitations, the financial viability of the insurance companies issuing such policies, or other reasons.

We cannot predict the timing, amount or nature of any distributions to our shareholders.

We have never declared or paid any dividends on our common stock. In addition, our credit and security agreement, as amended, with Wells Fargo Bank, National Association, currently prohibits distributions to our shareholders (other than distributions payable solely in our stock) and our board of directors is not currently able to predict the timing, amount or nature of, or the record dates for distributions, if any, to be made to our shareholders. In the event that we are unable to make a distribution to our shareholders or our board of directors determines not to make such a distribution, the success of an investment in our common stock will depend entirely upon any future appreciation in its value. There is no guarantee that our common stock will appreciate in value or even maintain the price at which stockholders have purchased their shares.

Our restructuring and cost reduction activities could result in management distraction, operational disruptions and other adverse effects on our business.

We are currently implementing, and may in the future implement, certain restructuring and cost reduction activities with respect to our broadband fiber optics business. The restructuring efforts could divert the attention of our management away from our operations, harm our reputation, reduce our revenue and/or increase our expenses. There can be no assurance that the restructuring activities will be successful, including allowing the business to achieve EBITDA break-even within the current fiscal year or any later date.

Litigation may substantially increase our costs and harm our business.

We are subject to lawsuits and will incur legal fees and other related costs. The expense of litigation may be significant. In addition, there can be no assurance that we will be successful in any lawsuit. Further, the amount of time that will be required to resolve any lawsuit is unpredictable and these actions may divert management's attention from the day-to-day operations of our business, which could adversely affect our business, results of operations and cash flows. Litigation is subject to inherent uncertainties, and an adverse result in these matters that may arise from time to time could have a material adverse effect on our business, results of operations and financial condition.

\*\*\*

The risks above are not the only risks we face. If any of the events described in our risk factors actually occur, or if additional risks and uncertainties not presently known to us or that we currently deem immaterial, materialize, then our business, financial condition, results of operations, and cash flows could be materially affected. Our risk factors

include forward-looking statements and our actual results may differ substantially from those discussed in these forward-looking statements.

Table of Contents

. Unresolved Staff Comments

Not Applicable.

. Properties

The following chart contains certain information regarding each of our principal facilities.

Location	Function	Approximate Square Footage	Term (in calendar year)
Albuquerque, New Mexico	Corporate Headquarters (2) Manufacturing and research and development facilities for photovoltaic products	165,000	Facilities are 100% owned by us. Certain land is leased, which expires in 2050
Alhambra, California	Manufacturing and research and development facilities for fiber optics products	75,000	Several leases which expired in 2011; Another lease which expires in 2017 (1) and (3)
Newark, California	Research and development facilities for fiber optics products	30,000	Lease expires in 2016 (1)
Langfang, China	Manufacturing facility for fiber optics products	52,000	Multiple leases, which expire in 2017 (1)
Ivyland, Pennsylvania	Manufacturing and research and development facility for fiber optics products	9,000	Lease expires in 2016 (1)

## Footnotes

(1) Lease has the option to be renewed by us, subject to inflation and other adjustments.

As a result of the sale of substantially all of the assets and liabilities of the Photovoltaics reporting segment to Photon Acquisition Corporation on December 10, 2014, EMCORE no longer has the Albuquerque, New Mexico facility and the Alhambra, California facility has become the corporate headquarters and principal place of business. See "Recent Developments" in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 18 - Subsequent Events in the notes to the consolidated financial statements for additional information.

(3) Certain facility leases in Alhambra, California which have expired are being maintained on a month-to-month basis. On October 1, 2014, Emcore entered into a three year operating lease commitment to rent four research and development facilities. Also see Note 14 - Commitments and Contingencies in the notes to the consolidated financial statements for additional information.

ITEM 3. Legal Proceedings

See Note 14 - Commitments and Contingencies in the notes to our consolidated financial statements for disclosures related to our legal proceedings.

ITEM 4. Mine Safety Disclosures

Not Applicable.

PART II.

37

---

Table of ContentsITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the NASDAQ Global Market and is quoted under the symbol "EMKR". The reported closing sale price of our common stock on December 5, 2014 was \$5.15 per share. As of December 5, 2014, we had approximately 117 shareholders of record. Many of our shares of common stock are held by brokers and other institutions on behalf of shareholders, and we are unable to estimate the number of these shareholders.

## Price Range of Common Stock

The price ranges presented below represents the highest and lowest sales prices for our common stock on the NASDAQ Global Market during each quarter over the two most recent fiscal years.

High and Low Sales Price Ranges of EMCORE Corporation's Common Stock	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2014	\$4.33 - \$5.62	\$4.61 - \$5.42	\$3.50 - \$5.30	\$3.86 - \$6.03
Fiscal 2013	\$3.91 - \$5.71	\$4.36 - \$6.75	\$3.32 - \$5.97	\$3.59 - \$4.84

## Dividend Policy

We have never declared or paid dividends on our common stock since our formation. In addition, under the terms of our credit facility with Wells Fargo Bank, we agreed to not issue any dividends until full payment is made on any outstanding debt under the credit facility. The payment of dividends, if any, in the future is at the discretion of the Board of Directors.

## Sales of Unregistered Securities

On October 3, 2012, pursuant to an underwriting agreement (the "Underwriting Agreement") with B. Riley & Co., LLC (the "Underwriter"), we sold and the Underwriter purchased (the "Offering"), subject to the terms and conditions expressed therein, 1,832,410 shares of the Company's common stock, without par value (the "Common Stock"), at a price per share of \$5.19. The Offering raised approximately \$9.5 million in net proceeds, which was used for general corporate purposes.

In addition, on September 18, 2013, pursuant to the Underwriting Agreement, we sold and the Underwriter to purchased, subject to the terms and conditions expressed therein, 2,875,000 shares of the Company's common stock, without par value, at a price per share of \$4.09. The Offering raised approximately \$11.7 million in net proceeds, which will be used for general corporate purposes.

The shares sold by the Company were registered pursuant to a "shelf" Registration Statement on Form S-3 (File No. 333-183256) (the "Registration Statement") that the Company filed with the Securities and Exchange Commission (the "Commission") under the Act on August 10, 2012, and which the Commission declared effective as of August 23, 2012, including a base prospectus constituting a part thereof, as supplemented by a prospectus supplement relating to the shares filed with the Commission pursuant to Rule 424(b) under the Act.

## Equity Compensation Plan Information

See Part III, Item 12-“Security Ownership of Certain Beneficial Owners and Management and Related Stockholders” of this Annual Report on Form 10-K for certain information regarding our equity compensation plans.

38

---



Table of Contents

## Performance Graph

The following table and graph compares the cumulative total shareholders' return on our common stock for the five-year period from September 30, 2009 through September 30, 2014 with the cumulative total return on the NASDAQ Composite Index and the NASDAQ Telecommunications Stock Index. The comparison assumes \$100 was invested on September 30, 2009 in our common stock. We did not declare, nor did we pay, any dividends during the comparison period.

The following stock performance graph does not constitute soliciting material, and should not be deemed filed or incorporated by reference into any of our filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate this stock performance graph by reference therein.

Data Table	As of September 30,					
	2009	2010	2011	2012	2013	2014
EMCORE Corporation	\$100.00	\$61.62	\$76.15	\$108.65	\$86.15	\$109.42
NASDAQ Composite	\$100.00	\$112.55	\$116.28	\$153.12	\$189.49	\$227.09
NASDAQ Telecommunications	\$100.00	\$104.72	\$88.71	\$104.26	\$133.08	\$146.15

Table of ContentsITEM 6. Selected Financial Data

In the tables below, we have provided you with consolidated financial data. We derived the statement of operations data for the fiscal years ended September 30, 2014, 2013, and 2012 and the balance sheet data as of September 30, 2014 and 2013 from our audited consolidated financial statements included in Financial Statements and Supplementary Data under Item 8 within this Annual Report. We derived the statement of operations data for the years ended September 30, 2011 and 2010 and the selected balance sheet data as of September 30, 2012, 2011, and 2010 from audited consolidated financial statements that are not included in this Annual Report. You should read this financial data together with our Management's Discussion and Analysis of Financial Condition and Results of Operations under Item 7 and Financial Statements and Supplementary Data under Item 8 within this Annual Report. Our historic results are not necessarily indicative of the results that may be expected in the future.

## Selected Financial Data

Statements of Operations Data (in thousands, except loss per share)	For the Fiscal Years Ended September 30,				
	2014	2013	2012	2011	2010
Revenue	\$174,778	\$168,147	\$163,781	\$200,928	\$191,278
Gross profit	32,674	28,198	17,826	42,763	50,661
Operating (loss) income	(19,108 )	220	(35,625 )	(32,527 )	(21,426 )
Net income (loss)	4,852	4,988	(39,171 )	(34,219 )	(23,694 )
Net income (loss) per basic and diluted share	\$0.16	\$0.19	\$(1.66 )	\$(1.54 )	\$(1.14 )

  

Balance Sheet Data (in thousands)	As of September 30,				
	2014	2013	2012	2011	2010
Cash, cash equivalents and restricted cash	\$22,169	\$16,919	\$9,129	\$16,142	\$21,242
Working capital	30,914	37,196	3,971	24,293	34,891
Total assets	191,342	173,714	169,866	170,298	177,838
Long-term liabilities	6,018	9,434	9,408	4,804	562
Shareholders' equity	112,347	101,179	69,023	98,436	113,432

Working capital, calculated as current assets minus current liabilities, is a financial metric we use that represents available operating liquidity.

## Significant Transactions

Significant transactions that affect the comparability of our operating results and financial condition include:

## Fiscal 2014

Transaction costs - For the fiscal year ended September 30, 2014, we recorded transaction costs and additional legal fees of \$3.2 million associated with the sales of the Photovoltaics reporting segment and certain telecommunications product lines within our Fiber Optics reporting segment. This expense was recorded in our statements of operations and comprehensive loss within selling, general and administrative operating expense. See Note 18 - Subsequent Events for additional disclosures related to these asset sales.

We recorded a net deferred tax valuation allowance release of \$24.1 million as an income tax benefit during fiscal year 2014. We expect that substantially all of the \$24.1 million in deferred tax assets will be used in fiscal year 2015 when income tax expense is recorded as a result of the sale of the Photovoltaics Business, thus resulting in no cash received for the deferred tax assets. The Company's conclusion that it is more likely than not that the deferred tax assets will be realized is strongly influenced by the completed sale of the Photovoltaics Business in fiscal year 2015.



Table of Contents

Fiscal 2013

Impact from Thailand Flood: In December 2012, we recorded flood-related insurance proceeds of \$4.2 million in the form of forgiveness of \$2.2 million of outstanding capital lease obligations and \$2.0 million of outstanding payables. In March 2013, we received the final flood-related insurance proceeds of \$14.8 million in the form of a receivable of \$8.2 million, which we received cash payment for in April 2013, forgiveness of \$3.4 million of outstanding capital lease obligations and \$3.2 million of outstanding payables. No additional flood-related insurance proceeds associated with this event are anticipated. See Note 11 - Impact from Thailand Flood for additional disclosures related to the impact of the Thailand flood on our operations.

Joint Venture: In March 2013, we sold certain solar assets and our ownership interest in Emcore Solar New Mexico ("ESNM") to Suncore for \$1.5 million. In June 2013, we entered into an agreement to transfer our 40% registered ownership interest in Suncore to San'an Optoelectronics Co., Ltd. ("San'an") for a purchase price of \$4.8 million. The carrying value of our registered ownership interest in Suncore was \$0 as of June 30, 2013. In addition, upon completion of the share transfer, the Company recognized \$3.3 million of deferred revenue from Suncore included in the financial statements as of June 30, 2013, as well as the resulting gain of \$4.8 million on our registered ownership interest.

Stock Sales: During August 2012, we filed a shelf registration statement on Form S-3 with the SEC pursuant to which we may, from time to time, sell up to an aggregate of 50 million of our common or preferred stock, warrants or debt securities. On August 23, 2012, the registration statement was declared effective by the SEC, which will allow us to access the capital markets for the three year period following this effective date. On October 3, 2012 we sold 1,832,410 shares of common stock for net proceeds of \$9.5 million. In addition, on September 18, 2013, we sold 2,875,000 shares of common stock for net proceeds of \$11.7 million. See Note 15 - Equity for additional disclosures related to the stock sale.

Fiscal 2012

Joint Venture: During the fiscal year ended September 30, 2012, Suncore increased its registered capital by recording a deemed capital distribution of \$37.0 million which was distributed and reinvested in proportion to each entity's registered capital, of which San'an was allocated \$22.2 million and EMCORE was allocated \$14.8 million. During this same period, Suncore also recorded a cash dividend of approximately \$4.1 million in proportion to each entity's registered capital of which San'an received \$2.5 million and EMCORE received \$1.6 million. We recorded the cash dividend as a reduction of our investment in Suncore. We incurred foreign income tax of approximately \$1.6 million associated with these capital distributions which is presented under the caption 'foreign income tax expense on capital distributions' on our statement of operations and comprehensive loss. EMCORE's cash dividend was equal to the foreign income tax expense incurred on these capital distributions. During fiscal 2012, we held a 40% registered ownership in Suncore and we recorded a \$1.2 million loss from this equity method investment which was primarily related to start-up activities. As of September 30, 2012, our investment balance in Suncore is zero and we have stopped recording our proportionate share of Suncore's loss since we have no obligation or intent to fund the deficit balance. See Note 17 - Suncore Joint Venture in the notes to the consolidated financial statements for additional information related to our Suncore joint venture.

Table of Contents

**Impact From Thailand Flood:** In October 2011, we announced that flood waters had severely impacted the inventory and production operations of our primary contract manufacturer in Thailand. The impacted areas included certain product lines for the Telecom and Cable Television (CATV) market segments. This has had a significant impact on our operations and our ability to meet customer demand for certain of our fiber optics products in the near term. During the fiscal year ended September 30, 2012, we recorded estimated flood-related losses associated with damaged inventory and equipment of approximately \$5.5 million. During the fiscal year ended September 30, 2012, we capitalized the cost of our new manufacturing lines of approximately \$5.2 million and recorded an equipment capital lease obligation of \$4.4 million, net of equipment deposits. Management identified certain inventory on order related to manufacturing product lines that were destroyed by the Thailand flood and will not be replaced. This expense, which totaled \$1.6 million for the fiscal year ended September 30, 2012, was recorded within cost of revenue on our statement of operations and comprehensive loss. We received an insurance proceeds payment of \$4.0 million in September 2012 from our contract manufacturer. Additionally, we also claimed damages and received proceeds of \$5.0 million under our own comprehensive insurance policy relating to business interruption and we recorded this amount as flood-related insurance proceeds. See Note 11 - Impact from Thailand Flood for additional disclosures related to the impact of the Thailand flood on our operations.

**Sale of Fiber Optics-related Assets:** On May 7, 2012, we completed the sale of certain assets associated with our Fiber Optics segment to a subsidiary of Sumitomo Electric Industries, LTD (SEI) and recorded a gain of approximately \$2.8 million. We deferred approximately \$4.9 million of the gain on sale until the indemnification obligation and purchase price adjustment contingencies are resolved. See Note 1 - Description of Business in the notes to the consolidated financial statements for additional disclosures related to this asset sale.

**Litigation Settlement:** In May 2012, we reached a confidential settlement regarding certain outstanding litigation in exchange for a release of related claims. The settlement resulted in a charge of \$1.0 million in our statement of operations and comprehensive loss.

As of June 30, 2012, we performed an evaluation of an asset group within our Photovoltaics segment for impairment of long-lived assets. The impairment test was triggered by a determination that it was more likely than not those assets would be sold or otherwise disposed of before the end of their previously estimated useful lives. As a result of the evaluation, we determined that impairment existed and a charge of \$1.4 million was recorded to write down the long-lived assets to an estimated fair value. Of the total impairment charge, \$1.1 million related to equipment and \$0.3 million related to intangible assets.

**Fiscal 2011**

**Joint Venture:** We entered into a joint venture agreement in fiscal 2010 with San'an Optoelectronics Co., Ltd. (San'an) for the purpose of engaging in the development, manufacturing, and distribution of CPV receivers, modules, and systems for terrestrial solar power applications under a technology license from us. The joint venture, Suncore Photovoltaic Technology Co., Ltd. (Suncore) was established in January 2011. To date, we have contributed \$12.0 million in cash to Suncore as a capital contribution and have received \$8.5 million of consulting fees from an affiliate of San'an. We accounted for our investment in Suncore using the equity method of accounting and we have recorded the consulting fees as a reduction to our investment in Suncore. During fiscal 2011, we held a 40% registered ownership in Suncore and we recorded a \$1.8 million loss from this equity method investment which was primarily related to start-up activities. See Note 17 - Suncore Joint Venture in the notes to the consolidated financial statements for additional information related to our Suncore joint venture.

**Litigation Settlements:** During the three months ended March 31, 2011, we received a cash payment of approximately \$2.6 million, net of legal fees, in satisfaction of a judgment for damages awarded. During the three months ended June 30, 2011, we accrued \$1.5 million for legal settlements considered probable. See Note 14 - Commitments and Contingencies in the notes to the consolidated financial statements for additional information related to our litigation proceedings.

**Impairment Charge:** During the three months ended September 30, 2011, we recorded a non-cash impairment charge of approximately \$8.0 million related to long-lived assets associated with our Fiber Optics segment.

Asset Retirement Obligations: We have known conditional asset retirement conditions, such as certain asset decommissioning and restoration of rented facilities to be performed in the future. During the three months ended

42

---

Table of Contents

September 30, 2011, we completed a review of our asset retirement and environmental obligations and we recorded an asset retirement obligation with an offset to fixed assets totaling \$4.8 million. See Note 14 - Commitments and Contingencies in the notes to the consolidated financial statements for additional information related to our asset retirement obligations.

Fiscal 2010

• **Bad Debt:** In June 2010, we recorded a \$2.4 million reserve on accounts receivable related to a solar power system contract that management had uncertainty with respect to its total collectability.

• **Termination Fee:** In June 2010, we incurred a one-time non-recurring \$2.8 million charge associated with a termination fee on our previously announced joint venture with Tangshan Caofeidian Investment Corporation.

• **Legal Expenses:** Throughout the year, we incurred \$4.7 million related to legal expenses associated with certain patent and other litigation.

## Table of Contents

### ITEM 7. 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 and Supplementary Data under Item 8 within this Annual 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. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Annual Report, particularly in Risk Factors under Item IA.

#### Business Overview

EMCORE Corporation and its subsidiaries (referred to herein as the "Company", "we", "our", or "EMCORE") offers a broad portfolio of compound semiconductor-based products for the broadband, fiber optics, satellite, and solar power markets. We were established in 1984 as a New Jersey corporation and we have two reporting segments: Fiber Optics and Photovoltaics. EMCORE's Fiber Optics business segment provides optical components, subsystems and systems for high-speed telecommunications, Cable Television (CATV), Wireless and Fiber-To-The-Premises (FTTP) networks, as well as products for satellite communications, video transport and specialty photonics technologies for defense and homeland security applications. Our Photovoltaics business segment provides products for space power applications including high-efficiency multi-junction solar cells, Covered Interconnect Cells (CICs) and complete satellite solar panels, and terrestrial applications, including high-efficiency GaAs solar cells for concentrating photovoltaic (CPV) power systems. In addition to organic growth and development of our existing Fiber Optics and Photovoltaics segments, we intend to pursue other strategies 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. Accordingly, the Strategy Committee of the Board and our management may from time to time be engaged in evaluating potential strategic opportunities and may enter into definitive agreements with respect to, such transactions or other strategic alternatives.

#### Recent Developments

##### Sale of Photovoltaics Business

On September 17, 2014, EMCORE entered into an Asset Purchase Agreement (the "Photovoltaics Agreement") with Photon Acquisition Corporation ("Photon"), a Delaware corporation and an affiliate of private equity firm Veritas Capital, pursuant to which Photon agreed to acquire substantially all of the assets, and assume substantially all of the liabilities, primarily related to or used in connection with the Company's photovoltaics business, including EMCORE's subsidiaries EMCORE Solar Power, Inc. and EMCORE IRB Company, LLC (collectively, the "Photovoltaics Business" and, the sale of the Photovoltaics Business, the "Photovoltaics Asset Sale") for \$150.0 million in cash, subject to a working capital adjustment pursuant to the Photovoltaics Agreement. At a special meeting of EMCORE's shareholders held on December 5, 2014, EMCORE's shareholders approved the Photovoltaics Asset Sale, and on December 10, 2014, EMCORE completed the Photovoltaics Asset Sale.

As a result the financial results of the Photovoltaics Business will be presented as discontinued operations on the Consolidated Statements of Operations beginning in the first quarter of fiscal year 2015. Accordingly, the Company will have one remaining reportable segment: Fiber Optics.

##### Planned Asset Sale Transaction with NeoPhotonics Corporation

On October 22, 2014, EMCORE entered into an Asset Purchase Agreement (the "Digital Products Agreement") with NeoPhotonics Corporation, a Delaware corporation ("NeoPhotonics") pursuant to which the Company has agreed to



sell certain assets, and transfer certain liabilities of the Company's telecommunications business (collectively, the "Digital Products Business" and, the sale of the Digital Products Business, the "Digital Products Assets Sale") to NeoPhotonics for an aggregate purchase price of \$17.5 million, subject to certain adjustments, consisting of \$1.5 million in cash at closing and a promissory note in the principal amount of \$16.0 million (the "Promissory Note"). The Promissory Note will bear interest of 5.0% per annum for the first year and 13.0% per annum for the second year, payable semi-annually in cash, and matures two years from the closing of the transaction contemplated by the Digital Products Agreement. In addition, the promissory note will be subject to prepayments under certain circumstances, and will be secured by certain of the assets to be sold to NeoPhotonics in the transaction. The assets sold pursuant to the Digital Products Agreement include fixed assets, inventory, and intellectual property for the ITLA, micro-ITLA, T-TOSA and T-XFP product lines within the Company's telecommunications business. The purchase price is subject to certain adjustments for inventory, net accounts receivable and pre-closing revenue levels,

## Table of Contents

which will increase or decrease the principal amount under the Promissory Note as applicable. The transaction is subject to customary closing conditions and is expected to close by early January 2015.

As the result of this transaction, we expect financial results of the Digital Products Business to be classified as held for sale and reported as discontinued operations in the Company's consolidated financial statements in the first quarter of fiscal year 2015.

Following the closing of the Photovoltaics Asset Sale and the Digital Products Assets Sales, EMCORE will continue to operate its fiber optics division which provides optical components, subsystems and systems for high-speed telecommunications, Cable Television (CATV) and Fiber-To-The-Premise (FTTP) networks, as well as products for satellite communications, video transport and specialty photonics technologies for defense and homeland security applications.

### Strategy Committee of the Board of Directors

The Company's Board of Directors created a Strategy Committee of the Board of Directors in December 2013, which is charged with evaluating strategic opportunities for the Company that may enhance shareholder value. The Strategy Committee may from time to time consider strategic opportunities, such as acquisitions, dispositions and joint ventures, and may engage financial and other advisor's to assist it in doing so. There is no assurance that the Strategy 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.

As discussed above, as part of the Strategy Committee's strategic review process, the Company entered into two asset purchase agreements: the Photovoltaics Agreement and the Digital Products Agreement. On December 10, 2014, EMCORE completed the Photovoltaics Asset Sale. The transactions contemplated by the Digital Products Agreement are subject to customary closing conditions and expected to close by early January 2015. See Note 18 - Subsequent Events in the notes to the consolidated financial statements for additional information.

### Suncore Joint Venture

In June 2013, we entered into an agreement to transfer our 40% registered ownership interest in Suncore to San'an for a purchase price of \$4.8 million. Upon completion of the share transfer in September 2013, the Company recognized \$3.3 million of deferred revenue from Suncore included in the financial statements as of June 30, 2013, as well as the resulting gain of \$4.8 million on our registered ownership interest. See Note 17 - Suncore Joint Venture in the notes to the consolidated financial statements for more information regarding Suncore.

### Impact from Thailand Flood

In October 2011, flood waters severely impacted the inventory and production operations of our primary contract manufacturer in Thailand. The impacted areas included certain product lines for the Telecom and CATV market segments. This had a significant impact on our operations and our ability to meet customer demand for certain of our fiber optics products. Our Photovoltaics segment was not affected by the Thailand floods.

Since that announcement, we developed and implemented a plan to rebuild the impacted production lines at other locations, including an alternate facility of our contract manufacturer in Thailand, as well as our own manufacturing facilities in the United States and the PRC. We completed the plan to rebuild our production lines and returned to pre-flood capacity production levels as of September 2012. See Note 11 - Impact from Thailand Flood in the notes to the consolidated financial statements for additional disclosures related to the impact of the Thailand flood on our operations.



## Table of Contents

### Sale of Fiber Optics-related Assets

On March 27, 2012, we entered into a Master Purchase Agreement with a subsidiary of Sumitomo Electric Industries, LTD (SEI), pursuant to which we agreed to sell certain assets and transfer certain obligations associated with our Fiber Optics segment. On May 7, 2012, we completed the sale of these assets to SEI and recorded a gain of approximately \$2.8 million. Under the terms of the Master Purchase Agreement, we have agreed to indemnify SEI for up to \$3.4 million of potential claims and expenses for the two-year period following the sale and we have recorded this amount as a deferred gain on our balance sheet as of September 30, 2014 and 2013 as a result of these contingencies. SEI paid \$13.1 million in cash and deposited approximately \$2.6 million into escrow as security for indemnification obligations and any purchase price adjustments. Settlement of escrow amounts occurs over a two-year period and is subject to claim adjustments. During the fiscal year ended September 30, 2013, we resolved the purchase price contingencies resulting in the reduction of the purchase price by \$1.1 million. The reduced purchase price is recorded as an offset to the escrow receivable of \$2.6 million while an additional \$0.4 million of gain on sale of assets was recognized during the fiscal year ended September 30, 2013. There remains a deferred gain of \$3.4 million related to our indemnification obligation to SEI as of September 30, 2014 as claims have been made under the Master Purchase Agreement against these balances prior to the end of the indemnification period in May 2014. We are not able to determine at this time the outcome of any potential settlements associated with the remaining claims and as a result have not recorded any related adjustments to the deferred gain amount.

### Critical Accounting Policies

The preparation of 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. The accounting estimates that require our most significant, difficult, and/or subjective judgments include:

- the valuation of inventory, goodwill, intangible assets, warrants, and stock-based compensation;
- assessment of recovery of long-lived assets;
- asset retirement obligations and litigation contingencies;
- revenue recognition associated with the percentage of completion method;
- the allowance for doubtful accounts and warranty accruals;
- the valuation allowance for deferred tax assets; and,
- estimation of losses associated with the Thailand Flood.

We develop estimates based on historical experience and on various assumptions about the future that are believed to be reasonable based on the best information available to us. Our reported financial position or results of operations may be materially different under changed conditions or when using different estimates and assumptions, particularly with respect to significant accounting policies. In the event that estimates or assumptions prove to differ from actual results, adjustments are made in subsequent periods to reflect more current information. A listing and description of our critical accounting policies includes the following:

### Accounts Receivable

We regularly evaluate the collectability of our accounts receivable and maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to meet their financial obligations to us. The allowance is based on the age of receivables and a specific identification of receivables considered at risk of collection. We classify charges associated with the allowance for doubtful accounts as sales, general, and administrative expense. If

the financial condition of our customers were to deteriorate, impacting their ability to pay us, additional allowances may be required. See Note 5 - Receivables in the notes to the consolidated financial statements for additional information related to our receivables.

## Table of Contents

### Inventory

Inventory is stated at the lower of cost or market, with cost being determined using the standard cost method that includes material, labor, and manufacturing overhead costs, which approximates weighted average cost. We write-down inventory once it has been determined that conditions exist that may not allow the inventory to be sold for its intended purpose or the inventory is determined to be excess or obsolete based on our forecasted future revenue. The charge related to inventory write-downs is recorded as a cost of revenue. The majority of the inventory write-downs are related to estimated allowances for inventory whose carrying value is in excess of net realizable value and on excess raw material components resulting from finished product obsolescence. In most cases where we sell previously written down inventory, it is typically sold as a component part of a finished product. The finished product is sold at market price at the time resulting in higher average gross margin on such revenue. We do not track the selling price of individual raw material components that have been previously written down or written off, since such raw material components usually are only a portion of the finished products and related sales price. We evaluate inventory levels at least quarterly against sales forecasts on a significant part-by-part basis, in addition to determining its overall inventory risk. We have incurred, and may in the future incur charges to write-down our inventory. See Note 6 - Inventory in the notes to the consolidated financial statements for additional information related to our inventory.

### Goodwill

The Company's goodwill of approximately \$20.4 million is associated with our Photovoltaics segment. Goodwill represents the excess of the purchase price of an acquired business over the fair value of the identifiable assets acquired and liabilities assumed. As required by ASC 350, Intangibles - Goodwill and Other, we evaluate our goodwill for impairment on an annual basis, or whenever events or changes in circumstances indicate whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Pursuant to ASC 350, circumstances that could trigger an interim impairment test include but are not limited to:

- Macroeconomic conditions such as a deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets;

- Industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics (considered in both absolute terms and relative to peers), a change in the market for an entity's products or services, or a regulatory or political development;

- Cost factors such as increases in raw materials, labor, or other costs that have a negative effect on earnings and cash flows;

- Overall financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods;

- Other relevant entity-specific events such as changes in management, key personnel, strategy, or customers; contemplation of bankruptcy; or litigation;

Events affecting a reporting unit such as a change in the composition or carrying amount of its net assets, a more-likely-than-not expectation of selling or disposing all, or a portion, of a reporting unit, the testing for recoverability of a significant asset group within a reporting unit, or recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit; and,

If applicable, a sustained decrease in share price (considered in both absolute terms and relative to peers).

On September 17, 2014, EMCORE entered into an Asset Purchase Agreement with Photon to sell the Photovoltaics Business for \$150.0 million in cash, subject to a working capital adjustment pursuant to the Photovoltaics Agreement. As of September 30, 2014, management performed the Step 1 test, which compares the fair value of the reporting unit with its carrying value, including goodwill. As of September 30, 2014, no impairment existed as EMCORE had assigned a fair value for the Photovoltaics Business which was in excess of the carrying value. On December 10, 2014, EMCORE completed the sale of its Photovoltaics Business to Photon. Also see Note 18 - Subsequent Events in the notes to the consolidated financial statements for additional information.

## Table of Contents

We will continue to monitor any changes in circumstances or triggering events that might indicate impairment of our goodwill. If there is a significant erosion of the Company's market capitalization or the Photovoltaics reporting unit is unable to achieve its projected cash flows, we may be required to perform additional impairment tests. The outcome of these additional tests may result in the recording of goodwill impairment charges. See Note 8 - Goodwill in the notes to the consolidated financial statements for additional disclosures related to our goodwill.

## Valuation of Long-lived Assets

Long-lived assets consist primarily of property, plant, and equipment and intangible assets. Because most of our long-lived assets are subject to amortization, we review these assets for impairment in accordance with the provisions of ASC 360, Property, Plant, and Equipment. We review long-lived assets for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Our impairment testing of long-lived assets consists of determining whether the carrying amount of the long-lived asset (asset group) is recoverable, in other words, whether the sum of the future undiscounted cash flows expected to result from the use and eventual disposition of the asset (asset group) exceeds its carrying amount. The determination of the existence of impairment involves judgments that are subjective in nature and may require the use of estimates in forecasting future results and cash flows related to an asset or group of assets. In making this determination, we use certain assumptions, including estimates of future cash flows expected to be generated by these assets, which are based on additional assumptions such as asset utilization, the length of service that assets will be used in our operations, and estimated salvage values. See Note 7 - Property, Plant, and Equipment, net and Note 9 - Intangible Assets in the notes to the consolidated financial statements for additional disclosures related to our long-lived assets.

## Income Taxes

In accordance with the authoritative guidance on accounting for income taxes, we recognize income taxes using an asset and liability approach. This approach requires the recognition of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. The measurement of current and deferred taxes is based on provisions of the enacted tax law and the effects of future changes in tax laws or rates are not anticipated.

The authoritative guidance provides for recognition of deferred tax assets if the realization of such deferred tax assets is more likely than not to occur based on an evaluation of all available evidence, both positive and negative, and the relative weight of the evidence. With the exception of the completed Photovoltaics Business sale, we have determined that at this time it is more likely than not that deferred tax assets attributable to all other items will not be realized, primarily due to uncertainties related to our ability to utilize our net operating loss carryforwards before they expire. Accordingly, we have established a valuation allowance for such deferred tax assets which we do not expect to realize. If there is a change in our ability to realize our deferred tax assets for which a valuation allowance has been established, then our tax valuation allowance may decrease in the period in which we determine that realization is more likely than not. Likewise, if we determine that it is not more likely than not that deferred tax assets will be realized, then a valuation allowance may be established for such deferred tax assets and our tax provision may increase in the period in which we make the determination.

## Revenue Recognition

Revenue is recognized upon shipment, provided persuasive evidence of a contract exists, the price is fixed, the product meets our customer's specifications, title and ownership have transferred to the customer, and there is reasonable assurance of collection of the sales proceeds. The majority of our products have shipping terms that are



free on board or free carrier alongside (FCA) shipping point, which means that we fulfill our delivery obligation when the goods are handed over to the freight carrier at our shipping dock. This means the buyer typically bears all costs and risks of loss or damage to the goods from that point. In certain cases, we ship our products cost insurance and freight. Under this arrangement, revenue is recognized under FCA shipping point terms, but we pay (and invoice the customer) for the cost of shipping and insurance to the customer's designated location. We account for shipping and related transportation costs by recording the charges that are invoiced to customers as revenue, with the corresponding cost recorded as cost of revenue. In those instances where inventory is maintained at a consigned location, revenue is recognized only when our customer pulls product for use and after title and ownership has transferred to the customer. Revenue from time and material contracts is recognized at contractual rates as labor hours and direct expenses are incurred. Any warranty cost and remaining obligations that are inconsequential or perfunctory are accrued when the corresponding revenue is recognized.

## Table of Contents

Distributors. We use a number of distributors around the world and recognize revenue upon shipment of product to these distributors. Title and risk of loss pass to the distributors upon shipment, and our distributors are contractually obligated to pay us on standard commercial terms, just like our other direct customers. We do not sell to our distributors on consignment and, except in the event of product discontinuance, do not give distributors a right of return.

Solar Panel Contracts. Pursuant to ASC 605-35, Revenue Recognition - Construction-Type and Production, we record revenue on long-term solar panel contracts using either the percentage-of-completion method or the completed contract method. In general, the performance of these types of contracts involves the design, development, and manufacture of complex aerospace or electronic equipment to our customer's specifications. The percentage-of-completion method is used in circumstances in which all the following conditions exist:

• the contract includes enforceable rights regarding goods or services to be provided to the customer, the consideration to be exchanged, and the manner and terms of settlement;

• both the Company and the customer are expected to satisfy all of the contractual obligations; and,

• reasonably reliable estimates of total revenue, total cost, and the progress towards completion can be made.

The percentage-of-completion method recognizes estimates for contract revenue and costs in progress as work on the contract continues. Estimates are revised as additional information becomes available. If estimates of costs to complete a contract indicate a loss, a provision is made at that time for the total loss anticipated on the contract.

We use the completed contract method if reasonably dependable estimates cannot be made or for which inherent hazards make estimates doubtful. Under the completed contract method, contract revenue and costs in progress are deferred as work on the contract continues. If a loss becomes evident on the contract, a provision is made at that time for the total loss anticipated on the contract. Total contract revenue and related costs are recognized upon the completion of the contract.

Government Research and Development Contracts. Revenue from research and development contracts represents reimbursement by various U.S. government entities, or their contractors, to aid in the development of new technology. The applicable contracts generally provide that we may elect to retain ownership of inventions made in performing the work, subject to a non-exclusive license retained by the U.S. government to practice the inventions for governmental purposes. The research and development contract funding may be based on a cost-plus, cost reimbursement, or a firm fixed price arrangement. The amount of funding under each research and development contract is determined based on cost estimates that include both direct and indirect costs. Cost-plus funding is determined based on actual costs plus a set margin. As we incur costs under cost reimbursement type contracts, revenue is recorded. Contract costs include material, labor, special tooling and test equipment, subcontracting costs, as well as an allocation of indirect costs. A research and development contract is considered complete when all significant costs have been incurred, milestones have been reached, and any reporting obligations to the customer have been met. These contracts may be modified or terminated at the convenience of the U.S. government and may be subject to governmental budgetary fluctuations.

We also participate in cost-sharing research and development arrangements. Under such arrangements in which the actual costs of performance are split between the U.S. government and us on a best efforts basis, no revenue is recorded and our research and development expense is reduced for the amount of the cost-sharing receipts.

Multiple-Element Arrangements. Contracts with our customers usually relate to either the delivery of product or the completion of technology or engineering research and development contracts. In a very limited number of cases, a research contract may involve the creation and delivery of a customer-designed product sample based upon the

research and development efforts completed. Pursuant to ASC 605-25-25-5, Revenue Recognition - Multiple-Element Arrangements, we have concluded that product revenue should not be considered a unit of accounting separate from the service revenue for these types of research contracts.

Contract Manufacturers. In our Fiber Optics segment, prior to certain customers accepting product that is manufactured at one of our contract manufacturers, these customers require that they first qualify the product and manufacturing processes at our contract manufacturer. The customers' qualification process determines whether the product manufactured at our contract manufacturer achieves their quality, performance, and reliability standards. After a customer completes the initial qualification process, we receive approval to ship qualified product to that

## Table of Contents

customer. As part of the manufacturing process at our contract manufacturers, the finished product is tested prior to shipment to the customer using the same criteria that our customer uses to test product it receives. Revenue is recognized upon shipment of customer-qualified product, provided persuasive evidence of a contract exists, the price is fixed, the product meets our customer's specifications, title and ownership have transferred to the customer, and there is reasonable assurance of collection of the sales proceeds.

### Product Warranty Reserves

We provide our customers with limited rights of return for non-conforming shipments and warranty claims for certain products. Pursuant to ASC 450, Contingencies, we make estimates of product warranty expense using historical experience rates as a percentage of revenue and/or costs of revenue and accrue estimated warranty expense as a cost of revenue. We estimate the costs of our warranty obligations based on historical experience of known product failure rates and anticipated rates if warranty claims, use of materials to repair or replace defective products, and service delivery costs incurred in correcting product issues. In addition, from time to time, specific warranty accruals may be made if unforeseen technical problems arise. Should our actual experience relative to these factors differ from our estimates, we may be required to record additional warranty reserves. Alternatively, if we provide more reserves than needed, we may reverse a portion of such provisions in future periods. See Note 10 - Accrued Expenses and Other Current Liabilities in the notes to the consolidated financial statements for additional disclosures related to our product warranty reserves.

### Stock-Based Compensation

Stock-based compensation expense is measured at the stock option grant date, based on the fair value of the award, and is recorded to cost of sales, sales, general, and administrative, and research and development expense based on an employee's responsibility and function over the requisite service period. We use the Black-Scholes option-pricing model and the straight-line attribution approach to determine the fair value of stock-based awards in accordance with ASC 718, Compensation. This option-pricing model requires the input of subjective assumptions, including the option's expected life, the price volatility of the underlying stock, and expected forfeitures. Expected term represents the period that stock-based awards are expected to be outstanding and is determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior as influenced by changes to the terms of its stock-based awards. The expected stock price volatility is based on our historical stock prices. We are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest. If we use different assumptions for estimating stock-based compensation expense in future periods or if actual forfeitures differ materially from our estimated forfeitures, the change in our non-cash stock-based compensation expense could adversely affect our results of operations. See Note 15 - Equity in the notes to the consolidated financial statements for additional disclosures related to our stock-based compensation.

### Litigation Contingencies

We are subject to various legal proceedings, claims, and litigation, either asserted or unasserted that arise in the ordinary course of business. While the outcome of these matters is currently not determinable, we do not expect the resolution of these matters will have a material adverse effect on our business, financial position, results of operations, or cash flows. However, 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. See Note 14 - Commitments and Contingencies in the notes to our consolidated financial statements for disclosures related to our legal proceedings.

## Table of Contents

### Warrant Valuation

As of September 30, 2014 and 2013, warrants representing 400,001 shares, of our common stock were outstanding. All of our warrants are classified as a liability since the warrants meet the classification requirements for liability accounting pursuant to ASC 815, Derivatives and Hedging. Each quarter, we expect an impact on our statement of operations when we record the change in fair value of our outstanding warrants using the Monte Carlo option valuation model. The Monte Carlo option valuation model is used since it allows the valuation of each warrant to factor in the value associated with our right to affect a mandatory exercise of each warrant. The valuation model requires the input of highly subjective assumptions, including the warrant's expected life and the price volatility of the underlying stock. The change in the fair value of the warrants is primarily due to the change in the closing price of our common stock. See Note 4 - Fair Value Accounting in the notes to the consolidated financial statements for additional disclosures related to our valuation of our outstanding warrants.

### Asset Retirement Obligations

Pursuant to ASC 410, Asset Retirement and Environmental Obligations, an asset retirement obligation is recorded when there is a legal obligation associated with the retirement of a tangible long-lived asset and the fair value of the liability can reasonably be estimated. Upon initial recognition of an asset retirement obligation, a company increases the carrying amount of the long-lived asset by the same amount as the liability. Over time, the liabilities are accreted for the change in their present value through charges to operations costs. The initial capitalized costs are depleted over the useful lives of the related assets through charges to depreciation, depletion, and/or amortization. If the fair value of the estimated asset retirement obligation changes, an adjustment is recorded to both the asset retirement obligation and the asset retirement cost. Revisions in estimated liabilities can result from revisions of estimated inflation rates, escalating retirement costs, and changes in the estimated timing of settling asset retirement obligations.

We have known conditional asset retirement conditions, such as certain asset decommissioning and restoration of rented facilities to be performed in the future. During the fiscal year ended September 30, 2011, we completed a review of our asset retirement and environmental obligations and we recorded an asset retirement obligation with an offset to fixed assets totaling \$4.8 million. The balance of the asset retirement obligation as of September 30, 2014 is \$5.3 million. See Note 14 - Commitments and Contingencies in the notes to the consolidated financial statements for additional disclosures related to our asset retirement obligations.

### Insurance Recoveries

Insurance recoveries related to impairment losses previously recorded and other recoverable expenses will be recognized up to the amount of our related loss or expense in the period that recoveries become realizable. Insurance recoveries under business interruption coverage and insurance gains in excess of amounts previously written off related to impaired inventory and equipment or in excess of other recoverable expenses previously recognized will be recognized when they become realizable and all contingencies have been resolved. The evaluation of insurance recoveries requires estimates and judgments about future results which affect reported amounts and certain disclosures. Actual results could differ from those estimates. As of September 30, 2014 and 2013, we have not recorded any estimated amounts relating to potential future insurance recoveries in our consolidated statement of operations.

\*\*\*

The above listing is not intended to be a comprehensive list of all of our accounting policies. In many cases, U.S. GAAP specifically dictates the accounting treatment of a particular transaction. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result. For a complete discussion of our accounting policies, recently adopted accounting pronouncements, and other required U.S. GAAP disclosures, we refer you to the accompanying footnotes to our consolidated financial statements in this Annual Report.

Table of Contents

## Results of Operations

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

	For the Fiscal Years Ended September 30,				
	2014	2013	2012		
Revenue	100.0	% 100.0	% 100.0		%
Cost of revenue	81.3	83.2	89.1		
Gross profit	18.7	16.8	10.9		
Operating expense (income):					
Selling, general, and administrative	18.8	16.3	21.3		
Research and development	10.9	11.9	13.6		
Impairment	—	—	0.9		
Litigation settlements, net	—	—	0.6		
Flood-related loss	—	—	3.4		
Flood-related insurance proceeds	—	(11.3	) (5.5	)	)
Gain on sale of assets	(0.1	) (0.2	) (1.7	)	)
Total operating expense	29.6	16.7	32.6		
Operating (loss) income	(10.9	) 0.1	(21.7	)	)
Other income (expense):					
Interest expense, net	(0.3	) (0.5	) (0.4	)	)
Foreign exchange gain	—	0.2	—		
Loss from equity method investment	—	—	(0.8	)	)
Gain on sale of investment	0.2	—	—		
Gain on sale of equity method investment	—	2.9	—		
Change in fair value of financial instruments	—	0.3	—		
Total other (expense) income	(0.1	) 2.9	(1.2	)	)
(Loss) income before income tax expense	(11.0	) 3.0	(22.9	)	)
Income tax benefit (expense)	13.8	(0.1	) (1.0	)	)
Net income (loss)	2.8	% 2.9	% (23.9	)%	)%



Table of Contents

## Comparison of financial results:

## Revenue:

(in thousands, except percentages)	For the Fiscal Years Ended			Fiscal 2014 vs Fiscal		Fiscal 2013 vs Fiscal	
	September 30, 2014	2013	2012	\$ Change	% Change	\$ Change	% Change
Fiber Optics revenue	\$101,552	\$96,977	\$96,153	\$4,575	4.7%	\$824	0.9%
Photovoltaics revenue	73,226	71,170	67,628	2,056	2.9%	3,542	5.2%
Total revenue	\$174,778	\$168,147	\$163,781	\$6,631	3.9%	\$4,366	2.7%

## Fiber Optics Revenue:

Our Fiber Optics reporting segment provides optical components, subsystems, and systems for high-speed telecommunications, CATV, and FTTP networks, as well as products for satellite communications, video transport, and specialty photonics technologies for defense and homeland security applications. Our Fiber Optics segment is broken out into two distinct product lines:

- Broadband products, which includes cable television products, fiber-to-the-premises products, satellite communication products, video transport products, and defense and homeland security products; and,

• Digital products, which include telecom optical products.

## Broadband product revenue:

For the fiscal year ended September 30, 2014, revenue from broadband products decreased 9.0% from the prior year, which was primarily driven by lower sales of our CATV products due to lower customer demand. Sales of our CATV products, which include our quadrature amplitude modulation (QAM) transmitters and receivers, represented the second largest percentage of our total fiber optics-related revenue.

For the fiscal year ended September 30, 2013, revenue from broadband products increased 2.0% from the prior year which was primarily driven by increased unit shipments of our CATV-related products primarily due to the impact of the Thailand flood in 2011 that adversely impacted our revenues in 2012. Sales of our CATV products, which include our (QAM) transmitters and receivers, represent the second largest percentage of our total fiber optics-related revenue.

## Digital product revenue:

For the fiscal year ended September 30, 2014, revenue from digital products increased 27.9% from the prior year which was primarily driven by higher sales of our integrated tunable laser assemblies (ITLAs) due to increased customer demand. Our telecom optical-related product line, which includes tunable XFP, and ITLAs, represented the largest percentage of our total fiber optics-related revenue.

For the fiscal year ended September 30, 2013, revenue from digital products decreased 1.0% from the prior year which was primarily due to the sale of our enterprise digital product lines in 2012. Our telecom optical-related product line, which includes tunable XFP, and integrated tunable laser assemblies (ITLAs), represent the largest percentage of

our total fiber optics-related revenue.

Our Fiber Optics segment accounted for 58%, 58% and 59% of our consolidated revenue for the fiscal years ended September 30, 2014, 2013 and 2012 respectively.

Table of Contents

## Photovoltaics Revenue:

Our Photovoltaics reporting segment provides products for both space and terrestrial solar power applications. For space solar power applications, we offer high-efficiency multi-junction solar cells, covered interconnect cells (CICs), and complete satellite solar panels. For terrestrial power applications, we offer high-efficiency multi-junction solar cells for concentrating photovoltaic (CPV) power systems.

For the fiscal year ended September 30, 2014, revenue from photovoltaics increased approximately 3% from the prior year primarily due to higher revenues from our space cell products as a result of new contracts with existing customers. Sales of our satellite solar cells, CICs and panel products represented the largest percentage of our total photovoltaics-related revenue during this period. Historically, our Photovoltaics revenue has fluctuated significantly due to the timing of program completions and product shipments of major orders.

For the fiscal year ended September 30, 2013, revenue from photovoltaics increased approximately 5% from the prior year primarily due to higher revenues from our space and terrestrial cell products. Sales of our satellite solar cells, CICs and panel products represent the largest percentage of our total photovoltaics-related revenue. Historically, our Photovoltaics revenue has fluctuated significantly due to the timing of program completions and product shipments of major orders.

Our Photovoltaics segment accounted for 42%, 42% and 41% of our consolidated revenue for the fiscal years ended September 30, 2014, 2013 and 2012, respectively.

## Gross Profit:

(in thousands, except percentages)	For the Fiscal Years Ended September 30,			Fiscal 2014 vs Fiscal 2013		Fiscal 2013 vs Fiscal 2012	
	2014	2013	2012	\$ Change	% Change	\$ Change	% Change
Fiber Optics gross profit	\$11,765	\$9,835	\$4,322	\$1,930	19.6%	\$5,513	127.6%
Photovoltaics gross profit	20,909	18,363	13,504	2,546	13.9%	4,859	36.0%
Total gross profit	\$32,674	\$28,198	\$17,826	\$4,476	15.9%	\$10,372	58.2%

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, has fluctuated largely due to inventory and specific product warranty charges. Our gross margins are also affected by product mix, manufacturing yields and volumes, and timing related to the completion of long-term contracts.

Consolidated gross margins were 18.7%, 16.8% and 10.9% for fiscal years ended September 30, 2014, 2013 and 2012 respectively.

Stock-based compensation expense within cost of revenue totaled approximately \$0.9 million, \$1.1 million and \$1.6 million during the fiscal years ended September 30, 2014, 2013 and 2012 respectively.

## Fiber Optics Gross Profit:

Fiber Optics gross margin was 11.6%, 10.1% and 4.5% for the fiscal years ended September 30, 2014, 2013 and 2012, respectively.

Inventory excess and obsolescence expense totaled approximately \$3.8 million, \$1.9 million and \$5.7 million during the fiscal years ended September 30, 2014, 2013 and 2012, respectively. The inventory excess and obsolescence expense for the fiscal years ended September 30, 2014 and September 30, 2013 was primarily related to our digital product lines.

For the fiscal year ended September 30, 2014, gross margins increased from our broadband and digital product lines when compared to the same period during the prior year due to higher sales volume and products with higher gross margins.

Table of Contents

For the fiscal year ended September 30, 2013, gross margins increased from both our broadband and digital product lines when compared to the prior year. The increase in gross margins is primarily due to lower costs incurred in the current fiscal year from lower excess and obsolescence expenses and lower costs in the manufacturing of our products as more of our products were produced in lower cost areas.

**Photovoltaics Gross Profit:**

Photovoltaics gross margin was 28.6%, 25.8% and 20.0% for the fiscal years ended September 30, 2014 and 2013 and 2012 respectively. The increase in gross margin for the fiscal year ended September 30, 2014 compared to prior year is primarily due to a increase in sales of our higher margin space solar products in 2014. Additionally, included in gross margin for the fiscal year ended September 30, 2014 is \$0.8 million of license technology revenue received from Suncore. See Note 17 - Suncore Joint Venture for additional disclosures related to the Suncore revenues.

For the fiscal year ended September 30, 2013, the increase in gross margin compared to the prior year is primarily due to higher revenues and the elimination of lower margin terrestrial system product lines that were sold to Suncore in September 2012.

**Selling, General and Administrative (SG&A):**

(in thousands, except percentages)	For the Fiscal Years Ended			Fiscal 2014 vs Fiscal		Fiscal 2013 vs 2012	
	September 30,			2013			
	2014	2013	2012	\$ Change	% Change	\$ Change	% Change
SG&A expense	\$32,785	\$27,419	\$34,861	\$5,366	19.6%	\$(7,442)	(21.3)%

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, amortization expense on intangible assets, legal and patent-related costs, and other corporate-related expenses.

Stock-based compensation expense within SG&A totaled approximately \$2.4 million, \$1.8 million and \$3.9 million during the fiscal years ended September 30, 2014, 2013 and 2012, respectively.

The increase in SG&A expense for the fiscal year ended September 30, 2014 when compared to the prior year was primarily attributable to transaction costs and additional legal fees of \$3.2 million associated with the sales of the Photovoltaics and Digital Products Businesses and higher severance related costs of \$1.3 million primarily associated with Mr. Larocca's and Dr. Hou's resignations.

The decrease in SG&A expense for the fiscal year ended September 30, 2013 when compared to the prior year was attributable to cost reduction measures implemented which include lower compensation related expenses, the sale of our vertical cavity surface emitting lasers (VCSEL)-based and enterprise-related product lines in May 2012 and the sale of the terrestrial system product lines in September 2012.

As a percentage of revenue, SG&A expenses were 18.8%, 16.3% and 21.3% for the fiscal years ended September 30, 2014, 2013 and 2012, respectively.



Table of Contents

## Research and Development (R&amp;D):

(in thousands, except percentages)	For the Fiscal Years Ended			Fiscal 2014 vs 2013		Fiscal 2013 vs Fiscal 2012	
	September 30, 2014	September 30, 2013	September 30, 2012	\$ Change	% Change	\$ Change	% Change
R&D expense	\$19,097	\$19,972	\$22,338	\$(875)	(4.4)%	\$(2,366)	(10.6)%

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 \$1.2 million, \$1.3 million and \$2.3 million during the fiscal years ended September 30, 2014, 2013 and 2012, respectively.

R&D expense for the fiscal year ended September 30, 2014 is consistent with the amount reported in the same periods during the prior year.

The decrease in R&D expense for the fiscal year ended September 30, 2013 when compared to the prior year was due to the sale of our vertical cavity surface emitting lasers (VCSEL)-based and enterprise-related product lines in May 2012 and the sale of the terrestrial system product lines in September 2012.

As a percentage of revenue, R&D expenses were 10.9% and 11.9% and 13.6% for the fiscal years ended September 30, 2014, 2013 and 2012, respectively.

## Other Operating (Income) Expense:

(in thousands, except percentages)	For the Fiscal Years Ended			Fiscal 2014 vs Fiscal 2013		Fiscal 2013 vs Fiscal 2012	
	September 30, 2014	September 30, 2013	September 30, 2012	\$ Change	% Change	\$ Change	% Change
Impairment	\$—	\$—	\$1,425	\$—	N/A	\$(1,425)	(100.0)%
Litigation settlements, net	\$—	\$—	\$1,050	\$—	N/A	\$(1,050)	(100.0)%
Flood-related loss	\$—	\$—	\$5,519	\$—	N/A	\$(5,519)	(100.0)%
Flood-related insurance proceeds	\$—	\$(19,000)	\$(9,000)	\$19,000	100.0%	\$(10,000)	(111.1)%
Gain on sale of assets	\$(100)	\$(413)	\$(2,742)	\$313	75.8%	\$2,329	84.9%

## Impairment:

As of June 30, 2012, we performed an evaluation of an asset group within our Photovoltaics segment for impairment of long-lived assets. The impairment test was triggered by a determination that it was more likely than not those assets would be sold or otherwise disposed of before the end of their previously estimated useful lives. As a result of the evaluation, we determined that impairment existed and a charge of \$1.4 million was recorded to write down the long-lived assets to an estimated fair value. Of the total impairment charge, \$1.1 million related to equipment and \$0.3 million related to intangible assets.

## Litigation Settlements, net:

In May 2012, we reached a confidential settlement regarding certain litigation in exchange for a release of all related claims. The settlement resulted in a charge of \$1.0 million in our statement of operations and comprehensive loss and was paid during the three months ended June 30, 2012.



Table of Contents

## Flood-related Loss:

During the fiscal year 2012, we recorded estimated flood-related losses associated with damaged inventory and equipment of approximately \$3.7 million and \$1.8 million, respectively.

## Flood-related Insurance Proceeds:

During the fiscal year ended September 30, 2013 we received flood-related insurance proceeds of \$19.0 million in the form of cash of \$8.2 million, forgiveness of \$5.6 million of outstanding capital lease obligations and \$5.2 million of outstanding payables from our contract manufacturer. Flood-related insurance proceeds related to inventory and equipment destroyed by the Thailand flood are recognized when they become realized. We were not a named beneficiary of our contract manufacturer's insurance policy. No additional business interruption insurance proceeds associated with this event are anticipated. See Note 11 - Impact from Thailand Flood in the notes to the consolidated financial statements for additional disclosures related to the impact of the Thailand flood on our operations.

We claimed damages and received proceeds of \$5.0 million under our own comprehensive insurance policy relating to business interruption and we recorded this amount as flood-related insurance proceeds during the three months ended December 31, 2011. In September 2012, we received flood recoveries of \$4.0 million from our contract manufacturer.

## Gain on sale of assets

On March 27, 2012, we entered into a Master Purchase Agreement with a subsidiary of Sumitomo Electric Industries, LTD (SEI), pursuant to which we agreed to sell certain assets and transfer certain obligations associated with our Fiber Optics segment. On May 7, 2012, we completed the sale of these assets to SEI and recorded a gain of approximately \$2.8 million.

See Note 1 - Description of Business in the notes to the consolidated financial statements for additional disclosures related to this asset sale.

## Operating (Loss) Income:

(in thousands, except percentages)	For the Fiscal Years Ended			Fiscal 2014 vs Fiscal		Fiscal 2013 vs Fiscal	
	2014	2013	2012	\$ Change	% Change	\$ Change	% Change
Fiber Optics operating loss	\$(25,400)	\$(8,382)	\$(26,684)	\$(17,018)	203.0%	\$18,302	68.6%
Photovoltaics operating income	6,292	8,602	(8,941)	(2,310)	(26.9)%	17,543	196.2%
Total operating (loss) income	\$(19,108)	\$220	\$(35,625)	\$(19,328)	(8,785.5)%	\$35,845	100.6%

Operating (loss) income represents revenue less the cost of revenue and direct operating expenses incurred within the operating segments as well as allocated expenses such as shared service departments and gains on sale of unconsolidated affiliates. 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 (10.9)%, 0.1% and (21.7)% for the fiscal years ended September 30, 2014, 2013 and 2012, respectively. The change in the Fiber Optics operating loss for the fiscal year ended September 30, 2014 compared to the same period in 2013 is primarily due to the \$19.0 million of insurance proceeds received in 2013.

Included in our operating income for the fiscal years ended September 30, 2014 and 2013 were \$0.8 million and \$1.8 million, respectively of New Mexico incentive tax credits received. The amount received was allocated to cost of goods sold, selling, general and administrative and research and development expense primarily based on the number of employees allocated to the related departments. There were no significant incentive tax credits received during the

fiscal years ended September 30, 2012.

57

---

Table of Contents

## Other (Expense) Income:

(in thousands, except percentages)	For the Fiscal Years Ended September 30,			Fiscal 2014 vs Fiscal 2013		Fiscal 2013 vs Fiscal 2012	
	2014	2013	2012	\$ Change	% Change	\$ Change	% Change
Interest expense, net	\$(522)	\$(800)	\$(677)	\$278	34.8%	(123)	(18.2)%
Foreign exchange gain	10	356	45	(346)	(97.2)%	311	691.1%
Loss from equity method investment	—	—	(1,201)	—	N/A	1,201	100.0%
Gain on sale of investment	307	—	—	307	N/A	—	N/A
Gain on sale of equity method investment	—	4,800	—	(4,800)	(100.0)%	4,800	N/A
Change in fair value of financial instruments	34	515	(69)	(481)	(93.4)%	584	846.4%
Other income	51	17	—	34	200.0%	17	N/A
Total other (expense) income	\$(120)	\$4,888	\$(1,902)	\$(5,008)	(102.5)%	\$6,790	357.0%

## Foreign Exchange

We recognize gains and losses due to the effect of exchange rate changes on foreign currency primarily due to our operations in Spain, the Netherlands, and 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 (loss) 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 loss. A majority of the gain or losses recorded relates to the change in value of the euro and yuan renminbi relative to the U.S. dollar.

## Loss from Equity Method Investment

We entered into a joint venture agreement in fiscal 2010 with San'an Optoelectronics Co., Ltd. (San'an) for the purpose of engaging in the development, manufacturing, and distribution of CPV receivers, modules, and systems for terrestrial solar power applications under a technology license from us. The joint venture, Suncore Photovoltaic Technology Co., Ltd. (Suncore) was established in January 2011. We accounted for our investment in Suncore using the equity method of accounting. Pursuant to the joint venture agreement, San'an and EMCORE shared the profits, losses, and risks of Suncore in proportion to and, in the event of losses, to the extent of their respective contributions to the registered capital of Suncore. Pursuant to ASC 323-10, Investments—Equity Method and Joint Ventures – Overall, we stopped recording our proportionate share of Suncore's loss after our investment declined to a zero value since we had no obligation or intent to fund the deficit balance.

## Gain on Sale of Investment

During the fiscal year ended September 30, 2014, we sold our investment in a company that had a net book value of \$0 at September 30, 2013, for \$0.3 million.

## Gain on Sale of Equity Method Investment

In June 2013, we entered into an agreement to transfer our 40% registered ownership interest in Suncore to San'an Optoelectronics for a purchase price of \$4.8 million. The payment for the purchase price was made upon the completion of the share transfer, which occurred during the fourth quarter of fiscal 2013. Following the completion of the transfer of our registered ownership interest in the fourth quarter of fiscal 2013, San'an owned 100% of the equity interest in Suncore. In addition, upon completion of the transfer of our registered ownership interest, the Company

recognized \$3.3 million of deferred revenue from Suncore included in the financial statements as of June 30, 2013, as well as the resulting gain of \$4.8 million on our registered ownership interest in the fourth quarter of fiscal year 2013.

Table of Contents

## Change in Fair Value of Financial Instruments

As of September 30, 2014 and September 30, 2013, warrants representing the right to purchase 400,001 shares of our common stock were outstanding.

All of our warrants meet the classification requirements for liability accounting pursuant to ASC 815, Derivatives and Hedging. Each quarter, we expect an impact on our statement of operations and comprehensive (loss) income when we record the change in fair value of our outstanding warrants using the Monte Carlo option valuation model. The Monte Carlo option valuation model is used since it allows the valuation of each warrant to factor in the value associated with our right to affect a mandatory exercise of each warrant. The valuation model requires the input of subjective assumptions, including the warrant's expected life and the price volatility of the underlying stock. The change in the fair value of our warrants has been primarily due to the change in the closing price of our common stock. See Note 4 - Fair Value Accounting in the notes to the consolidated financial statements for additional information related to our valuation of our outstanding warrants.

## Income Tax Benefit (Expense):

(in thousands, except percentages)	For the Fiscal Years ended			Fiscal 2014 vs Fiscal		Fiscal 2013 vs Fiscal	
	September 30, 2014	2013	2012	\$ Change	% Change	\$ Change	% Change
Income tax benefit (expense)	\$24,080	\$(120)	\$(1,644)	\$24,200	20,166.7%	\$1,524	92.7%

During fiscal 2014, the Company determined that it was more likely than not that certain deferred tax assets would be realized upon the closing of the sale of the Photovoltaics Business after evaluating all positive and negative evidence. Prior to fiscal 2014, because of significant negative evidence including the Company's lack of historical profitability on a continuing basis in future years, the Company determined that it was more likely than not that the deferred tax assets would not be realized. However, with the completed sale of the Photovoltaics Business, the Company will realize a gain on the sale that will result in realization of a portion of our deferred tax asset. Upon considering the relative impact of all evidence, both negative and positive, and the weight accorded to each, the Company concluded that it was more likely than not that certain deferred tax assets would be realized and that the applicable valuation allowance should be released as of September 30, 2014.

The Company recorded a net deferred tax valuation allowance release of \$24.1 million as an income tax benefit during fiscal year 2014. We expect that substantially all of the \$24.1 million in deferred tax assets will be used in fiscal year 2015 when income tax expense is recorded as a result of closing the sale of the Photovoltaics Business on December 10, 2014, thus resulting in no cash received for the deferred tax assets. The Company believes its forecast of future taxable income is reasonable; however, it is inherently uncertain. The deferred tax valuation allowance is based primarily on estimates related to the taxable gains and losses on the sales of the Photovoltaics Business and Digital Products Business as well as estimates related to future taxable income. To the extent these estimates may change, it could have a significant effect on future income tax benefit or expense.

During the fiscal year ended September 30, 2012, as part of an equity recapitalization at our former Suncore joint venture we received a deemed capital distribution of \$14.8 million. The deemed capital distribution was subject to a 10% foreign withholding tax. As a result, we were subject to a \$1.6 million foreign tax expense and Suncore made a cash dividend for an equal amount. The foreign tax expense was treated as a tax credit for U.S. tax purposes.

For the fiscal years ended September 30, 2014, 2013 and 2012, the Company recorded income tax (benefit) expense of approximately \$(24.1) million, \$0.1 million and \$1.6 million, respectively. Also see Note 13 - Income and other Taxes in the consolidated financial statements for additional information.

Table of Contents

## Net Income (Loss):

(in thousands, except percentages)	For the Fiscal Years ended			Fiscal 2014 vs Fiscal		Fiscal 2013 vs Fiscal	
	September 30, 2014	2013	2012	\$ Change	% Change	\$ Change	% Change
Net income (loss)	\$4,852	\$4,988	\$(39,171)	\$(136)	(2.7)%	\$44,159	112.7%

Net income per basic and diluted share was \$0.16 and \$0.19 for the fiscal years ended September 30, 2014 and 2013, respectively. Net loss per basic and diluted share was \$1.66 for the fiscal year ended September 30, 2012.

## Order Backlog:

As of September 30, 2014, order backlog for our Photovoltaics segment totaled \$71.2 million, an increase of 25% from \$57.1 million reported as of September 30, 2013 primarily due to two customer orders. Order backlog is defined as purchase orders or supply agreements accepted by us and deferred revenue with expected product delivery and/or services to be performed within the next twelve months. From time to time, our customers may request that we delay shipment of certain orders and our order backlog could also be adversely affected if our customers unexpectedly cancel purchase orders that we have previously accepted.

Product sales from our Fiber Optics segment 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. Fiber optics 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.

## Liquidity and Capital Resources

Historically, we have consumed cash from operations and incurred significant net losses. We have managed our liquidity position through a series of cost reduction initiatives, borrowings from our credit facility, capital markets transactions, and the sale of assets.

As of September 30, 2014, cash and cash equivalents totaled \$20.7 million and net working capital totaled approximately \$30.9 million. Net working capital, calculated as current assets minus current liabilities, is a financial metric we use which represents available operating liquidity. For the fiscal year ended September 30, 2014, we earned net income of \$4.9 million. Net cash provided from operating activities for the fiscal year ended September 30, 2014 totaled \$1.0 million.

## With respect to measures taken to improve liquidity:

**Sale of Photovoltaics Business:** On December 10, 2014, we completed the sale of our Photovoltaics Business for \$150.0 million in cash, proceeds that are not reflected in the cash balances at September 30, 2014 above. These proceeds will provide us with working capital for fiscal year 2015 and beyond.

**Credit Facility:** On November 11, 2010, we entered into a Credit and Security Agreement (credit facility) with Wells Fargo Bank, National Association ("Wells Fargo"). The credit facility, as it has been amended through its sixth amendment, currently provides us with a revolving credit of up to \$15.0 million through November 2015 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.

On December 3, 2014, we entered into a Sixth Amendment to the credit facility, pursuant to which Wells Fargo agrees, to automatically release all encumbrances covering certain of the Company's assets to be sold pursuant to the Photovoltaics Agreement and the Digital Products Agreement. In addition, on December 10, 2014, upon notice to Wells Fargo of the closing of the transaction contemplated by the Photovoltaics Agreement, the maximum borrowing allowed under the credit facility was reduced from \$35.0 million to \$15.0 million, and certain other changes to the borrowing base calculations went into effect.



Table of Contents

As of September 30, 2014, we had a \$26.5 million LIBOR rate loan outstanding under our credit facility, with an interest rate of 3.3%. As of September 30, 2014, the credit facility also had \$1.9 million reserved for six outstanding stand-by letters of credit, leaving a remaining \$2.5 million borrowing availability balance under this credit facility. As of December 10, 2014, there was no outstanding balance under this credit facility. We now expect at least 50% of the \$15.0 million credit facility to be available for use during fiscal year 2015. See [Note 12 - Credit Facilities](#) for additional disclosures related to the credit facilities.

Stock Sales: During August 2012, we filed a shelf registration statement on Form S-3 with the SEC pursuant to which we may, from time to time, sell up to an aggregate of \$50 million of our common or preferred stock, warrants or debt securities. On August 23, 2012, the registration statement was declared effective by the SEC, which will allow us to access the capital markets for the three year period following this effective date as long as we continue to meet the eligibility requirements for the use of Form S-3. On October 3, 2012, we sold 1,832,410 shares of common stock for net proceeds of \$9.5 million. In addition, on September 18, 2013, we sold 2,875,000 shares of common stock for net proceeds of \$11.7 million, which was the second stock sale completed under the above referenced shelf registration.

We believe that our existing balances of cash and cash equivalents, the sale proceeds from the sale of the Photovoltaics Business 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 the next twelve months.

However, in the event of unforeseen circumstances, unfavorable market or economic developments, unfavorable results from operations, material claims made under the indemnification provisions of our Master Purchase Agreement with SEI in excess of amounts held in escrow, or if Wells Fargo declares an event of default on the credit facility, we may have to raise additional funds or reduce expenditures by any one or a combination of the following: issuing equity, debt or convertible debt, selling certain product lines and/or portions of our business, furloughs, or reduction of discretionary spending. There can be no assurance that we will be able to raise additional funds on terms acceptable to us, or at all. A significant contraction in the capital markets, particularly in the technology sector, or adverse developments in our business may make it difficult for us to raise additional capital if or when it is required, especially if we experience negative operating results. If adequate capital is not available to us as required, or is not available on favorable terms, our business, financial condition, results of operations, and cash flows may be adversely affected.

## Cash Flow:

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

Operating Activities (in thousands, except percentages)	For the Fiscal Years Ended September 30,			Fiscal 2014 vs Fiscal 2013		Fiscal 2013 vs Fiscal 2012	
	2014	2013	2012	\$ Change	% Change	\$ Change	% Change
Net cash provided by (used in) operating activities	\$1,001	\$(22,105)	\$(15,002)	\$23,106	104.5%	\$(7,103)	(47.3)%

## Fiscal 2014:

Our operating activities provided cash of \$1.0 million primarily due to our net income of \$4.9 million, changes in our current assets and liabilities (or working capital components) of \$5.0 million, depreciation, amortization and accretion expense of \$8.5 million, stock-based compensation expense of \$4.4 million, warranty provision of \$2.1 million, losses

on inventory purchase commitments of \$0.3 million and allowance for doubtful accounts of \$0.2 million, partially offset by deferred income taxes of \$24.1 million and the gain on sale of investment of \$0.3 million. The change in our current assets and liabilities was primarily the result of a decrease in inventory of \$5.5 million, other assets of \$2.9 million and an increase in accounts payable of \$3.1 million, partially offset by a decrease in accrued expenses and other liabilities of \$3.1 million and an increase in accounts receivable of \$3.3 million.

Fiscal 2013:

Our operating activities consumed cash of \$22.1 million in fiscal 2013 primarily due to the changes in our current assets and liabilities (or working capital components) of \$21.2 million, non-cash insurance proceeds of \$16.1 million and the reclassification of the gain on sale of equity method investment of \$4.8 million to investing activities partially offset by our net income of \$5.0 million, depreciation, amortization and accretion expense of \$8.7 million, stock-based compensation expense of \$4.2 million and warranty provision of \$2.9 million. The change in our current assets and liabilities was primarily the result of a decrease in accounts payable of \$14.0 million, a decrease in accrued expenses and other current liabilities of \$9.6 million, and an increase in accounts receivable of \$5.0 million, partially offset by a decrease in inventory of \$2.0 million and other assets of \$5.4 million. The decrease in accounts payable is primarily a result of paying down balances that had increased in prior periods with the proceeds received in the current period from the issuance of common stock and the collection of other current assets.

Table of Contents

## Fiscal 2012:

Our operating activities consumed cash of \$15.0 million in fiscal 2012. Our net loss of \$39.2 million, which included an approximately \$2.7 million gain from the sale of assets and \$2.6 million of insurance proceeds on equipment was partially offset by flood-related losses of approximately \$5.5 million, depreciation, amortization, and accretion expense of \$9.4 million, stock-based compensation expense of approximately \$7.8 million, provision for losses on inventory purchase commitments of \$2.3 million, and losses from our Suncore joint venture totaling \$1.2 million. The change in our current assets and liabilities of \$1.8 million was primarily the result of an increase in accounts payable of approximately \$10.6 million and accrued expenses and other current liabilities of approximately \$6.6 million; largely offset by an increase in inventory of \$9.8 million, other assets of \$3.9 million and accounts receivable of approximately \$1.7 million.

## 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.

**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) provided by Investing Activities

Investing Activities (in thousands, except percentages)	For the Fiscal Years Ended September 30,			Fiscal 2014 vs Fiscal 2013		Fiscal 2013 vs Fiscal 2012	
	2014	2013	2012	\$ Change	% Change	\$ Change	% Change
Net cash (used in) provided by investing activities	\$(3,261	)\$3,829	\$5,274	\$(7,090	) (185.2)%	\$(1,445	) (27.4)%

## Fiscal 2014:

Our investing activities consumed \$3.3 million of cash primarily from capital related expenditures of \$3.0 million, the funding of restricted cash of \$0.7 million, partially offset by cash proceeds of \$0.3 million from the sale of an investment.

## Fiscal 2013:

Our investing activities provided \$3.8 million of cash primarily from the sale of an unconsolidated affiliate of \$4.8 million, flood related insurance proceeds of \$5.4 million, sale of certain assets of \$1.2 million, and cash proceeds of \$0.5 million related to the disposal of equipment partially offset by capital related expenditures of \$7.2 million and the

funding of restricted cash of \$0.7 million.

Fiscal 2012:

Our investing activities provided \$5.3 million of cash primarily due to \$13.1 million received from the sale of assets to a subsidiary of SEI, \$2.6 million of flood-related insurance proceeds from equipment and a net distribution of capital related to our Suncore joint venture of \$1.6 million; largely offset by \$12.2 million related to capital expenditures and \$0.4 million deposits on equipment orders. See Note 1 - Description of Business in the notes to the consolidated financial statements for additional disclosures related to the SEI asset sale.

Table of Contents

## Net Cash Provided By Financing Activities

Financing Activities (in thousands, except percentages)	For the Fiscal Years Ended September 30,			Fiscal 2014 vs Fiscal 2013		Fiscal 2013 vs Fiscal 2012	
	2014	2013	2012	\$ Change	% Change	\$ Change	% Change
Net cash provided by financing activities	\$6,576	\$25,284	\$3,015	\$(18,708)	(74.0)%	\$22,269	738.6%

## Fiscal 2014:

Our financing activities provided cash of \$6.6 million primarily from \$4.8 million of proceeds related to borrowings from our bank credit facility, and \$1.8 million in proceeds from stock plan transactions. See Note 1 - Description of Business in the notes to the consolidated financial statements for information related to borrowings from our bank credit facility.

## Fiscal 2013:

Our financing activities provided \$25.3 million of net cash primarily from proceeds of \$21.2 million from the sale of common stock, \$2.4 million of proceeds related to borrowings from our bank credit facility, and \$1.7 million in proceeds from stock plan transactions. See Note 1 - Description of Business in the notes to the consolidated financial statements for information related to borrowings from our bank credit facility.

## Fiscal 2012:

Our financing activities provided \$3.0 million of net cash primarily from \$1.8 million of proceeds related to borrowings from our bank credit facility and \$1.3 million of proceeds received from our stock plans. See Note 1 - Description of Business in the notes to the consolidated financial statements for information related to borrowings from our bank credit facility.

## Contractual Obligations and Commitments

Our contractual obligations and commitments for the next five fiscal years are summarized in the table below:  
(in thousands)

	Total	For the Fiscal Years Ended September 30,			
		2015	2016 to 2017	2018 to 2019	2020 and later
Purchase obligations	\$43,762	\$28,375	\$7,756	\$1,354	\$6,277
Credit facility	26,518	26,518	—	—	—
Asset retirement obligations	7,579	265	40	4,799	2,475
Operating lease obligations	5,238	1,156	1,548	154	2,380
Total contractual obligations and commitments	\$83,097	\$56,314	\$9,344	\$6,307	\$11,132

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

## 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.



## Table of Contents

### Credit Facility

On November 11, 2010, we entered into a Credit and Security Agreement (credit facility) with Wells Fargo Bank, National Association ("Wells Fargo"). The credit facility, as it has been amended through its sixth amendment, currently provides us with a revolving credit of up to \$15.0 million through November 2015 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.

On December 3, 2014, we entered into a Sixth Amendment to the credit facility, pursuant to which Wells Fargo agrees, to automatically release all encumbrances covering certain of the Company's assets to be sold pursuant to the Photovoltaics Agreement and the Digital Products Agreement. In addition, on December 10, 2014, upon notice to Wells Fargo of the closing of the transaction contemplated by the Photovoltaics Agreement, the maximum borrowing allowed under the credit facility was reduced from \$35.0 million to \$15.0 million, and certain other changes to the borrowing base calculations went into effect.

As of September 30, 2014, we had a \$26.5 million LIBOR rate loan outstanding, with an interest rate of 3.3%. As of September 30, 2014, the credit facility had \$1.9 million reserved under six outstanding standby letters of credit leaving a remaining \$2.5 million borrowing availability balance under this credit facility. As of December 10, 2014, there was no outstanding balance under this credit facility. We now expect at least 50% of the \$15.0 million credit facility to be available for use during fiscal year 2015. See Note 12 - Credit Facilities for additional information related to our bank credit facility.

### Asset Retirement Obligations

We have known conditional asset retirement conditions, such as certain asset decommissioning and restoration of rented facilities to be performed in the future. Our asset retirement obligations include 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 asset retirement obligations. See Note 14 - Commitments and Contingencies in the notes to the consolidated financial statements for additional information related to our asset retirement obligations.

### Operating Leases

Operating leases include non-cancelable terms and exclude renewal option periods, property taxes, insurance and maintenance expenses on leased properties. There are no off-balance sheet arrangements other than our operating leases. See Note 14 - Commitments and Contingencies in the notes to the consolidated financial statements for additional information related to our operating lease obligations.

### Segment Data and Related Information

See Note 16 - Segment Data and Related Information in the notes to the consolidated financial statements for disclosures related to business segment revenue, geographic revenue, significant customers, and operating (loss) income by business segment.

### Recent Accounting Pronouncements

See Note 3 - Recent Accounting Pronouncements in the notes to the consolidated financial statements for disclosures related to recent accounting pronouncements.





Table of Contents

Restructuring Accruals

See Note 10 - Accrued Expenses and Other Current Liabilities in the notes to the consolidated financial statements for disclosures related to our severance and restructuring-related accrual accounts.

65

---

## Table of Contents

### Quantitative and Qualitative Disclosures about Market Risk

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

#### Foreign Currency Exchange Risks

The United States dollar is the functional currency for our consolidated financial statements. The functional currency for our China subsidiary is the yuan renminbi.

We recognize gains and losses due to the effect of exchange rate changes on foreign currency primarily due to our operations in 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 loss. 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 loss. A majority of the gain or losses recorded relates to the change in value of the yuan renminbi relative to the U.S. dollar.

During the normal course of business, we are exposed to market risks associated with fluctuations in foreign currency exchange rates, primarily 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

On November 11, 2010, we entered into a Credit and Security Agreement (credit facility) with Wells Fargo Bank, National Association ("Wells Fargo"). As of September 30, 2014, we had a \$26.5 million LIBOR rate loan outstanding under our credit facility, with an interest rate of 3.3%. As of September 30, 2014, the credit facility also had \$1.9 million reserved for six outstanding stand-by letters of credit, leaving a remaining \$2.5 million borrowing availability balance under this credit facility. As of December 10, 2014, there was no outstanding balance under this credit facility.

The credit facility, as it has been amended through its sixth amendment currently provides us with a revolving credit of up to \$15.0 million through November 2015 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. We now expect at least 50% of the \$15.0 million credit facility to be available for use during fiscal year 2015. See [Note 12 - Credit Facilities](#) for additional information related to our bank credit facility.

Based on the LIBOR rate loans outstanding under our credit facility during fiscal year ended September 30, 2014, a hypothetical 50 basis points increase in interest rates would have resulted in additional interest expense of \$23,000.

#### Inflation Risks

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

#### Credit Market Conditions

Recently, the U.S. and global capital markets have been experiencing 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.

Table of ContentsITEM 8. Financial Statements

## EMCORE CORPORATION

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

For the Fiscal Years Ended September 30, 2014, 2013 and 2012

(in thousands, except net income (loss) per share)

	For the Fiscal Years Ended September 30,		
	2014	2013	2012
Revenue	\$174,778	\$168,147	\$163,781
Cost of revenue	142,104	139,949	145,955
Gross profit	32,674	28,198	17,826
Operating expense (income):			
Selling, general, and administrative	32,785	27,419	34,861
Research and development	19,097	19,972	22,338
Impairment	—	—	1,425
Litigation settlements, net	—	—	1,050
Flood-related loss	—	—	5,519
Flood-related insurance proceeds	—	(19,000)	(9,000)
Gain on sale of assets	(100)	(413)	(2,742)
Total operating expense	51,782	27,978	53,451
Operating (loss) income	(19,108)	) 220	(35,625)
Other income (expense):			
Interest expense, net	(522)	(800)	(677)
Foreign exchange gain	10	356	45
Loss from equity method investment	—	—	(1,201)
Gain on sale of investment	307	—	—
Gain on sale of equity method investment	—	4,800	—
Change in fair value of financial instruments	34	515	(69)
Other income	51	17	—
Total other (expense) income	(120)	) 4,888	(1,902)
(Loss) income before income tax expense	(19,228)	) 5,108	(37,527)
Income tax benefit (expense)	24,080	(120)	(1,644)
Net income (loss)	\$4,852	\$4,988	\$(39,171)
Foreign exchange translation adjustment	214	247	464
Comprehensive income (loss)	\$5,066	\$5,235	\$(38,707)
Per share data:			
Net income (loss) per basic share	\$0.16	\$0.19	\$(1.66)
Net income (loss) per diluted share	\$0.16	\$0.19	\$(1.66)
Weighted-average number of basic shares outstanding	30,453	26,531	23,559
Weighted-average number of diluted shares outstanding	30,777	26,812	23,559

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

Table of Contents

## EMCORE CORPORATION

## Consolidated Balance Sheets

As of September 30, 2014 and 2013

(in thousands, except per share data)

	As of September 30, 2014	As of September 30, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$20,687	\$16,104
Restricted cash	1,482	815
Accounts receivable, net of allowance of \$133 and \$3,363, respectively	44,864	41,826
Inventory	26,072	32,115
Deferred income taxes, net	3,908	—
Prepaid expenses and other current assets	6,878	9,437
Total current assets	103,891	100,297
Property, plant, and equipment, net	44,987	49,744
Goodwill	20,384	20,384
Other intangible assets, net	1,142	2,159
Deferred income taxes, net	20,172	—
Other non-current assets, net of allowance of \$3,561 and \$3,533, respectively	766	1,130
Total assets	\$191,342	\$173,714
<b>LIABILITIES and SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Borrowings from credit facility	\$26,518	\$21,706
Accounts payable	22,292	19,643
Deferred gain associated with sale of assets	3,400	—
Warrant liability	122	155
Accrued expenses and other current liabilities	20,645	21,597
Total current liabilities	72,977	63,101
Asset retirement obligations	5,263	5,053
Deferred gain associated with sale of assets	—	3,400
Other long-term liabilities	755	981
Total liabilities	78,995	72,535
Commitments and contingencies (Note 14)		
Shareholders' equity:		
Preferred stock, \$0.0001 par value, 5,882 shares authorized; none issued or outstanding	—	—
Common stock, no par value, 50,000 shares authorized; 31,149 shares issued and 31,109 shares outstanding as of September 30, 2014; 30,022 shares issued and 29,982 shares outstanding as of September 30, 2013	755,368	749,266
Treasury stock, at cost; 40 shares	(2,071	) (2,071 )
Accumulated other comprehensive income	1,837	1,623
Accumulated deficit	(642,787	) (647,639 )
Total shareholders' equity	112,347	101,179
Total liabilities and shareholders' equity	\$191,342	\$173,714

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



Table of Contents

## EMCORE CORPORATION

## Consolidated Statements of Shareholders' Equity

For the Fiscal Years Ended September 30, 2014, 2013, and 2012

(in thousands)

	Shares of Common Stock	Value of Common Stock	Treasury Stock	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Shareholders' Equity
Balance as of September 30, 2011	23,481	\$713,063	\$(2,083 )	\$912	\$(613,456 )	\$98,436
Net loss					(39,171 )	(39,171 )
Translation adjustment				464		464
Stock-based compensation	603	8,038				8,038
Stock option exercises	17	75				75
Issuance of common stock - ESPP	250	1,091				1,091
Issuance of common stock - ODPP	21	90				90
Issuance of treasury stock	—	(12 )	12			—
Balance as of September 30, 2012	24,372	722,345	(2,071 )	1,376	(652,627 )	69,023
Net income					4,988	4,988
Translation adjustment				247		247
Stock-based compensation	475	4,027				4,027
Stock option exercises	79	395				395
Issuance of common stock - ESPP	344	1,292				1,292
Issuance of common stock - ODPP	5	18				18
Issuance of common stock from stock sales	4,707	21,189				21,189
Balance as of September 30, 2013	29,982	749,266	(2,071 )	1,623	(647,639 )	101,179
Net income					4,852	4,852
Translation adjustment				214		214
Stock-based compensation	633	4,074				4,074
Stock option exercises	120	573				573
Issuance of common stock - ESPP	341	1,182				1,182
Issuance of common stock - ODPP	2	8				8
Issuance of common stock - BOD	31	265				265
Balance as of September 30, 2014	31,109	\$755,368	\$(2,071 )	\$1,837	\$(642,787 )	\$112,347

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





Table of Contents

## EMCORE CORPORATION

## Consolidated Statements of Cash Flows

For the Fiscal Years Ended September 30, 2014, 2013 and 2012

(in thousands)

	For the Fiscal Years Ended September 30,		
	2014	2013	2012
Cash flows from operating activities:			
Net income (loss)	\$4,852	\$4,988	\$(39,171 )
Adjustments to reconcile net (loss) income to net cash used in operating activities:			
Impairment	—	—	1,425
Depreciation, amortization, and accretion expense	8,518	8,688	9,420
Stock-based compensation expense	4,439	4,209	7,756
Deferred income taxes	(24,080 )	—	—
Gain on sale of an investment	(307 )	(4,800 )	—
Provision adjustments related to doubtful accounts	245	119	(158 )
Provision adjustments related to product warranty	2,114	2,914	(49 )
Provision for losses on inventory purchase commitments	306	—	2,344
Loss from equity method investment	—	—	1,201
Change in fair value of financial instruments	(34 )	(515 )	69
Net (gain) loss on disposal of equipment	(100 )	—	147
Flood-related loss	—	—	5,519
Non-cash insurance proceeds	—	(16,134 )	(2,609 )
Gain on sale of assets	—	(338 )	(2,742 )
Total non-cash adjustments	(8,899 )	(5,857 )	22,323
Changes in operating assets and liabilities:			
Accounts receivable	(3,290 )	(4,967 )	(1,707 )
Inventory	5,481	2,016	(9,807 )
Other assets	2,879	5,370	(3,889 )
Accounts payable	3,113	(14,032 )	10,610
Accrued expenses and other current liabilities	(3,135 )	(9,623 )	6,639
Total change in operating assets and liabilities	5,048	(21,236 )	1,846
Net cash provided by (used in) operating activities	1,001	(22,105 )	(15,002 )
Cash flows from investing activities:			
Cash proceeds from sale of investment	307	—	—
Cash proceeds from sale of equity method investment	—	4,800	—
Purchase of equipment	(3,001 )	(7,242 )	(12,211 )
Deposits on equipment orders	—	(3 )	(351 )
Flood-related insurance proceeds from equipment	—	5,373	2,609
Dividend from an unconsolidated affiliate	—	—	1,644
Proceeds from sale of assets	—	1,150	13,121
Decrease (increase) in restricted cash	(667 )	(733 )	462
Proceeds from disposal of property, plant and equipment	100	484	—
Net cash (used in) provided by investing activities	(3,261 )	3,829	5,274
Cash flows from financing activities:			

Edgar Filing: EMCORE CORP - Form 10-K

Net proceeds from borrowings from credit facilities	4,813	2,390	1,759
Proceeds from sale of common stock	—	21,189	—
Proceeds from stock plans	1,763	1,705	1,256
Net cash provided by financing activities	6,576	25,284	3,015
Effect of exchange rate changes on foreign currency	267	49	162
Net increase (decrease) in cash and cash equivalents	4,583	7,057	(6,551 )
Cash and cash equivalents at beginning of period	16,104	9,047	15,598
Cash and cash equivalents at end of period	\$20,687	\$16,104	\$9,047
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			

70

---

Table of Contents

## EMCORE CORPORATION

## Consolidated Statements of Cash Flows

For the Fiscal Years Ended September 30, 2014, 2013 and 2012

(in thousands)

	For the Fiscal Years Ended September		
	30,		
	2014	2013	2012
Cash paid during the period for interest	\$429	\$704	\$514
Cash paid during the period for income taxes	\$—	\$15	\$1,644
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>			
Acquisition of equipment under capital lease	\$—	\$—	\$4,411
Sale of assets to Suncore for current receivable	\$—	\$—	\$2,934
Forgiveness of capital lease and accounts payable	\$—	\$10,761	\$—

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

Table of Contents

EMCORE Corporation  
Notes to our Consolidated Financial Statements

NOTE 1. Description of Business

Business Overview

EMCORE Corporation and its subsidiaries (the “Company”, “we”, “our”, or “EMCORE”) offers a broad portfolio of compound semiconductor-based products for the fiber optics and solar power markets. We were established in 1984 as a New Jersey corporation and we have two reporting segments: Fiber Optics and Photovoltaics. Our Fiber Optics business segment provides optical components, subsystems and systems for high-speed telecommunications, Cable Television (CATV), Wireless and Fiber-To-The-Premises (FTTP) networks, as well as products for satellite communications, video transport and specialty photonics technologies for defense and homeland security applications. EMCORE's Photovoltaics business segment provides products for space power applications including high-efficiency multi-junction solar cells, Covered Interconnect Cells (CICs) and complete satellite solar panels, and terrestrial applications, including high-efficiency GaAs solar cells for concentration photovoltaic (CPV) power systems.

Sale of Photovoltaics Business

On September 17, 2014, EMCORE entered into an Asset Purchase Agreement (the “ Photovoltaics Agreement”) with Photon Acquisition Corporation ("Photon"), a Delaware corporation and an affiliate of private equity firm Veritas Capital, pursuant to which Photon agreed to acquire substantially all of the assets, and assume substantially all of the liabilities, primarily related to or used in connection with the Company’s photovoltaics business, including EMCORE's subsidiaries EMCORE Solar Power, Inc. and EMCORE IRB Company, LLC (collectively, the "Photovoltaics Business" and, the sale of the Photovoltaics Business, the "Photovoltaics Asset Sale") for \$150.0 million in cash, subject to a working capital adjustment pursuant to the Photovoltaics Agreement. At a special meeting of EMCORE's shareholders held on December 5, 2014, EMCORE's shareholders approved the Photovoltaics Asset Sale and, on December 10, 2014 EMCORE completed the Photovoltaics Asset Sale.

As a result, the financial results of the Photovoltaics Business will be presented as discontinued operations on the Consolidated Statements of Operations beginning in the first quarter of fiscal year 2015. Accordingly, the Company will have one remaining reportable segment: Fiber Optics.

Planned Asset Sale Transaction with NeoPhotonics Corporation

On October 22, 2014, EMCORE entered into an Asset Purchase Agreement (the "Digital Products Agreement" ) with NeoPhotonics Corporation, a Delaware Corporation ("NeoPhotonics") pursuant to which the Company has agreed to sell certain assets, and transfer certain liabilities of the Company's telecommunications business (collectively, the "Digital Products Business" and, the sale of the Digital Products Business, the "Digital Products Assets Sale") to NeoPhotonics for an aggregate purchase price of \$17.5 million, subject to certain adjustments, consisting of \$1.5 million in cash at closing and a promissory note in the principal amount of \$16.0 million (the "Promissory Note"). The Promissory Note will bear interest of 5.0% per annum for the first year and 13.0% per annum for the second year, payable semi-annually in cash, and matures two years from the closing of the transaction contemplated by the Digital Products Agreement. In addition, the promissory note will be subject to prepayments under certain circumstances, and will be secured by certain of the assets to be sold to NeoPhotonics in the transaction. The assets sold pursuant to the Digital Products Agreement include fixed assets, inventory, and intellectual property for the ITLA, micro-ITLA,

T-TOSA and T-XFP product lines within the Company's telecommunications business. The purchase price is subject to certain adjustments for inventory, net accounts receivable and pre-closing revenue levels, which will increase or decrease the principal amount under the Promissory Note as applicable. The transaction is subject to customary closing conditions and is expected to close by early January 2015.

As the result of this transaction, we expect assets and liabilities of the Digital Products Business to be classified as held for sale and the financial results to be reported as discontinued operations in the Company's consolidated financial statements in the first quarter of fiscal year 2015. See Note 18 - Subsequent Events for additional information.

Following the closing of the Photovoltaics and Digital Products Assets Sales EMCORE will continue to operate its fiber optics division which provides optical components, subsystems and systems for high-speed telecommunications, Cable Television (CATV) and Fiber-To-The-Premise (FTTP) networks, as well as products for satellite communications, video transport and

## Table of Contents

specialty photonics technologies for defense and homeland security applications.

### Sale of Fiber Optics-related Assets

On March 27, 2012, we entered into a Master Purchase Agreement with a subsidiary of Sumitomo Electric Industries, LTD (SEI), pursuant to which we agreed to sell certain assets and transfer certain obligations associated with our Fiber Optics segment. On May 7, 2012, we completed the sale of these assets to SEI and recorded a gain of approximately \$2.8 million. Under the terms of the Master Purchase Agreement, we have agreed to indemnify SEI for up to \$3.4 million of potential claims and expenses for the two-year period following the sale and we have recorded this amount as a deferred gain on our balance sheet as of September 30, 2014 and 2013 as a result of these contingencies. SEI paid \$13.1 million in cash and deposited approximately \$2.6 million into escrow as security for indemnification obligations and any purchase price adjustments. Settlement of escrow amounts occurs over a two-year period and is subject to claim adjustments. During the fiscal year ended September 30, 2013, we resolved the purchase price contingencies resulting in the reduction of the purchase price by \$1.1 million. The reduced purchase price is recorded as an offset to the escrow receivable of \$2.6 million while an additional \$0.4 million of gain on sale of assets was recognized during the fiscal year ended September 30, 2013. There remains a deferred gain of \$3.4 million related to our indemnification obligation to SEI as of September 30, 2014 as claims have been made under the Master Purchase Agreement against these balances prior to the end of the indemnification period in May 2014. We are not able to determine at this time the outcome of any potential settlements associated with the remaining claims and as a result have not recorded any related adjustments to the deferred gain amount.

In May 2012, we also entered into a separate facility lease and transition services agreement (TSA) with SEI related to financial services, supply chain, facility, and information infrastructure support functions to be provided by us. We believe the values assigned to the facility lease and TSA approximate fair value. During the fiscal years ended September 30, 2014 and 2013, we recognized \$3.3 million and \$2.8 million, respectively, related to TSA fees and facility rental income which was recorded as a benefit against operating expenses incurred for such services.

The TSA included a \$0.5 million credit to be applied against fees earned by Emcore over a twelve-month period through May 2013. We also incurred \$0.6 million in expenses directly associated with this transaction. The TSA credit and transaction-related expenses incurred were applied against the proceeds received in determination of the gain recognized during the fiscal year ended September 30, 2012.

### Liquidity and Capital Resources

Historically, we have consumed cash from operations and incurred significant net losses. We have managed our liquidity position through a series of cost reduction initiatives, borrowings from our credit facility, capital markets transactions, and the sale of assets.

As of September 30, 2014, cash and cash equivalents totaled \$20.7 million and net working capital totaled approximately \$30.9 million. Net working capital, calculated as current assets minus current liabilities, is a financial metric we use which represents available operating liquidity. For the fiscal year ended September 30, 2014, we earned net income of \$4.9 million. Net cash provided from operating activities for the fiscal year ended September 30, 2014 totaled \$1.0 million.

We will use a portion of the proceeds from the Asset Sales to pay for transaction costs associated with the Asset Sales, make payments required pursuant to existing retention award agreements, repay certain indebtedness and for general working capital purposes. The remaining proceeds from the Asset Sales may be used, at the discretion of our Board, to repay other indebtedness, provide liquidity to the Company's shareholders through one or more special dividends or

repurchases of outstanding shares of the Company's common stock, invest in our Other Businesses, or a combination thereof.

73

---

## Table of Contents

With respect to measures taken to improve liquidity:

**Sale of Photovoltaics Business:** On December 10, 2014, we completed the sale of our Photovoltaics Business for \$150.0 million in cash proceeds that are not reflected in the cash balances at September 30, 2014. These proceeds will provide us with working capital for fiscal year 2015 and beyond.

**Credit Facility:** On November 11, 2010, we entered into a Credit and Security Agreement (credit facility) with Wells Fargo Bank, National Association ("Wells Fargo"). The credit facility, as it has been amended through its sixth amendment, currently provides us with a revolving credit of up to \$15.0 million through November 2015 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.

On December 3, 2014, we entered into a Sixth Amendment to the credit facility, pursuant to which Wells Fargo agrees, to automatically release all encumbrances covering certain of the Company's assets to be sold pursuant to the Photovoltaics Agreement and the Digital Products Agreement. In addition, on December 10, 2014, upon notice to Wells Fargo of the closing of the transaction contemplated by the Photovoltaics Agreement, the maximum borrowing allowed under the credit facility was reduced from \$35.0 million to \$15.0 million, and certain other changes to the borrowing base calculations went into effect.

As of September 30, 2014, we had a \$26.5 million LIBOR rate loan outstanding under our credit facility, with an interest rate of 3.3%. As of September 30, 2014, the credit facility also had \$1.9 million reserved for six outstanding stand-by letters of credit, leaving a remaining \$2.5 million borrowing availability balance under this credit facility. As of December 10, 2014, there was no outstanding balance under this credit facility. We now expect at least 50% of the \$15.0 million credit facility to be available for use during fiscal year 2015. See Note 12 - Credit Facilities for additional disclosures related to the credit facilities.

**Stock Sales:** During August 2012, we filed a shelf registration statement on Form S-3 with the SEC pursuant to which we may, from time to time, sell up to an aggregate of \$50 million of our common or preferred stock, warrants or debt securities. On August 23, 2012, the registration statement was declared effective by the SEC, which will allow us to access the capital markets for the three year period following this effective date as long as we continue to meet the eligibility requirements for the use of Form S-3. On October 3, 2012, we sold 1,832,410 shares of common stock for net proceeds of \$9.5 million. In addition, on September 18, 2013, we sold 2,875,000 shares of common stock for net proceeds of \$11.7 million, which was the second stock sale completed under the above referenced shelf registration.

We believe that our existing balances of cash and cash equivalents, the sale proceeds from the sale of the Photovoltaics Business 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 the next twelve months.

However, in the event of unforeseen circumstances, unfavorable market or economic developments, unfavorable results from operations, material claims made under the indemnification provisions of our Master Purchase Agreement with SEI in excess of amounts held in escrow, or if Wells Fargo declares an event of default on the credit facility, we may have to raise additional funds or reduce expenditures by any one or a combination of the following: issuing equity, debt or convertible debt, selling certain product lines and/or portions of our business, furloughs, or reduction of discretionary spending. There can be no assurance that we will be able to raise additional funds on terms acceptable to us, or at all. A significant contraction in the capital markets, particularly in the technology sector, or adverse developments in our business may make it difficult for us to raise additional capital if or when it is required, especially



if we experience negative operating results. If adequate capital is not available to us as required, or is not available on favorable terms, our business, financial condition, results of operations, and cash flows may be adversely affected.

74

---

Table of Contents

NOTE 2. Summary of Significant Accounting Policies

**Principles of Consolidation.** Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and include the assets, liabilities, shareholders' equity, and operating results of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. We are not the primary beneficiary of, nor do we hold a significant variable interest in, any variable interest entity.

**Use of Estimates.** The preparation of 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. The accounting estimates that require our most significant, difficult, and/or subjective judgments include:

- the valuation of inventory, goodwill, intangible assets, warrants, and stock-based compensation;
- depreciation, amortization and assessment of recovery of long-lived assets;
- asset retirement obligations and contingencies, including litigation and indemnification-related;
- revenue recognition associated with the percentage of completion method;
- the allowance for doubtful accounts and warranty accruals;
- the valuation allowance for deferred tax assets; and,
- impairment and other losses associated with the Thailand Flood.

We develop estimates based on historical experience and on various assumptions about the future that are believed to be reasonable based on the best information available to us. Our reported financial position or results of operations may be materially different under changed conditions or when using different estimates and assumptions, particularly with respect to significant accounting policies. In the event that estimates or assumptions prove to differ from actual results, adjustments are made in subsequent periods to reflect more current information.

**Concentration of Credit Risk.** Financial instruments that may subject us to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. Our cash and cash equivalents are held in safekeeping primarily with Wells Fargo Bank. When necessary, we perform credit evaluations on our customers' financial condition and occasionally we request deposits in advance of shipping product to our customers. These financial evaluations require significant judgment and are based on a variety of factors including, but not limited to, current economic trends, historical payment patterns, bad debt write-off experience, and financial review of the particular customer.

**Cash and Cash Equivalents.** Cash and cash equivalents consists primarily of bank deposits and occasionally highly liquid short-term investments with a maturity of three months or less at the time of purchase.

**Restricted Cash.** Restricted cash represents recently deposited cash that is temporarily restricted by our bank.

**Accounts Receivable.** We regularly evaluate the collectability of our accounts receivable and maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to meet their financial obligations to us. The allowance is based on the age of receivables and a specific identification of receivables considered at risk of collection. We classify charges associated with the allowance for doubtful accounts as sales, general, and administrative expense. If the financial condition of our customers were to deteriorate, impacting their ability to pay us, additional allowances may be required.

Inventory. Inventory is stated at the lower of cost or market, with cost being determined using the standard cost method that includes material, labor, and manufacturing overhead costs, which approximates weighted average cost. We write-down inventory once it has been determined that conditions exist that may not allow the inventory to be sold for its intended purpose or the inventory is determined to be excess or obsolete based on our forecasted future sales. The charge related to inventory write-downs is recorded as a cost of revenue. The majority of the inventory write-downs are related to estimated allowances for inventory whose carrying value is in excess of net realizable value and on excess raw material components resulting from finished product obsolescence. In most cases where we sell previously written down inventory, it is typically sold as a component part of a finished product. The finished product is sold at market price at the time resulting in higher average gross margin on such revenue. We do not track the selling price of individual raw material components that have been previously written down or written off, since such raw material components usually are only a portion of the finished products and related

Table of Contents

sales price. We evaluate inventory levels at least quarterly against sales forecasts on a significant part-by-part basis, in addition to determining its overall inventory risk. We have incurred, and may in the future incur charges to write-down our inventory.

Property, Plant, and Equipment. Our property, plant, and equipment is recorded at cost. Plant and equipment are depreciated on a straight-line basis over the following estimated useful lives of the assets:

Estimated Useful Life		
Buildings and improvements	—	forty years
Equipment	—	three to ten years
Furniture and fixtures	—	five years
Computer hardware and software	—	three to seven years
Leasehold improvements	—	five to seven years

Leasehold improvements are amortized over the lesser of the asset life or the life of the facility lease. Expenditures for repairs and maintenance are charged to expense as incurred. The costs for major renewals and improvements are capitalized and depreciated over their estimated useful lives of the related asset. The cost and related accumulated depreciation of the assets are removed from the accounts upon disposition and any resulting gain or loss is reflected in the consolidated statement of operations and comprehensive (loss) income.

Goodwill. The Company's goodwill of approximately \$20.4 million is associated with our Photovoltaics segment. Goodwill represents the excess of the purchase price of an acquired business over the fair value of the identifiable assets acquired and liabilities assumed. As required by ASC 350, Intangibles - Goodwill and Other, we evaluate our goodwill for impairment on an annual basis (September 30), or whenever events or changes in circumstances indicate whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount.

Pursuant to ASC 350, circumstances that could trigger an interim impairment test include but are not limited to:

- Macroeconomic conditions such as a deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets;

- Industry and market considerations such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline in market-dependent multiples or metrics (considered in both absolute terms and relative to peers), a change in the market for an entity's products or services, or a regulatory or political development;

- Cost factors such as increases in raw materials, labor, or other costs that have a negative effect on earnings and cash flows;

- Overall financial performance such as negative or declining cash flows or a decline in actual or planned revenue or earnings compared with actual and projected results of relevant prior periods;

- Other relevant entity-specific events such as changes in management, key personnel, strategy, or customers; contemplation of bankruptcy; or litigation;

- Events affecting a reporting unit such as a change in the composition or carrying amount of its net assets, a more-likely-than-not expectation of selling or disposing all, or a portion, of a reporting unit, the testing for recoverability of a significant asset group within a reporting unit, or recognition of a goodwill impairment loss in the

financial statements of a subsidiary that is a component of a reporting unit; and,

¶ if applicable, a sustained decrease in share price (considered in both absolute terms and relative to peers).

On September 17, 2014, EMCORE entered into an Asset Purchase Agreement with Photon to sell the Photovoltaics Business for \$150.0 million in cash, subject to working capital adjustments. As of September 30, 2014, management performed the Step 1 test, which compares the fair value of the reporting unit with its carrying value, including goodwill. As of September 30, 2014, no impairment existed. On December 10, 2014 EMCORE completed the sale of its Photovoltaics Business to Photon. See Note 18 - Subsequent Events for additional information.

Table of Contents

Other Intangible Assets. Our intangible assets consist primarily of intellectual property that has been internally-developed or acquired. Acquired intangible assets include existing core technology, trademarks and trade names, and customer contracts. Intangible assets are amortized using the straight-line method over estimated useful lives that could range up to fifteen years.

Valuation of Long-lived Assets. Long-lived assets consist primarily of property, plant, and equipment and intangible assets. Since our long-lived assets are subject to amortization, we review these assets for impairment in accordance with the provisions of ASC 360, Property, Plant, and Equipment. We review long-lived assets for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Our impairment testing of long-lived assets consists of determining whether the carrying amount of the long-lived asset (asset group) is recoverable, in other words, whether the sum of the future undiscounted cash flows expected to result from the use and eventual disposition of the asset (asset group) exceeds its carrying amount. The determination of the existence of impairment involves judgments that are subjective in nature and may require the use of estimates in forecasting future results and cash flows related to an asset or group of assets. In making this determination, we use certain assumptions, including estimates of future cash flows expected to be generated by these assets, which are based on additional assumptions such as asset utilization, the length of service that assets will be used in our operations, and estimated salvage values.

Asset Retirement and Environmental Obligations. Pursuant to ASC 410, Asset Retirement and Environmental Obligations, an asset retirement obligation is recorded when there is a legal obligation associated with the retirement of a tangible long-lived asset and the fair value of the liability can reasonably be estimated. Upon initial recognition of an asset retirement obligation, a company increases the carrying amount of the long-lived asset by the same amount as the liability. Over time, the liabilities are accreted for the change in their present value through charges to operations costs. The initial capitalized costs are depleted over the useful lives of the related assets through charges to depreciation, depletion, and/or amortization. If the fair value of the estimated asset retirement obligation changes, an adjustment is recorded to both the asset retirement obligation and the asset retirement cost. Revisions in estimated liabilities can result from revisions of estimated inflation rates, escalating retirement costs, and changes in the estimated timing of settling asset retirement obligations.

We have known conditional asset retirement conditions, such as certain asset decommissioning and restoration of rented facilities to be performed in the future. We previously completed a review of our asset retirement and environmental obligations and we recorded an asset retirement obligation with an offset to fixed assets totaling \$5.3 million and \$5.1 million as of September 30, 2014 and 2013, respectively.

Fair Value of Financial Instruments. We determine the fair value of our financial instruments in accordance with ASC 820, Fair Value Measurements and Disclosures. The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, prepaid expenses and other current assets, borrowings under our credit facility, accounts payable, accrued expenses and other current liabilities approximate fair value because of the short maturity of these instruments.

Equity investments. We accounted for our equity investment in our Suncore joint venture in accordance with ASC 323, Investments - Equity Method and Joint Ventures. An equity investment in which we exercised significant influence but did not control and were not the primary beneficiary, was accounted for using the equity method. We regularly reviewed our investment to determine whether a decline in fair value below the cost basis was other than temporary. In our opinion, neither San'an nor EMCORE held a controlling financial interest in Suncore because neither party had exclusive authority over decision-making related to significant ordinary course of business actions such as establishing a budget, compensation, and the hiring and firing of certain executive personnel. In June 2013, we

entered into an agreement to sell our 40% registered ownership interest in Suncore to San'An for a purchase price of \$4.8 million. The sale closed during the fourth quarter of fiscal 2013.

Revenue Recognition. Revenue is recognized upon shipment, provided persuasive evidence of a contract exists, the price is fixed, the product meets our customer's specifications, title and ownership have transferred to the customer, and there is reasonable assurance of collection of the sales proceeds. The majority of our products have shipping terms that are free on board or free carrier alongside (FCA) shipping point, which means that we fulfill our delivery obligation when the goods are handed over to the freight carrier at our shipping dock. This means the buyer bears all costs and risks of loss or damage to the goods from that point. In certain cases, we ship our products cost insurance and freight. Under this arrangement, revenue is recognized under FCA shipping point terms, but we pay (and invoice the customer) for the cost of shipping and insurance to the customer's designated location. We account for shipping and related transportation costs by recording the charges that are invoiced to customers as revenue, with the corresponding cost recorded as cost of revenue. In those instances where inventory is maintained at a consigned location, revenue is recognized only when our customer pulls product for use and after title and ownership has transferred to the customer. Revenue from time and material contracts is recognized at contractual rates as labor

Table of Contents

hours and direct expenses are incurred. Any warranty cost and remaining obligations that are inconsequential or perfunctory are accrued when the corresponding revenue is recognized.

Distributors. We use a number of distributors around the world and recognize revenue upon shipment of product to these distributors. Title and risk of loss pass to the distributors upon shipment, and our distributors are contractually obligated to pay us on standard commercial terms, just like our other direct customers. We do not sell to our distributors on consignment and, except in the event of product discontinuance, do not give distributors a right of return.

Solar Panel Contracts. Pursuant to ASC 605-35, Revenue Recognition - Construction-Type and Production, we record revenue on long-term solar panel contracts using either the percentage-of-completion method or the completed contract method. In general, the performance of these types of contracts involves the design, development, and manufacture of complex aerospace or electronic equipment to our customer's specifications. The percentage-of-completion method is used in circumstances in which all the following conditions exist:

• the contract includes enforceable rights regarding goods or services to be provided to the customer, the consideration to be exchanged, and the manner and terms of settlement;

• both the Company and the customer are expected to satisfy all of the contractual obligations; and,

• reasonably reliable estimates of total revenue, total cost, and the progress towards completion can be made.

The percentage-of-completion method recognizes estimates for contract revenue and costs in progress as work on the contract continues. Estimates are revised as additional information becomes available. If estimates of costs to complete a contract indicate a loss, a provision is made at that time for the total loss anticipated on the contract.

We use the completed contract method if reasonably dependable estimates cannot be made or for which inherent hazards make estimates doubtful. Under the completed contract method, contract revenue and costs in progress are deferred as work on the contract continues. If a loss becomes evident on the contract, a provision is made at that time for the total loss anticipated on the contract. Total contract revenue and related costs are recognized upon the completion of the contract.

Government Research and Development Contracts. Revenue from research and development contracts represents reimbursement by various U.S. government entities, or their contractors, to aid in the development of new technology. The applicable contracts generally provide that we may elect to retain ownership of inventions made in performing the work, subject to a non-exclusive license retained by the U.S. government to practice the inventions for governmental purposes. The research and development contract funding may be based on a cost-plus, cost reimbursement, or a firm fixed price arrangement. The amount of funding under each research and development contract is determined based on cost estimates that include both direct and indirect costs. Cost-plus funding is determined based on actual costs plus a set margin. As we incur costs under cost reimbursement type contracts, revenue is recorded. Contract costs include material, labor, special tooling and test equipment, subcontracting costs, as well as an allocation of indirect costs. A research and development contract is considered complete when all significant costs have been incurred, milestones have been reached, and any reporting obligations to the customer have been met. These contracts may be modified or terminated at the convenience of the U.S. government and may be subject to governmental budgetary fluctuations.

We also participate in cost-sharing research and development arrangements. Under such arrangements in which the actual costs of performance are split between the U.S. government and us on a best efforts basis, no revenue is recorded and our research and development expense is reduced for the amount of the cost-sharing receipts. U.S. government contracts are subject to audit by respective entities.



Multiple-Element Arrangements. Contracts with our customers usually relate to either the delivery of product or the completion of technology or engineering research and development contracts. In a very limited number of cases, a research contract may involve the creation and delivery of a customer-designed product sample based upon the research and development efforts completed. Pursuant to ASC 605-25-25-5, Revenue Recognition - Multiple-Element Arrangements, we have concluded that product revenue should not be considered a unit of accounting separate from the service revenue for these types of research contracts.

## Table of Contents

**Contract Manufacturers.** In our Fiber Optics segment, prior to certain customers accepting product that is manufactured at one of our contract manufacturers, these customers require that they first qualify the product and manufacturing processes at our contract manufacturer. The customers' qualification process determines whether the product manufactured at our contract manufacturer achieves their quality, performance, and reliability standards. After a customer completes the initial qualification process, we receive approval to ship qualified product to that customer. As part of the manufacturing process at our contract manufacturers, the finished product is tested prior to shipment to the customer using the same criteria that our customer uses to test product it receives. Revenue is recognized upon shipment of customer-qualified product, provided persuasive evidence of a contract exists, the price is fixed, the product meets our customer's specifications, title and ownership have transferred to the customer, and there is reasonable assurance of collection of the sales proceeds.

**Product Warranty Reserves.** We provide our customers with limited rights of return for non-conforming shipments and warranty claims for certain products. Pursuant to ASC 450, Contingencies, we make estimates of product warranty expense using historical experience rates as a percentage of revenue and/or costs of revenue and accrue estimated warranty expense as a cost of revenue. We estimate the costs of our warranty obligations based on historical experience of known product failure rates and anticipated rates of warranty claims, use of materials to repair or replace defective products, and service delivery costs incurred in correcting product issues. In addition, from time to time, specific warranty accruals may be made if unforeseen technical problems arise. Should our actual experience relative to these factors differ from our estimates, we may be required to record additional warranty reserves. Alternatively, if we provide more reserves than needed, we may reverse a portion of such provisions in future periods.

**Litigation Contingencies.** We are subject to various legal proceedings, claims, and litigation, either asserted or unasserted that arise in the ordinary course of business. While the outcome of these matters is currently not determinable, we do not expect the resolution of these matters will have a material adverse effect on our business, financial position, results of operations, or cash flows. However, 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.

**Research and Development.** Research and development costs, net of reimbursement from U.S. government contracts, are charged as an expense when incurred.

**Stock-Based Compensation.** Stock-based compensation expense is measured at the stock option grant date, based on the fair value of the award, and is recorded to cost of sales, sales, general, and administrative, and research and development expense based on an employee's responsibility and function over the requisite service period. We use the Black-Scholes option-pricing model and the straight-line attribution approach to determine the fair value of stock-based awards in accordance with ASC 718, Compensation. This option-pricing model requires the input of highly subjective assumptions, including the option's expected life, the price volatility of the underlying stock, and expected forfeitures.

**Insurance Recoveries.** Insurance recoveries related to impairment losses previously recorded and other recoverable expenses will be recognized up to the amount of our related loss or expense in the period that recoveries become realizable. Insurance recoveries under business interruption coverage and insurance gains in excess of amounts previously written off related to impaired inventory and equipment or in excess of other recoverable expenses previously recognized will be recognized when they become realizable and all contingencies have been resolved. The evaluation of insurance recoveries requires estimates and judgments about future results which affect reported amounts and certain disclosures. Actual results could differ from those estimates. As of September 30, 2014, we do

not expect to receive any further insurance recoveries.

Foreign Exchange. We recognize gains and losses due to the effect of exchange rate changes on foreign currency primarily due to our operations in Spain, the Netherlands, and 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 loss. 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 (loss).

## Table of Contents

**Income Taxes.** In accordance with ASC 740, Income Taxes, deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. We record valuation allowances against all deferred tax assets for amounts which are considered less likely to be realized.

**Comprehensive Income (Loss).** ASC 220, Comprehensive Income, establishes standards for reporting and display of comprehensive income and its components in financial statements. It requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in the financial statement that is displayed with the same prominence as other financial statements. Our comprehensive (loss) income consists of both net (loss) income and foreign currency translation adjustments and it is presented in the accompanying consolidated statements of operations and comprehensive (loss) income.

**Income (Loss) Per Share.** We are required, in periods in which we have net income, to calculate basic income per share using the two-class method. The two-class method is required because our unvested restricted stock awards are considered participating securities as these securities have the right to receive dividends or dividend equivalents should we declare dividends on our common stock. Under the two-class method, during periods of net income, net income is first reduced for distributions declared on all classes of securities to arrive at undistributed earnings. The undistributed earnings are then allocated on a pro-rata basis between the common shareholders and participating securities holders. The weighted-average number of common shares and participating securities outstanding during the period is then used to calculate basic income per share.

In periods in which we have a net loss, basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted-average number of common shares outstanding during the period. For the fiscal year ended 2012, non-vested restricted stock awards of 0.2 million, were excluded from the computation of basic loss per share since net losses were not allocated to these participating securities.

For diluted income (loss) per share, the denominator includes all outstanding common shares and all potential dilutive common shares to be issued. For the fiscal years ended September 30, 2014, 2013 and 2012, we excluded 1.9 million, 2.4 million and 4.0 million, respectively, of weighted average outstanding stock options, restricted stock awards, restricted stock units and warrants from the calculation of diluted net income (loss) per share because their effect would have been anti-dilutive.

### NOTE 3. Recent Accounting Pronouncements

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 March 2013, the FASB issued ASU No. 2013-05, Foreign Currency Matters. This accounting standard update requires an entity to release into net income the entire amount of a cumulative translation adjustment related to its investment in a foreign entity when as a parent it either sells a part or all of its investment in the foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets within the foreign entity. This accounting standard update will be effective for our fiscal year beginning on October 1, 2014. We are currently evaluating the impact of this accounting standard update on our Consolidated Financial Statements.

- In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This standard changes the criteria for reporting discontinued operations. Under the accounting standard update, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results when either it qualifies as held for sale, disposed of by sale, or disposed of other than by sale. In addition, the new guidance requires expanded

disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. While early adoption is allowed, we have determined that we would not early adopt and as a result, this accounting standard update will be effective for our fiscal year beginning on October 1, 2015. We are currently evaluating the impact of this accounting standard update on our Consolidated Financial Statements.

In May 2014, as part of its ongoing efforts to assist in the convergence of U.S. GAAP and International Financial Reporting Standards, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Under the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard will be effective for us beginning October 1, 2017 and early adoption is not permitted. The standard permits the use of either the retrospective

or cumulative effect transition method. We anticipate this standard will have a material impact, and we are currently evaluating the impact this standard will have on our Consolidated Financial Statements.

In June 2014, the FASB issued ASU No. 2014-12, Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could be Achieved after the Requisite Service Period. The new standard requires a performance target in a share-based payment that affects vesting and that could be achieved after the requisite service period be accounted for as a performance condition. The guidance is effective for annual periods beginning after December 15, 2015 and interim periods within that year, and early adoption is permitted. The guidance should be applied on a prospective basis to awards that are granted or modified on or after the effective date. The guidance may be applied on a modified retrospective basis for performance targets outstanding on or after the beginning of the first annual period presented as of the date of adoption. This accounting standard update will be effective for our fiscal year beginning October 1, 2016. We are currently evaluating the impact of this accounting standard update on our Consolidated Financial Statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The standard provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements. In addition, the standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. The guidance is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. This accounting standard update will be effective for our fiscal year beginning October 1, 2017. We are currently evaluating the impact of this accounting standard update on our Consolidated Financial Statements.

#### NOTE 4. Fair Value Accounting

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. We classify investments within Level 1 if quoted prices are available in active markets.

Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly, through market corroboration, for substantially the full term of the financial instrument. We classify items in Level 2 if the investments are valued using observable inputs to quoted market prices, benchmark yields, reported trades, broker/dealer quotes or alternative pricing sources with reasonable levels of price transparency.

•

Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within this hierarchy is determined based on the lowest level input that is significant to the fair value measurement. We do not hold any financial assets or liabilities within Level 3.

Table of Contents

Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The following table lists our financial assets and liabilities that are measured at fair value on a recurring basis:

Fair Value Measurement (in thousands)	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Remaining Inputs	Level 3 Significant Unobservable Inputs	Total
As of September 30, 2014				
Assets:				
Cash and cash equivalents	\$20,687	—	—	\$20,687
Restricted cash	1,482	—	—	1,482
Liabilities:				
Warrant liability	—	122	—	122
As of September 30, 2013				
Assets:				
Cash and cash equivalents	\$16,104	—	—	\$16,104
Restricted cash	815	—	—	815
Liabilities:				
Warrant liability	—	155	—	155

Cash consists primarily of bank deposits or, occasionally, 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.

As of September 30, 2014 and 2013, warrants representing the right to purchase 400,001 shares of our common stock were outstanding. All of our warrants meet the classification requirements for liability accounting pursuant to ASC 815, Derivatives and Hedging. Each quarter, we expect an impact on our statement of operations and comprehensive (loss) income when we record the change in fair value of our outstanding warrants using the Monte Carlo option valuation model. The Monte Carlo option valuation model is used since it allows the valuation of each warrant to factor in the value associated with our right to effect a mandatory exercise of each warrant. The valuation model requires the input of subjective assumptions, including the warrant's expected life and the price volatility of the underlying stock. The change in the fair value of our warrants has been primarily due to the change in the closing price of our common stock.

Assumptions used in Monte Carlo Option Valuation Model	Warrants issued on October 1, 2009	
	As of September 30, 2014	As of September 30, 2013
Number of warrants issued	400,001	400,001
Expiration date	4/1/2015	4/1/2015
Exercise price	\$6.76 - \$9.44	\$6.76 - \$9.44
Expected dividend yield	—	—

Edgar Filing: EMCORE CORP - Form 10-K

Expected stock price volatility	51.71	%	51.52	%
Risk-free interest rate	0.30	%	0.22	%
Expected term (in years)	0.5		1.5	
Total warrant valuation	\$121,667		\$155,000	

81

---



Table of Contents

The carrying amounts of accounts receivable, prepaid expenses and other current assets, borrowings from our credit facility, accounts payable, accrued expenses and other current liabilities approximate fair value because of the short maturity of these instruments.

Impairment tests related to our goodwill and long-lived assets involves comparing fair value to carrying amount. See Note 8 - Goodwill and Note 9 - Intangible Assets for disclosures related to recent long-lived asset impairment tests.

## NOTE 5. Accounts Receivable

The components of accounts receivable consisted of the following:

(in thousands)	As of September 30, 2014	As of September 30, 2013
Accounts receivable	\$40,882	\$39,827
Accounts receivable – unbilled	4,115	5,362
Accounts receivable, gross	44,997	45,189
Allowance for doubtful accounts	(133	) (3,363
Accounts receivable, net	\$44,864	\$41,826

Unbilled accounts receivable represents revenue recognized but not yet billed as of the period ended. Billings on contracts using the percentage-of-completion method usually occur upon completion of predetermined contract milestones or other contract terms, such as customer approval. The allowance for doubtful accounts is based on the age of receivables and a specific identification of receivables considered at risk of collection.

As of September 30, 2014 and 2013, we had \$8.0 million and \$9.2 million, respectively, of accounts receivable recorded using the percentage of completion method. Of these amounts, \$4.8 million was invoiced and \$3.2 million was unbilled as of September 30, 2014 and \$4.6 million was invoiced and \$4.6 million was unbilled as of September 30, 2013.

Included in accounts receivable, net at September 30, 2013 is \$6.5 million from sales to Suncore. Beginning with fiscal year 2014, Suncore is no longer considered a related party and therefore no corresponding information is presented. See Note 17 - Suncore Joint Venture for additional disclosures related to Suncore.

The following table summarizes the changes in the allowance for doubtful accounts within accounts receivable:

Allowance for Doubtful Accounts (in thousands)	For the Fiscal Years Ended September 30,		
	2014	2013	2012
Balance at beginning of period	\$3,363	\$3,279	\$3,332
Provision adjustment - expense, net of recoveries	245	119	(53
Write-offs and other adjustments - additions (deductions) to receivable balances	(3,475	) (35	) —
Balance at end of period	\$133	\$3,363	\$3,279

The decrease in the allowance for doubtful accounts during the fiscal year ended September 30, 2014 is primarily due to historical amounts that were written off.

NOTE 6. Inventory

The components of inventory consisted of the following:

(in thousands)	As of September 30, 2014	As of September 30, 2013
Raw materials	\$11,380	\$12,094
Work in-process	5,700	4,122
Finished goods	8,992	15,899
Inventory	\$26,072	\$32,115

Table of Contents

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

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

(in thousands)	As of September 30, 2014	As of September 30, 2013
Land	\$ 1,502	\$ 1,502
Building and improvements	17,846	18,423
Equipment	21,022	23,134
Furniture and fixtures	67	95
Computer hardware and software	756	933
Leasehold improvements	2,278	3,029
Construction in progress	1,516	2,628
Property, plant, and equipment, net	\$44,987	\$49,744

As of September 30, 2014 and 2013, accumulated depreciation was approximately \$87.0 million and \$79.9 million, respectively. Depreciation expense totaled \$7.3 million, \$7.2 million and \$7.5 million during the fiscal years ended September 30, 2014, 2013 and 2012, respectively.

Also See Note 11 - Impact from Thailand Flood for additional disclosures related to the impact of the Thailand flood on our operations.

## NOTE 8. Goodwill

## Impairment Testing - Fiscal 2012:

As of September 30, 2012, we performed an annual goodwill impairment test and reviewed the qualitative factors as described in ASU No. 2011-08. We determined that it was not more likely than not that the fair value of our Photovoltaics reporting unit was less than its carrying amount.

## Impairment Testing - Fiscal 2013:

As of September 30, 2013, we performed an annual goodwill impairment test and reviewed the qualitative factors as described in ASU No. 2011-08. Due to the length of time that has elapsed and changes in the underlying assumptions used in our prior quantitative impairment test, we determined to skip the qualitative assessment and perform a quantitative, step one, assessment of possible impairment based on the estimated fair value of the reporting unit. We determined based on that analysis that goodwill related to our photovoltaics reporting unit was not impaired.

## Impairment Testing - Fiscal 2014:

On September 17, 2014, EMCORE entered into an Asset Purchase Agreement with Photon to sell the Photovoltaics Business for \$150.0 million in cash, subject to working capital adjustments pursuant to the Photovoltaics Agreement. As of September 30, 2014, management performed the Step 1 test, which compares the fair value of the reporting unit with its carrying value, including goodwill. As of September 30, 2014, no impairment existed. On December 10, 2014, EMCORE completed the sale of its Photovoltaics Business to Photon. See Note 18 - Subsequent Events for additional information.

We will continue to monitor any changes in circumstances or triggering events that might indicate impairment of our goodwill. If there is a significant erosion of the Company's market capitalization or the Photovoltaics reporting unit is unable to achieve its projected cash flows, we may be required to perform additional impairment tests. The outcome of these additional tests may result in the recording of goodwill impairment charges.

NOTE 9. Intangible Assets

The following table sets forth the carrying value of intangible assets by reporting segment:

83

---

Table of Contents

(in thousands)	As of September 30, 2014			As of September 30, 2013		
	Gross Assets	Accumulated Amortization	Net Assets	Gross Assets	Accumulated Amortization	Net Assets
Fiber Optics:						
Core Technology	\$ 12,727	\$(12,243 )	\$ 484	\$ 12,727	\$(11,822 )	\$ 905
Customer Relations	3,511	(2,935 )	576	3,511	(2,647 )	864
Patents	4,697	(4,615 )	82	4,697	(4,498 )	199
	20,935	(19,793 )	1,142	20,935	(18,967 )	1,968
Photovoltaics:						
Patents	1,528	(1,528 )	—	1,972	(1,781 )	191
Total	\$ 22,463	\$(21,321 )	\$ 1,142	\$ 22,907	\$(20,748 )	\$ 2,159

Amortization expense related to intangible assets is included in selling, general, and administrative expense on our statement of operations and comprehensive (loss) income. Based on the carrying amount of our intangible assets as of September 30, 2014, the estimated future amortization expense is as follows:

Estimated Future Amortization Expense  
(in thousands)

Fiscal year ended September 30, 2015	\$ 555
Fiscal year ended September 30, 2016	554
Fiscal year ended September 30, 2017	33
Fiscal year ended September 30, 2018	—
Fiscal year ended September 30, 2019 and thereafter	—
Total	\$ 1,142

#### Impairment Testing

The impairment tests for our long-lived assets involves comparing fair value to the carrying amount. If the carrying value of the long-lived assets (asset group) exceeds the estimated undiscounted cash flows expected to be generated by the assets, an impairment may exist. We derive fair value using both the guideline public company valuation method, and on a lesser extent, the discounted cash flow valuation method. The guideline public company valuation method entails a comparison to publicly traded companies within similar industry, product lines, market, growth, margins and risk and is generally based on published data regarding the public companies' stock price, revenue, and earnings. The discounted cash flow valuation method is based on both undiscounted and discounted cash flow models using assumptions about revenue growth rates, appropriate discount rates relative to risk, and estimates of terminal value.

#### Fiscal 2012:

As of December 31, 2011, we performed an impairment test of long-lived assets within our Fiber Optics segment and we determined that no impairment existed. The impairment test was triggered by a change in long-term financial and cash flow forecasts due to the adverse impact the Thailand flood had on our operations. See [Note 11 - Impact from Thailand Flood](#) for additional disclosures related to the impact of the Thailand flood on our operations. In making this determination, we used certain assumptions, including estimates of future cash flows expected to be generated by these long-lived assets, which are based on additional assumptions such as asset utilization, expected length of service from the assets, and estimated salvage values.

As of June 30, 2012, we performed an evaluation of an asset group within our Photovoltaics segment for impairment of long-lived assets. The impairment test was triggered by a determination that it was more likely than not those assets would be sold or otherwise disposed of before the end of their previously estimated useful lives. As a result of the

evaluation, we determined that impairment existed and a charge of \$1.4 million was recorded to write down the long-lived assets to an estimated fair value. Of the total impairment charge, \$1.1 million related to equipment and \$0.3 million related to intangible assets.

Fiscal 2013

84

---

Table of Contents

As of September 30, 2013, we performed an impairment test on certain long-lived assets related to our Fiber Optics segment. The impairment test was triggered by a change in long-term financial and cash flow forecasts. The impairment testing indicated that no impairment existed and that future undiscounted cash flows exceeded the carrying value.

## Fiscal 2014

As of September 30, 2014, we performed an impairment test on long-lived assets related to our Fiber Optics segment. The impairment test was triggered by a change in long-term financial and cash flow forecasts. The impairment testing indicated that no impairment existed and that future undiscounted cash flows exceeded the carrying value.

The Company will reassess its long-lived assets for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.

## NOTE 10. Accrued Expenses and Other Current Liabilities

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

(in thousands)	As of September 30, 2014	As of September 30, 2013
Compensation	\$4,265	\$4,361
Warranty	3,087	4,030
Termination fee	2,775	2,775
Professional fees	2,204	676
Royalty	576	1,061
Customer deposits	631	730
Deferred revenue	702	2,565
Self insurance	1,470	1,352
Income and other taxes	1,529	1,345
Loss on sales contracts	119	415
Severance and restructuring accruals	1,317	601
Loss on inventory purchase commitments	306	—
Other	1,664	1,686
Accrued expenses and other current liabilities	\$20,645	\$21,597

## Professional fees

The Company accrued legal and consulting fees of \$1.1 million related to the sale of the Photovoltaics Business for the fiscal year ended September 30, 2014.

Severance and restructuring accruals: In August 2012, Mr. Reuben Richards, Jr. proposed to the Board to step-down from his position as the Company's Executive Chairman and all other positions he held as an officer or employee of the Company and its affiliates, effective as of September 30, 2012. Mr. Richards remained as Chairman of the Board and a member of the Board.

The Company and Mr. Richards entered into a separation agreement and general release, dated August 6, 2012 (Separation Agreement), which includes mutual releases by Mr. Richards and the Company of all claims related to Mr. Richards' employment and service relationship with, and termination of employment and service from, the Company. Under the terms of the Separation Agreement, Mr. Richards acknowledged and agreed that the restrictive

covenants contained in his employment agreement would remain in full force and effect. The separation agreement provides for among other things, the continuation of his base salary for 88 weeks, benefits for 18 months, and immediate vesting of all his outstanding non-vested equity awards. These payments are not contingent upon any future service by Mr. Richards. In fiscal year 2012, we recorded a charge of \$1.1 million related to Mr. Richards' separation agreement.

On November 15, 2013, Mr. Chris Larocca proposed to resign as the Company's Chief Operating Officer, effective as of November 30, 2013. The Company recorded a charge of \$0.5 million for the fiscal year September 30, 2014 related to the separation agreement entered into as part of Mr. Larocca's resignation.



Table of Contents

On September 17, 2014, Dr. Hong Q. Hou announced he will resign as the Company's Chief Executive Officer, effective as of January 2, 2015 or, if later, fifteen days following the date on which the Company hires a successor Chief Executive Officer (the "Separation Date"). The Company and Dr. Hou entered into a separation agreement and general release, dated September 17, 2014 (Separation Agreement), which includes mutual releases by Dr. Hou and the Company of all claims related to Dr. Hou's employment and service relationship with, and termination of employment and service from, the Company. The separation agreement provides for among other things, the continuation of his base salary for 86 weeks, benefits for 18 months, outplacement services for a period of not more than one year and with a value not in excess of \$15,000 and immediate vesting of all his outstanding non-vested equity awards. These payments are not contingent upon any future service by Dr. Hou. The Company recorded a charge of approximately \$0.8 million in the fourth quarter of fiscal year 2014 related to Dr. Hou's separation agreement. See Note 18 - Subsequent Events for additional information on Dr. Hong Q. Hou's successor.

Our severance and restructuring-related accrual specifically relates to the Separation Agreements 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 statement of operations and comprehensive (loss) income. The following table summarizes the changes in the severance and restructuring-related accrual accounts:

(in thousands)	Severance-related accruals	Restructuring-related accruals	Total
Balance as of September 30, 2012	\$1,105	\$ 416	\$1,521
Expense - charged to accrual	723	—	723
Payments and accrual adjustments	(1,305	) (338	) (1,643
Balance as of September 30, 2013	\$523	\$ 78	601
Expense - charged to accrual	2,229	—	2,229
Payments and accrual adjustments	(1,435	) (78	) (1,513
Balance as of September 30, 2014	\$1,317	\$ —	\$1,317

Warranty: We generally provide product and other warranties on our solar cells, components, power systems, and fiber optic products, in addition to certain already divested product lines where we retained the warranty obligations. Certain parts and labor warranties from our vendors can be assigned to our customers. Our reported financial position or results of operations may be materially different under changed conditions or when using different estimates and assumptions. In the event that estimates or assumptions prove to differ from actual results, adjustments are made in subsequent periods to reflect more current information.

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

Product Warranty Accruals (in thousands)	For the Fiscal Years Ended September 30,		
	2014	2013	2012
Balance at beginning of period	\$4,561	\$4,100	\$4,158
Provision for product warranty - expense	2,114	2,914	(49
Adjustments and utilization of warranty accrual	(3,057	) (2,453	) (9
Balance at end of period	\$3,618	\$4,561	\$4,100
Current portion	\$3,087	\$4,030	\$3,692
Non-current portion	531	531	408
Product warranty liability at end of period	\$3,618	\$4,561	\$4,100

Table of Contents

The decrease in our provision for product warranty expense for the fiscal year ended September 30, 2014 compared to the same periods in 2013 was primarily due to specific customer warranty claims in 2013.

NOTE 11. Impact from Thailand Flood

In October 2011, we announced that flood waters had severely impacted the inventory and production operations of our primary contract manufacturer in Thailand. The impacted areas included certain product lines for the Telecom and Cable Television (CATV) market segments. Our Photovoltaics segment was not affected by the Thailand floods.

During the fiscal year ended September 30, 2012, we recorded estimated flood-related losses associated with damaged inventory and equipment of approximately \$3.7 million and \$1.8 million, respectively. Equipment under capital lease totaling \$1.9 million as of September 30, 2011 was also damaged by the Thailand flood and written off against our outstanding capital lease obligation.

Instead of completely rebuilding all flood-damaged manufacturing lines in Thailand, management decided to realign the Company's fiber optics product portfolio and focus on business areas with strong technology differentiation and growth opportunities. Management identified certain inventory on order related to manufacturing product lines that were destroyed by the Thailand flood and will not be replaced. This expense, which totaled \$1.6 million, for the fiscal year ended September 30, 2012, was recorded within cost of revenue on our statement of operations and comprehensive income (loss).

In November 2011, we entered into an agreement with our contract manufacturer in Thailand whereby our contract manufacturer agreed to purchase equipment to rebuild certain manufacturing lines damaged by flood waters and we agreed to reimburse our contract manufacturer for the cost of the equipment out of insurance proceeds that we expected to receive. We were not a named beneficiary of our contract manufacturer's insurance policy. As of September 30, 2012, we capitalized the cost of our new manufacturing lines of approximately \$5.2 million and recorded an equipment capital lease obligation of \$4.4 million, net of equipment deposits. In addition, during the fiscal year ended September 30, 2013, we capitalized an additional \$1.2 million of new manufacturing lines and recorded a corresponding amount to capital lease obligation. Additionally, we restructured our outstanding payables owed to our contract manufacturer, which delayed payments to future dates to coincide with expected timing of insurance proceeds. Flood-related insurance proceeds related to inventory and equipment destroyed by the Thailand flood are recognized when they become realized. In September 2012 we received cash flood-related insurance proceeds of \$4.0 million. In December 2012, we received flood-related insurance proceeds of \$4.2 million in the form of forgiveness of \$2.2 million of outstanding capital lease obligations and \$2.0 million of outstanding payables. In March 2013, we received the final flood-related insurance proceeds of \$14.8 million in the form of a receivable of \$8.2 million, which we received cash payment for in April 2013, forgiveness of \$3.4 million of outstanding capital lease obligations and \$3.2 million of outstanding payables. No additional flood-related insurance proceeds associated with this event are anticipated. Additionally, we also claimed damages and received proceeds of \$5.0 million under our own comprehensive insurance policy relating to

Table of Contents

business interruption and we recorded this amount as flood-related insurance proceeds during the fiscal year ended September 30, 2012. No additional business interruption insurance proceeds associated with this event are anticipated.

## NOTE 12. Credit Facilities

On November 11, 2010, we entered into a Credit and Security Agreement (credit facility) with Wells Fargo Bank, National Association ("Wells Fargo"). 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 December 3, 2014, we entered into a Sixth Amendment to the credit facility, pursuant to which Wells Fargo agrees, to automatically release all encumbrances covering certain of the Company's assets to be sold pursuant to the Photovoltaics Agreement and the Digital Products Agreement. In addition, on December 10, 2014, upon notice to Wells Fargo of the closing of the transaction contemplated by the Photovoltaics Agreement, the maximum borrowing allowed under the credit facility was reduced from \$35.0 million to \$15.0 million, and certain other changes to the borrowing base calculations went into effect.

As of September 30, 2014, we had a \$26.5 million LIBOR rate loan outstanding, with an interest rate of 3.3%, and approximately \$1.9 million reserved for six outstanding stand-by letters of credit under the credit facility. As of December 10, 2014, there was no outstanding balance under this credit facility. We now expect at least 50% of the \$15.0 million credit facility to be available for use during fiscal year 2015.

## NOTE 13. Income and other Taxes

The Company's (loss) income before income taxes consisted of the following:

(Loss) income before income taxes (in thousands)	For the Fiscal Years Ended September 30,		
	2014	2013	2012
Domestic	\$(19,478 )	\$7,137	\$(38,613 )
Foreign	250	(2,029 )	1,086
(Loss) income before income taxes	\$(19,228 )	\$5,108	\$(37,527 )

The Company's income tax (benefit) expense consisted of the following:

Income tax (benefit) expense (in thousands)	For the Fiscal Years Ended September 30,		
	2014	2013	2012
Federal:			
Current	\$—	\$120	\$—
Deferred	(21,590 )	—	—
	(21,590 )	120	—
State:			
Current	—	—	—
Deferred	(2,490 )	—	—
	(2,490 )	—	—
Foreign			
Current	—	—	1,644
Deferred	—	—	—

Total income tax (benefit) expense	—	—	1,644
	\$(24,080	) \$120	\$1,644

Table of Contents

The deferred tax benefit of \$24.1 million relates primarily to the recognition of deferred tax assets which will be used in fiscal year 2015 when income tax expense is recorded as a result of the sale of the Photovoltaics Business.

EMCORE Corporation is incorporated in the state of New Jersey. A reconciliation of the provision for income taxes, with the amount computed by applying the statutory U.S. federal and state income tax rates to income before provision for income taxes is as follows:

Provision for Income Taxes (in thousands)	For the Fiscal Years Ended September 30,		
	2014	2013	2012
Income tax (benefit) expense computed at U.S. federal statutory rate	\$(6,537 )	\$1,700	\$(12,800 )
State tax expense (benefit), net of U.S. federal effect	2,989	400	(1,400 )
Foreign	—	—	1,600
NOL adjustments	24,515	—	—
Capital losses	(5,217 )	—	—
Other	(1,033 )	1,320	744
Change in valuation allowance	(38,797 )	(3,300 )	13,500
Income tax (benefit) expense	\$(24,080 )	\$120	\$1,644
Effective tax rate	125	% 2	% 4

Significant components of our deferred tax assets are as follows:

Deferred Tax Assets (in thousands)	As of September 30, 2014	As of September 30, 2013
Deferred tax assets:		
Federal net operating loss carryforwards	\$155,741	\$166,834
Foreign net operating loss carryforwards	646	4,052
Income tax credit carryforwards	2,641	2,641
Inventory reserves	4,439	3,743
Accounts receivable reserves	51	1,275
Accrued warranty reserve	1,171	799
State net operating loss carryforwards	10,454	14,289
Investment write-down	—	5,315
Stock compensation	3,300	3,325
Deferred compensation	1,647	1,466
Fixed assets and intangibles	10,501	12,681
Capital loss carryover	10,565	—
Other	1,868	1,320
Total deferred tax assets	203,024	217,740
Valuation allowance	(178,944 )	(217,740 )
Net deferred tax assets	\$24,080	\$—

During the fiscal year ended September 30, 2014 there was a significant decrease in the valuation allowance primarily from domestic and foreign restructurings resulting in the elimination of unutilized net operating loss carryforwards and the release of a portion of the valuation allowance as a result of the sale of the Photovoltaics business in fiscal year 2015.



Table of Contents

With regards to foreign restructurings during the fiscal year ended September 30, 2014, the Spain subsidiary was liquidated as of September 30, 2014 and the Netherlands subsidiary began liquidation during the fiscal year. These subsidiaries had a remaining net operating loss carryforward of approximately \$9.0 million which has been eliminated from the deferred tax balances as of September 30, 2014. In addition, during the fiscal year ended September 30, 2014, approximately \$4.1 million of China net operating loss carryforwards have expired.

During the quarter ended September 30, 2014, the Company determined that it was more likely than not that certain deferred tax assets would be realized upon the closing of the sale of the Photovoltaics Business. Prior to the quarter ended September 30, 2014, because of significant negative evidence including the Company's lack of historical profitability and expected losses in future years, the Company determined that it was more likely than not that the deferred tax assets would not be realized. However, with the December 10, 2014 closing of the sale of the Photovoltaics Business, the Company will realize a gain on the sale that will result in the realization of a portion of our deferred tax assets. Upon considering the relative impact of all evidence, both negative and positive, and the weight accorded to each, the Company concluded that it was more likely than not that certain deferred tax assets would be realized and that the applicable valuation allowance should be released as of September 30, 2014.

Accordingly, a net deferred tax valuation allowance release of \$24.1 million was recorded as an income tax benefit during fiscal year 2014. We expect that substantially all of the \$24.1 million in deferred tax assets will be used in fiscal year 2015 when income tax expense is recorded as a result of closing the sale of the Photovoltaics Business on December 10, 2014, thus resulting in no cash received for the deferred tax assets. The Company believes its forecast of future taxable income is reasonable; however, it is inherently uncertain. The deferred tax valuation allowance is based primarily on estimates related to the taxable gains and losses on the sales of the Photovoltaics Business and Digital Products Business as well as estimates related to future taxable income. To the extent these estimates may change, it could have a significant effect on future income tax benefit or expense.

For the fiscal years ended September 30, 2014, 2013 and 2012, the Company recorded income tax (benefit) expense of approximately \$(24.1) million, \$0.1 million and \$1.6 million, respectively. As of September 30, 2014 and 2013, we had approximately \$0.4 million of interest and penalties accrued as tax liabilities on our balance sheet.

During the three months ended December 31, 2011, as part of an equity recapitalization at our former Suncore joint venture we received a deemed capital distribution of \$14.8 million. The deemed capital distribution was subject to a 10% foreign withholding tax. As a result, we were subject to a \$1.6 million foreign tax expense and Suncore made a cash dividend for an equal amount. The foreign tax expense was treated as a tax credit for U.S. tax purposes. See [Note 17 - Suncore Joint Venture](#) for additional disclosures related to this foreign income tax expense.

The Company prepared an Internal Revenue Code 382 analysis to determine the annual limitations on the Company's consolidated net operating loss carryforwards. The result was it was determined that the net operating loss carryforwards of two domestic subsidiaries had no value. This conclusion was based upon the Internal Revenue Code 382 annual limitation determined when the subsidiaries were acquired coupled with their inactive status. As a result, the Company commenced the process of dissolving these entities as of September 30, 2014. Accordingly, approximately \$57.4 million of federal net operating loss carryforwards related to these dissolved subsidiaries have been eliminated from the deferred tax balances at September 30, 2014.

As of September 30, 2014, the Company had net operating loss carryforwards for U.S. federal income tax purposes of approximately \$458.1 million which begin to expire in 2021. As of September 30, 2014, the Company had foreign net operating loss carryforwards of \$5.0 million which began to expire in 2014, as well as, state net operating loss carryforwards of approximately \$266.0 million which began to expire in 2014. As of September 30, 2014, the Company also had tax credits (primarily foreign income and U.S. research and development tax credits) of approximately \$2.6 million. The research credits will begin to expire in 2018. Utilization of net operating loss and tax credit carryforwards are subject to a substantial annual limitation due to the ownership change limitations set forth in Internal Revenue Code Section 382 and similar state provisions. As a result, of the \$458.1 million of U.S. net

operating loss carryforwards, approximately \$247.3 million is subject to an annual limitation and \$210.8 million of the net operating losses are not subject to an annual limitation. Such annual limitations could result in the expiration of the net operating loss and tax credit carryforwards before utilization. At this time, the Company has not determined the full extent of the ownership change limitations upon the state operating loss carryforwards.



Table of Contents

A reconciliation of the beginning and ending amount of unrecognized gross tax benefits is as follows:

Unrecognized Gross Tax Benefit (in thousands)	
Balance as of September 30, 2012	\$620
Adjustments based on tax positions related to the current year	—
Adjustments based on tax positions of prior years	—
Balance as of September 30, 2013	\$620
Adjustments based on tax positions related to the current year	—
Adjustments based on tax positions of prior years	—
Balance as of September 30, 2014	\$620

We file income tax returns in the U.S. federal, state, and local jurisdictions. Currently, the Company's September 30, 2012, federal return is under examination. The examination is currently in progress and the Company has not been notified of any significant issues. There are no state income tax returns under examination. The following tax years remain open to assessment for each of the more significant jurisdictions where we are subject to income taxes: after fiscal year 2010 for U.S. federal, after fiscal year 2009 for the state of California, and after fiscal year 2010 for the state of New Mexico.

Included in our operating income for the fiscal years ended September 30, 2014 and 2013 were \$0.8 million and \$1.8 million, respectively, of New Mexico incentive tax credits received. The amount received was allocated to cost of goods sold, selling, general and administrative and research and development expense primarily based on the number of employees allocated to the related departments. These credits will result in cash refunds and reduction of future payroll and compensation taxes. There were no significant incentive tax credits received during the fiscal years ended September 30, 2012.

## NOTE 14. Commitments and Contingencies

Leases: Estimated future minimum lease payments under non-cancelable operating leases with an initial or remaining term of one year or more as of September 30, 2014 are as follows:

Estimated Future Minimum Lease Payments (in thousands)	Operating Leases
Fiscal year ended September 30, 2015	\$1,156
Fiscal year ended September 30, 2016	1,036
Fiscal year ended September 30, 2017	512
Fiscal year ended September 30, 2018	77
Fiscal year ended September 30, 2019	77
Thereafter	2,380
Total minimum lease payments	\$5,238

Operating Lease Obligations: We lease certain land, 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 \$1.7 million, \$2.3 million and \$2.7 million for the fiscal years ended September 30, 2014, 2013 and 2012, respectively. There are no off-balance sheet arrangements other than our operating leases.



## Table of Contents

**Asset Retirement Obligations:** We have known conditional asset retirement conditions, such as certain asset decommissioning and restoration of rented facilities to be performed in the future. Our asset retirement obligations include assumptions related to renewal option periods for those facilities where we expect to extend lease terms. In future periods, the asset retirement obligation 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 asset retirement obligation changes, an adjustment will be recorded to both the asset retirement obligation and the asset retirement capitalized cost. Revisions in estimated liabilities can result from revisions of estimated inflation rates, escalating retirement costs, and changes in the estimated timing of settling asset retirement obligations. The fair value of our asset retirement obligations were estimated by discounting projected cash flows over the estimated life of the related assets using credit adjusted risk-free rates which ranged from 3.25% to 5.78%. No asset retirement obligations were settled during the fiscal year ended September 30, 2014. We settled approximately \$0.1 million of asset retirement obligations during the fiscal year ended September 30, 2013. Accretion expense of \$0.2 million, \$0.2 million and \$0.2 million was recorded during the fiscal years ended September 30, 2014, 2013 and 2012, respectively.

**Indemnifications:** We have agreed to indemnify certain customers against claims of infringement of the intellectual property rights of others in our sales contracts with these customers. Historically, we have not paid any claims under these indemnification obligations. On September 19, 2013, we received written notice from a customer of our broadband products requesting indemnification relating to a lawsuit brought against them alleging patent infringement of a system incorporating our product. As of September 30, 2014, there has been no resolution to this claim. In March 2012, we entered into a Master Purchase Agreement with SEI, pursuant to which we agreed to sell certain assets and transfer certain obligations associated with our Fiber Optics segment. Under the terms of the Master Purchase Agreement, we have agreed to indemnify SEI for up to \$3.4 million of potential claims and expenses for the two-year period following the sale and we recorded this amount as a deferred gain on our balance sheet as of September 30, 2014 and 2013 as a result of these contingencies. In April 2013, May 2013 and May 2014, we received letters from SEI asserting indemnification claims under the Master Purchase Agreement of at least \$1.5 million. As of September 30, 2014, there has been no resolution to these claims. See Note 1 - Description of Business in the notes to the consolidated financial statements for additional disclosures related to this asset sale.

**Legal Proceedings:** We are subject to various legal proceedings, claims, and litigation, either asserted or unasserted that arise in the ordinary course of business. While the outcome of these matters is currently not determinable, we do not expect the resolution of these matters will have a material adverse effect on our business, financial position, results of operations, or cash flows. However, 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) Nichia Corporation

On October 8, 2013, we were served with a complaint filed by Nichia Corporation in the United States District Court for the Eastern District of Texas, alleging infringement of Nichia's U.S. Patent No. 7.295.587 entitled "Semiconductor Laser Having Optical Guide Layer Doped for Decreasing Resistance" by one of our broadband products, unspecified monetary damages and injunctive relief (Nichia Corporation v. EMCORE Corporation, Case No.: 2-13-CV480). During the fiscal year ended September 30, 2014, we entered into a settlement agreement which resolved Nichia's lawsuit. Under the settlement, we acknowledged the validity of Nichia's '587 patent, and paid an immaterial sum of money for damages to Nichia. Also under the settlement agreement, Nichia granted Emcore a non-exclusive, royalty-bearing license to the '587 patent.

c) Sumitomo Electric Industries Ltd.

On September 23, 2014, Sumitomo Electric Industries Ltd. ("Sumitomo"), filed for arbitration against EMCORE, as required under the Master Purchase Agreement between the parties (the "MPA"). Sumitomo seeks \$40.0 million from EMCORE,

Table of Contents

relating to claims for quality issues, expenses related to subpoenas issued in litigation against a vendor and customers of SEDU, a claim that EMCORE made fraudulent or negligent misrepresentations to Sumitomo in the MPA, and other breach of contract claims. We believe that the claims in this matter are without merit and we intend to defend vigorously against them. However, because the matter is in a preliminary stage, we cannot assure you as to its outcome, or that an adverse decision in such action would not have a material adverse effect on our business, financial condition or results of operation. On November 14, 2014, EMCORE answered Sumitomo's complaint and asserted several factual and legal defenses.

NOTE 15. Equity

Stock Sales

During August 2012, we filed a shelf registration statement on Form S-3 with the SEC pursuant to which we may, from time to time, sell up to an aggregate of \$50 million of our common or preferred stock, warrants or debt securities. On August 23, 2012, the registration statement was declared effective by the SEC, which allows us to access the capital markets for the three year period following this effective date as long as we continue to meet the eligibility requirements for the use of Form S-3. On October 3, 2012, we sold 1,832,410 shares of common stock for net proceeds of \$9.5 million. In addition, on September 18, 2013, we sold 2,875,000 shares of common stock for net proceeds of \$11.7 million.

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 (2000 Plan),
- the 2010 Equity Incentive Plan (2010 Equity Plan),
- the 2012 Equity Incentive Plan (2012 Equity Plan).

On March 5, 2014, our shareholders approved an amendment to the 2012 Equity Plan to increase the total number of shares of common stock available for grant under the 2012 Equity Plan by 1,000,000 shares, to a total authorized of 2,000,000 shares.

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.

Table of Contents

The following table summarizes stock option activity under the Equity Plans for our fiscal year ended September 30, 2014:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (*)(in thousands)
Outstanding as of September 30, 2013	1,745,948	\$17.78		
Granted	44,825	\$4.65		
Exercised	(120,761 )	\$4.86		\$100
Forfeited	(51,918 )	\$4.72		
Expired	(186,904 )	\$16.80		
Outstanding as of September 30, 2014	1,431,190	\$19.06	3.45	\$507
Exercisable as of September 30, 2014	1,280,768	\$20.74	2.93	\$327
Vested and expected to vest as of September 30, 2014	1,409,788	\$19.28	3.38	\$484

(\* ) 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 fiscal ended September 30, 2013 and 2012 the intrinsic value of options exercised was \$94,000 and \$12,000.

As of September 30, 2014, there was approximately \$0.5 million of unrecognized stock-based compensation expense, net of estimated forfeitures, related to non-vested stock options granted under the Equity Plans which is expected to be recognized over an estimated weighted average life of 2.6 years.

## Valuation Assumptions

The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option valuation model, adhering to the straight-line attribution approach using the following weighted-average assumptions, of which the expected term and stock price volatility rate are highly subjective:

	For the Fiscal Years Ended September 30,		
	2014	2013	2012
Black-Scholes weighted average assumptions:			
Expected dividend rate	—	% —	% —
Expected stock price volatility rate	92.8	% 96.7	% 101.8
Risk-free interest rate	1.9	% 1.2	% 0.8
Expected term (in years)	6.0	6.0	5.4
Weighted average grant date fair value per share of stock options granted:	\$3.53	\$3.45	\$3.54

Expected Dividend Yield: The Black-Scholes valuation model calls for a single expected dividend rate as an input. We have not issued any dividends.

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

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

**Expected Term:** Expected term represents the period that our stock-based awards are expected to be outstanding and was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based

Table of Contents

awards, vesting schedules and expectations of future employee behavior as influenced by changes to the terms of stock-based awards.

Estimated Pre-vesting Forfeitures: We are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting option forfeitures and record stock-based compensation expense only for those awards that are expected to vest. If we use different assumptions for estimating stock-based compensation expense in future periods or if actual forfeitures differ materially from our estimated forfeitures, the change in our non-cash stock-based compensation expense could adversely affect our results of operations.

### Restricted Stock

Restricted stock awards (RSAs) and restricted stock units (RSUs) granted under the 2010 Equity Plan and 2012 Equity Plan typically vest over 3 years and are subject to forfeiture if employment terminates prior to the lapse of the restrictions. RSAs are considered issued and outstanding shares on the grant date and have the same dividend and voting rights as other common stock. RSUs are not considered issued or outstanding common stock until they vest.

The following table summarizes the activity related to RSAs and RSUs:

Restricted Stock Activity	Restricted Stock Awards		Restricted Stock Units	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested as of September 30, 2013	99,561	\$5.84	854,928	\$4.51
Granted	—	\$0.00	661,500	\$4.89
Vested	(97,098 )	\$5.85	(411,406 )	\$4.64
Forfeited	(2,463 )	\$5.68	(138,443 )	\$4.54
Non-vested as of September 30, 2014	—	\$0.00	966,579	\$4.71

Restricted stock awards: As of September 30, 2014, there was no remaining unamortized stock-based compensation expense associated with RSAs. For the fiscal years ended September 30, 2013 and 2012, there were no RSAs granted.

Restricted stock units: As of September 30, 2014, there was approximately \$2.7 million of remaining unamortized stock-based compensation expense, net of estimated forfeitures, associated with RSUs, which will be expensed over a weighted average remaining service period of approximately 1.8 years. The 1.0 million outstanding non-vested RSUs have an aggregate intrinsic value of approximately \$5.5 million and a weighted average remaining contractual term of 1.1 years. For the fiscal years ended September 30, 2014, 2013, and 2012, the intrinsic value of RSUs vested were \$2.4 million, \$1.2 million, and \$1.8 million, respectively. Of the 1.0 million outstanding non-vested RSUs, approximately 0.9 million RSUs are expected to vest and have an aggregate intrinsic value of approximately \$4.9 million and a weighted average remaining contractual term of 1.0 year. For the fiscal years ended September 30, 2013 and 2012, the weighted average grant date fair value of RSUs was \$4.63 and \$3.88.



Table of Contents

## Stock-based compensation

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

Stock-based Compensation Expense - by award type (in thousands)	For the Fiscal Years Ended September 30,		
	2014	2013	2012
Employee stock options	\$ 196	\$ 495	\$ 2,563
Restricted stock awards and units	2,489	2,006	3,211
Employee stock purchase plan	421	501	666
401(k) match in common stock	966	1,041	1,034
Outside director fees in common stock	367	166	282
Total stock-based compensation expense	\$4,439	\$4,209	\$7,756

Stock-based Compensation Expense - by expense type (in thousands)	For the Fiscal Years Ended September 30,		
	2014	2013	2012
Cost of revenue	\$ 900	\$ 1,143	\$ 1,566
Selling, general, and administrative	2,372	1,754	3,889
Research and development	1,167	1,312	2,301
Total stock-based compensation expense	\$4,439	\$4,209	\$7,756

For the fiscal years ended September 30, 2014 and 2013, total stock-based compensation expense did not agree with the amount listed on our statement of shareholders' equity primarily due to the timing difference between the expense accrued and the issuance of common stock for the payment of outside director fees and our 401(k) company match. For the fiscal year ended September 30, 2012, total stock-based compensation expense did not agree with the amount listed on our statement of shareholders' equity primarily due to compensation of \$0.3 million related to the acceleration of restricted stock expense related to the sale of our Fiber Optics segment that was reported as a reduction of the gain on sale of assets and a timing difference between expense accrued and issuance of common stock for the payment of outside director fees.

## Capital Stock

Our authorized capital stock consists of 50 million shares of common stock, no par value, and 5,882,000 shares of preferred stock, \$0.0001 par value. As of September 30, 2014, we had 31 million shares of common stock issued and outstanding. There were no shares of preferred stock issued or outstanding as of September 30, 2014.

## Warrants

As of September 30, 2014 and 2013, warrants representing 400,001 shares of our common stock were outstanding.

On October 1, 2009, we entered into an equity line financing facility with Commerce Court Small Cap Value Fund, Ltd. wherein we issued three warrants representing the right to purchase up to an aggregate of 400,001 shares of common stock, (2009 Warrants). See [Note 4 - Fair Value Accounting](#) for additional information related to the valuation of our warrants.

The 2009 Warrants are reported as a current liability since these warrant agreements include a fundamental transaction clause whereby, in the event that another person becomes the beneficial owner of 50% of the outstanding shares of the Company's common stock, and if other conditions are met, we may be required to purchase the warrants from the holders by paying cash in an amount equal to the Black-Scholes value of the remaining unexercised portion of the warrants on the date of such fundamental transaction.

## 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. All employer contributions are made in common stock. For the fiscal years ended September 30, 2014, 2013 and 2012, we contributed approximately \$1.0 million, \$1.0 million and \$1.0 million, respectively, in common stock to the savings plan.

#### 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 February 25 and

Table of Contents

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 day of the participation period, whichever is lower, and contributions are limited to the lower of 10% of an employee's compensation or \$25,000. At the 2012 Annual Meeting, our shareholders approved an amendment to the ESPP that increased the total number of shares of common stock on which options may be granted under the ESPP to 2,250,000 shares. On March 5, 2014, our shareholders approved an amendment to the ESPP that increased the total number of shares of common stock on which options may be granted under the ESPP by 1,000,000 shares to 3,250,000 shares. We issue new shares of common stock to satisfy the issuance of shares under this stock-based compensation plan. Common stock issued under the ESPP during the fiscal years ended September 30, 2014, 2013, and 2012 totaled 341,000, 344,000 and 250,000 shares, respectively. As of September 30, 2014, the total amount of common stock issued under the ESPP totaled 2,154,791 shares.

**Officer and Director Share Purchase Plan**

On January 21, 2011, the Compensation Committee of the Board approved an Officer and Director Share Purchase Plan, or ODPP, which allows executive officers and directors to purchase shares of our common stock at fair market value in lieu of salary or, in the case of directors, director fees. Eligible individuals may voluntarily participate in the ODPP by authorizing payroll deductions or, in the case of directors, deductions from director fees for the purpose of purchasing common stock. Elections to participate in the ODPP may only be made during open trading windows under our insider trading policy when the participant does not otherwise possess material non-public information concerning the Company. The Board of Directors has authorized 125,000 shares to be made available for purchase by officers and directors under the ODPP. Common stock issued under the ODPP during the fiscal years ended September 30, 2014, 2013, and 2012 totaled 1,600, 4,500 and 21,000, shares, respectively.

**Income (Loss) Per Share.**

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

Basic and Diluted Net Income (Loss) Per Share (in thousands, except per share)	For the Fiscal Years Ended September 30,		
	2014	2013	2012
Numerator - Net income (loss)	\$4,852	\$4,988	\$(39,171)
Less: Undistributed earnings allocated to participating securities	(6)	(26)	—
Undistributed earnings allocated to common shareholders for basic net income (loss) per share	\$4,846	\$4,962	\$(39,171)
Undistributed earnings allocated to common shareholders for diluted net income (loss) per share	\$4,846	\$4,962	\$(39,171)
Denominator:			
Denominator for basic net income (loss) per share - weighted average shares outstanding	30,453	26,531	23,559
Dilutive options outstanding, unvested stock units and ESPP	324	281	—
Denominator for diluted net income (loss) per share - adjusted weighted average shares outstanding	30,777	26,812	23,559
Basic net income (loss) per share	\$0.16	\$0.19	\$(1.66)
Diluted net income (loss) per share	\$0.16	\$0.19	\$(1.66)
Weighted average antidilutive options, unvested restricted stock units and awards, warrants and ESPP shares excluded from the computation	1,936	2,391	3,999
Average market price of common stock	\$4.69	\$4.64	\$4.44

The antidilutive stock options and unvested stock were excluded from the computation of diluted net (loss) income per share due to the assumed proceeds from the award's exercise or vesting being greater than the average market price of

the common shares or due to the Company incurring a net loss for the periods presented.

97

---

Table of Contents

## Future Issuances

As of September 30, 2014, 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	1,431,190
Unvested restricted stock units	966,579
Purchases under the employee stock purchase plan	1,092,983
Issuance of stock-based awards under the Equity Plans	1,107,206
Exercise of outstanding warrants	400,001
Purchases under the officer and director share purchase plan	88,741
Total reserved	5,086,700

## NOTE 16. Segment Data and Related Information

We have three operating divisions within the following two reporting segments:

**Fiber Optics:** EMCORE Digital Fiber Optics Products and EMCORE Broadband Fiber Optics Products are aggregated as a separate reporting segment, Fiber Optics. Our Fiber Optics reporting segment provides optical components, subsystems, and systems for high-speed telecommunications, cable television (CATV), and fiber-to-the-premises (FTTP) networks, as well as products for satellite communications, video transport, and specialty photonics technologies for defense and homeland security applications.

**Photovoltaics:** EMCORE Photovoltaics is a separate reporting segment, Photovoltaics. Our Photovoltaics reporting segment provides products for both space and terrestrial solar power applications. For space solar power applications, we offer high-efficiency multi-junction solar cells, covered interconnect cells (CICs), and complete satellite solar panels. For terrestrial power applications, we offer high-efficiency GaAs solar cells for concentrating photovoltaic (CPV) power systems.

On September 17, 2014, EMCORE entered into an Asset Purchase Agreement (the "Agreement") with Photon Acquisition Corporation ("Purchaser"), a Delaware corporation and an affiliate of private equity firm Veritas Capital, pursuant to which Purchaser will acquire substantially all of the assets, and assume substantially all of the liabilities, primarily related to or used in connection with the Photovoltaics Business. At a special meeting of EMCORE'S shareholders held on December 5, 2014, EMCORE'S shareholders approved the sale of the Photovoltaics Business, and on December 10, 2014 EMCORE completed the Photovoltaics Asset sale.

As a result, the financial results of the entire Photovoltaics Business will be presented as discontinued operations on the Consolidated Statements of Operations beginning in the first quarter of fiscal year 2015. Accordingly, the Company will have one remaining reportable segment: Fiber Optics.

On October 22, 2014, EMCORE entered into an Asset Purchase Agreement (the "Purchase Agreement") with NeoPhotonics Corporation, a Delaware corporation ("NeoPhotonics") pursuant to which the Company has agreed to sell certain assets, and transfer certain liabilities of the Company's telecommunications business (the "Purchased Assets") to NeoPhotonics for an aggregate purchase price of \$17.5 million, subject to certain adjustments, consisting of \$1.5 million in cash at closing and a promissory note in the principal amount of \$16.0 million (the "Promissory Note"). The Promissory Note will bear interest of 5.0% per annum for the first year and 13.0% per annum for the second year, payable semi-annually in cash, and matures two years from the closing of the transaction contemplated

by the Purchase Agreement (collectively, the "Digital Products Business" and, the sale of the Digital Products Business, the "Digital Products Assets Sale"). In addition, the Promissory Note will be subject to prepayments under certain circumstances, and will be secured by certain of the assets to be sold to NeoPhotonics in the transaction. The Purchased Assets include fixed assets, inventory, and intellectual property for the ITLA, micro-ITLA, T-TOSA and T-XFP product lines within the Company's telecommunications business. The purchase price is subject to certain adjustments for inventory, net accounts receivable and pre-closing revenue levels, which will increase or

Table of Contents

decrease the principal amount under the Promissory Note as applicable. The transaction is subject to customary closing conditions and is expected to close by early January 2015.

As the result of this transaction, we expect assets and liabilities of the telecommunications business which is included within the fiber optics results below, to be classified as held for sale and the financial results to be reported as discontinued operations in the Company's consolidated financial statements in the first quarter of fiscal year 2015. The telecommunications business to be sold represents 26% of our consolidated revenue for the fiscal year ended September 30, 2014 and 16% of our total assets as of September 30, 2014.

We evaluate our reportable segments 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 segments and allocates resources to segments based on their business prospects, competitive factors, net revenue, operating results, and other non-GAAP financial ratios.

Revenue: The following tables set forth revenue attributable to each of our reporting segments and by geographic region with revenue assigned to geographic regions based on our customers' billing addresses.

Segment Revenue (in thousands)	For the Fiscal Years Ended September 30,		
	2014	2013	2012
Fiber Optics revenue	\$ 101,552	\$ 96,977	\$ 96,153
Photovoltaics revenue	73,226	71,170	67,628
Total revenue	\$ 174,778	\$ 168,147	\$ 163,781

Revenue by Geographic Region (in thousands)	For the Fiscal Years Ended September 30,		
	2014	2013	2012
United States	\$ 111,428	\$ 107,341	\$ 111,962
Asia	40,244	44,373	27,519
Europe	21,196	15,318	15,032
Other	1,910	1,115	9,268
Total revenue	\$ 174,778	\$ 168,147	\$ 163,781

Significant Customers: For the fiscal years ended September 30, 2014, 2013 and 2012, our top 5 customers accounted for 35%, 34%, 33%, respectively, of our annual consolidated revenue. Significant customers are defined as customers that represented greater than 10% of total consolidated revenue, by reporting segment. No single customer from the Fiber segment represented greater than 10% of our consolidated revenue for the fiscal years ended September 30, 2014, 2013 and 2012.

Table of Contents

No single customer from the Photovoltaics segment represented greater than 10% of our consolidated revenue for the fiscal years ended September 30, 2014 and 2013. For the fiscal year ended September 30, 2012, revenue from Space Systems Loral represented 14% of our total consolidated revenue. Revenue from Suncore represented 9% of our consolidated revenues for the fiscal year ended September 30, 2013. See Note 15 - Suncore Joint Venture for additional disclosures related to the Suncore revenues.

Operating (Loss) Income: The following table sets forth operating (loss) income attributable to each of our reporting segments.

Operating (Loss) Income (in thousands)	For the Fiscal Years Ended September 30,		
	2014	2013	2012
Fiber Optics operating loss	\$ (25,400 )	\$ (8,382 )	\$ (26,684 )
Photovoltaics operating income (loss)	6,292	8,602	(8,941 )
Total operating (loss) income	\$ (19,108 )	\$ 220	\$ (35,625 )

Non-Cash Expenses: The following tables set forth our significant non-cash expenses attributable to each of our reporting segments.

Depreciation, Amortization, and Accretion Expense (in thousands)	For the Fiscal Years Ended September 30,		
	2014	2013	2012
Fiber Optics segment	\$ 5,986	\$ 5,737	\$ 5,246
Photovoltaics segment	2,532	2,951	4,174
Total depreciation, amortization, and accretion expense	\$ 8,518	\$ 8,688	\$ 9,420

Stock-based Compensation Expense (in thousands)	For the Fiscal Years Ended September 30,		
	2014	2013	2012
Fiber Optics segment	\$ 2,792	\$ 2,668	\$ 4,678
Photovoltaics segment	1,647	1,541	3,078
Total stock-based compensation expense	\$ 4,439	\$ 4,209	\$ 7,756

Long-lived Assets: Long-lived assets consist primarily of property, plant, and equipment and also goodwill and intangible assets. The following table sets forth long-lived assets for each of our reporting segments and our unallocated Corporate division.

Long-lived Assets (in thousands)	As of September 30,	As of September 30,
	2014	2013
Fiber Optics segment	\$ 18,976	\$ 23,804
Photovoltaics segment	39,137	40,048
Unallocated Corporate division	8,400	8,435
Long-lived assets	\$ 66,513	\$ 72,287

As of September 30, 2014, 2013 and 2012 approximately 81%, 80% and 86%, respectively, of our long-lived assets were located in the United States. The remaining assets are primarily located in China and Thailand.





Table of Contents

## NOTE 17. Suncore Joint Venture

On July 30, 2010, we entered into a joint venture agreement with San'an Optoelectronics Co., Ltd. (San'an), for the purpose of engaging in the development, manufacturing, and distribution of CPV receivers, modules, and systems for terrestrial solar power applications under a technology license from us. The joint venture, Suncore Photovoltaic Technology Co., Ltd. (Suncore), is a limited liability company under the laws of the People's Republic of China ("PRC"). In June 2013, we entered into an agreement to transfer our 40% registered ownership interest in Suncore to San'an Optoelectronics Co., Ltd. ("San'an") for a purchase price of \$4.8 million. Under the terms of the Transfer Agreement, each of the parties agreed to indemnify the other for any losses incurred as a result of either party's breach of its obligations under the Transfer Agreement. The payment for the purchase price was made upon the completion of the share transfer, which occurred in September 2013. Upon completion of the share transfer in September 2013, the Company recognized \$3.3 million of deferred revenue from Suncore, as well as the resulting gain of \$4.8 million on our registered ownership interest.

In November 2011, we agreed to grant Suncore an exclusive license to use certain intellectual property and know-how, both existing and to-be-developed, related to the fabrication process and testing of terrestrial CPV solar cells on terrestrial CPV solar systems solely within the PRC, Hong Kong, Macau, and Taiwan (the licensed territory) and be able to use, market, and sell the terrestrial CPV solar cells worldwide, excluding only the United States. This licensing agreement was initially for \$2.5 million and does not include intellectual property associated with the development of space qualified or radiation hardened solar cells. Suncore had not fulfilled all the requirements necessary to initiate payment for this license; as a result, we did not record any receivables from Suncore associated with this license agreement as of September 30, 2012. In October 2013, we amended the license agreement with Suncore that provides for the license agreement to be amended from \$2.5 million to \$0.8 million. In addition, we were only required to provide ongoing support through December 31, 2013 to Suncore. During the three months ended December 31, 2013, we received full payment from Suncore and recognized license revenue of \$0.8 million related to the amendment.

On August 5, 2012, we entered into a definitive agreement which consolidated the Company's terrestrial CPV system engineering and development efforts, for both ground mount and rooftop terrestrial CPV products, into Suncore. EMCORE employees who were engaged in terrestrial CPV product and business development, as well as key engineering, sales, and marketing personnel, were transferred to Suncore upon the closing of the agreement on September 21, 2012. Suncore funded all ongoing R&D, marketing, sales, and business development functions related to terrestrial CPV systems. We sold these assets for \$2.8 million. EMCORE will continue to own all of its intellectual property related to solar cell technology and maintain investment activities to advance CPV solar cell performance to serve a broader customer base within the CPV industry.

In March 2013, we sold certain solar assets and our ownership interest in Emcore Solar New Mexico ("ESNM") to Suncore for \$1.5 million and recognized the related gain of \$0.3 million during the fourth quarter of fiscal 2013. During the fiscal year ended September 30, 2013 and 2012, we recorded revenue from Suncore of \$15.9 million and \$6.2 million respectively. During the fiscal year ended September 30, 2012, we recorded a loss associated with our equity interest in the Suncore joint venture totaling \$1.2 million.

Included in prepaid expenses and other current assets as of September 30, 2013 is \$0.3 million for amounts due from Suncore related to transaction services provided in accordance with the August 2012 definitive agreement and other smaller amounts.

Beginning with the fiscal year 2014, Suncore is no longer considered a related party and therefore no corresponding information is presented.



Table of Contents

## NOTE 18. Subsequent Events

## Sale of Photovoltaics Business

On September 17, 2014, EMCORE entered into the Photovoltaics Agreement with Photon to acquire the Photovoltaics Business, for \$150.0 million in cash, subject to a working capital adjustment pursuant to the Photovoltaics Agreement. At a special meeting of EMCORE's shareholders held on December 5, 2014, EMCORE's shareholders approved the Photovoltaics Asset Sale, and on December 10, 2014 EMCORE completed the Photovoltaics Asset Sale.

As we evaluate the impact of this transaction, we expect the financial results of the Photovoltaics Business will be presented as discontinued operations on the Consolidated Statements of Operations beginning in the first quarter of fiscal year 2015. Given shareholder vote was required to approve the sale of the Photovoltaics Business, the assets and liabilities did not qualify for available for sale presentation as of September 30, 2014.

We are in the process of evaluating the transaction and its impact on our financial statements, including evaluating the resulting gain to be recognized, based on the terms of the agreement. The following table presents our best estimate of the aggregate carry amounts of the major classes of assets and liabilities related to the Photovoltaics Business as of September 30, 2014 to be disposed of.

(in thousands)	As of September 30, 2014 (unaudited)
Assets:	
Accounts receivable, net of allowance of \$0	\$ 17,827
Inventory	7,203
Prepaid expenses and other current assets	1,512
Property, plant and equipment, net	26,486
Goodwill	20,384
Other non-current assets, net	254
Total assets	\$ 73,666
Liabilities:	
Accounts payable	\$ 4,640
Accrued expenses and other current liabilities	5,398
Asset retirement obligations	720
Total liabilities	\$ 10,758

## Planned Asset Sale Transaction with NeoPhotonics Corporation

On October 22, 2014, EMCORE entered into an Asset Purchase Agreement (the "Digital Products Agreement") with NeoPhotonics Corporation, a Delaware Corporation ("NeoPhotonics") pursuant to which the Company has agreed to sell certain assets, and transfer certain liabilities of the Company's telecommunications business (collectively, the "Digital Products Business" and, the sale of the Digital Products Business, the "Digital Products Assets Sale") to NeoPhotonics for an aggregate purchase price of \$17.5 million, subject to certain adjustments, consisting of \$1.5 million in cash at closing and a promissory note in the principal amount of \$16.0 million (the "Promissory Note"). The Promissory Note will bear interest of 5.0% per annum for the first year and 13.0% per annum for the second year, payable semi-annually in cash, and matures two years from the closing of the transaction contemplated by the Digital Products Agreement. In addition, the promissory note will be subject to prepayments under certain circumstances, and will be secured by certain of the assets to be sold to NeoPhotonics in the transaction. The assets sold pursuant to the

Digital Products Agreement include fixed assets, inventory, and intellectual property for the ITLA, micro-ITLA, T-TOSA and T-XFP product lines within the Company's telecommunications business. The purchase price is subject to certain adjustments for inventory, net accounts receivable and pre-closing revenue levels,

102

---

Table of Contents

which will increase or decrease the principal amount under the Promissory Note as applicable. The transaction is subject to customary closing conditions and is expected to close by early January 2015.

As a result of this transaction, we expect the financial results of the Digital Products Business to be presented as discontinued operations on the Consolidated Statements of Operations and assets and liabilities of the Digital Products Business to be disposed of will be presented as held for sale on the Consolidated Balance Sheets beginning of the first quarter of fiscal year 2015.

We are in the process of evaluating the transaction and its impact on our financial statements, including evaluating the resulting gain to be recognized, based on the terms of the agreement. The following table presents our best estimate of the aggregate carry amounts of the major classes of assets and liabilities related to the Digital Products Business as of September 30, 2014 to be disposed of.

(in thousands)	As of September 30, 2014 (unaudited)
<b>Assets:</b>	
Accounts receivable, net of allowance of \$17	\$ 14,268
Inventory	3,225
Prepaid expenses and other current assets	30
Property, plant and equipment, net	7,889
Other intangible assets, net	1,060
<b>Total assets</b>	<b>\$ 26,472</b>
<b>Liabilities:</b>	
Accounts payable	10,848
Accrued expenses and other current liabilities	38
<b>Total liabilities</b>	<b>\$ 10,886</b>

Following the closing of the Photovoltaics and Digital Products Assets Sales EMCORE will continue to operate its fiber optics division which provides optical components, subsystems and systems for high-speed telecommunications, Cable Television (CATV) and Fiber-To-The-Premise (FTTP) networks, as well as products for satellite communications, video transport and specialty photonics technologies for defense and homeland security applications. Management changes

On December 10, 2014, the Company announced the hiring of Mr. Jeff Rittichier as its Chief Executive Officer, effective January 3, 2015. Mr. Rittichier's annual salary will be \$325,000. In addition, Mr. Rittichier was granted 300,000 RSUs, of which 25% vested immediately, and 25% will vest on each subsequent anniversary date.

With the hiring of Mr. Rittichier, Dr. Hong Q. Hou's employment with the Company as Chief Executive Officer will terminate on January 2, 2015 as previously announced. See also Note 10 - Accrued Expenses and Other Current Liabilities for additional disclosure on Dr. Hou's termination.

On December 10, 2014, the Company entered into Separation Agreements with its General Counsel, Mr. Alfredo Gomez, and its Chief Administration Officer, Ms. Monica Van Berkel. Mr. Gomez's separation agreement provides for the continuation of his base salary for 68 weeks, benefits for 18 months, and the immediate vesting of all outstanding unvested equity awards. Mr. Gomez will resign from his position effective the earlier of February 13, 2015 or the date following 10 business days from notice to him that the Company has hired a new in-house general counsel. Ms. Van Berkel's separation agreement provides for the continuation of her base salary for 74 weeks, benefits for 18 months, and the immediate vesting of all outstanding unvested equity awards. Ms. Van Berkel's resignation will be effective January 2, 2015. The Company expects to record a charge of \$1.1 million in fiscal year 2015 related to Mr. Gomez and Ms. Van Berkel's separation agreements.

Table of Contents

## NOTE 19. Selected Quarterly Financial Information (unaudited)

The following tables present our unaudited consolidated results of operations for the eight most recently ended quarters. We believe that all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts below to present fairly the selected quarterly information when read in conjunction with the consolidated financial statements and notes included elsewhere in this Annual Report. Our results from operations vary substantially from quarter to quarter. Accordingly, the operating results for a quarter are not necessarily indicative of results for any subsequent quarter or for the full year. We have experienced and expect to continue to experience significant fluctuations in quarterly results.

## EMCORE CORPORATION

## Quarterly Consolidated Statements of Operations

For the Fiscal Year Ended September 30, 2014

(in thousands, except (loss) income per share)

(unaudited)

	For the Three Months Ended			
	December 31, 2013	March 31, 2014	June 30, 2014	September 30, 2014
Revenue	\$44,211	\$42,247	\$44,582	\$43,738
Cost of revenue	34,076	35,381	35,189	37,458
Gross profit	10,135	6,866	9,393	6,280
Operating expenses (income):				
Selling, general, and administrative	7,972	6,911	7,843	10,059
Research and development	4,403	5,204	4,681	4,809
Gain on sale of assets	—	—	—	(100)
Total operating expense	12,375	12,115	12,524	14,768
Operating loss	(2,240)	(5,249)	(3,131)	(8,488)
Other income (expense):				
Interest expense, net	(126)	(117)	(134)	(145)
Foreign exchange gain (loss)	100	(90)	5	(5)
Gain on sale investment	290	17	—	—
Change in fair value of financial instruments	(78)	7	110	(5)
Other income	—	—	—	51
Total other income (expense)	186	(183)	(19)	(104)
Loss before income tax expense	\$(2,054)	\$(5,432)	\$(3,150)	\$(8,592)
Income tax benefit	—	—	—	24,080
Net (loss) income	\$(2,054)	\$(5,432)	\$(3,150)	\$15,488
Per share data:				
Net (loss) income per basic share	\$(0.07)	\$(0.18)	\$(0.10)	\$0.50
Net (loss) income per diluted share	\$(0.07)	\$(0.18)	\$(0.10)	\$0.50
Weighted-average number of basic shares outstanding	29,938	30,392	30,656	30,752
Weighted-average number of diluted shares outstanding	29,938	30,392	30,656	30,992

Table of Contents

## EMCORE CORPORATION

## Quarterly Consolidated Statements of Operations

For the Fiscal Year Ended September 30, 2013

(in thousands, except income (loss) per share)

(unaudited)

	For the Three Months Ended			
	December 31, 2012	March 31, 2013	June 30, 2013	September 30, 2013
Revenue	\$49,306	\$42,277	\$33,473	\$43,091
Cost of revenue	38,358	34,444	29,429	37,718
Gross profit	10,948	7,833	4,044	5,373
Operating expenses (income):				
Selling, general, and administrative	6,904	6,771	7,039	6,705
Research and development	5,390	4,112	4,674	5,796
Flood-related insurance proceeds	(4,192)	) (14,808	) —	—
Gain on sale of assets	—	(413	) —	—
Total operating expense (income)	8,102	(4,338	) 11,713	12,501
Operating income (loss)	2,846	12,171	(7,669	) (7,128
Other income (expense):				
Interest expense, net	(238	) (186	) (185	) (191
Foreign exchange gain (loss)	101	(21	) 181	95
Gain on sale of equity method investment	—	—	—	4,800
Change in fair value of financial instruments	237	(267	) 373	172
Other income	—	—	17	—
Total other income (expense)	100	(474	) 386	4,876
Income (loss) before income tax expense	\$2,946	\$11,697	\$(7,283	) \$(2,252
Income tax expense	(120	) —	—	—
Net income (loss)	\$2,826	\$11,697	\$(7,283	) \$(2,252
Per share data:				
Net income (loss) per basic share	\$0.11	\$0.44	\$(0.27	) \$(0.08
Net income (loss) per diluted share	\$0.11	\$0.44	\$(0.27	) \$(0.08
Weighted-average number of basic shares outstanding	25,977	26,310	26,609	27,158
Weighted-average number of diluted shares outstanding	26,236	26,642	26,609	27,158



Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

EMCORE Corporation:

We have audited the accompanying consolidated balance sheets of EMCORE Corporation and subsidiaries (the Company) as of September 30, 2014 and 2013, and the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of EMCORE Corporation and subsidiaries as of September 30, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of September 30, 2014, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated December 12, 2014, expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

KPMG LLP  
Albuquerque, New Mexico  
December 12, 2014

Table of Contents

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Controls and Procedures

a. Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934 (the “Act”) is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including its Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial and Accounting Officer), as appropriate, to allow timely decisions regarding required disclosure.

Management, under the supervision and with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Act) as of the end of the period covered by this report. Based upon this evaluation, management concluded that as of September 30, 2014, the Company's disclosure controls and procedures were not effective because of the material weaknesses described in Management's Annual Report on Internal Control over Financial Reporting.

In light of the material weaknesses described in Management's Annual Report on Internal Control over Financial Reporting, additional analyses and other procedures were performed to ensure that the Company's consolidated financial statements included in this Annual Report on Form 10-K were prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”). These measures included expanded year-end tax analysis and tax provision procedures and management's own internal reviews and efforts to remediate the material weakness in internal control over financial reporting described below. As a result of these measures, management concluded that the Company's consolidated financial statements included in this Annual Report on Form 10-K present fairly, in all material respects, the Company's consolidated financial position, results of operations, and cash flows as of the dates, and for the periods presented, in conformity with GAAP.

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

b. Changes in Internal Control over Financial Reporting

Except for the changes described in section (d) below, there were no changes in the Company's internal control over financial reporting during the quarter ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

c. Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). The Company's internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer and the Chief Financial Officer, and

effected by the Board of Directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external purposes in accordance with GAAP.

107

---

## Table of Contents

The Company's internal control over financial reporting includes those policies and procedures that:

1. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
2. provide reasonable assurance that transactions are recorded as necessary to permit preparation of the Company's consolidated financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and,
3. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's consolidated financial statements.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal controls over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by individual acts, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

A "material weakness" is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

Under the supervision of our Chief Executive Officer and Chief Financial Officer and with the participation of our management, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of September 30, 2014 based on the framework in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on the criteria established by COSO, management identified a material weakness in the Company's internal control over financial reporting as of September 30, 2014. The Company did not design and maintain an effective review control over accounting for the deferred tax valuation allowance, specifically considering all available evidence associated with significant and unusual transactions through the issuance of the financial statements.

The material weakness resulted in a material misstatement to the deferred tax valuation allowance and deferred tax benefit (expense) in the financial statements of the current period, which was corrected prior to the issuance of the financial statements. As a result of this material weakness, management concluded that the Company did not maintain effective internal control over financial reporting as of September 30, 2014, based on the criteria established by COSO.

KPMG LLP, the Company's independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report on Form 10-K and, as part of its audit, has issued an adverse audit report on the effectiveness of the Company's internal control over financial reporting as of September 30, 2014, which is included on page 111 of this Form 10-K.

d. In Process Remediation Actions to Address the Internal Control Weakness

In response to the identified material weakness described above, management has dedicated resources to improving its control environment and initiated a remediation plan which includes the following actions:

Processes, procedures and controls over accounting for the deferred tax valuation allowance are being reviewed and modified to ensure greater oversight and evaluation of income tax matters through the issuance of the financial statements.

108

---

Table of Contents

Additional external resources will be engaged as necessary to ensure that all concepts and interpretations around income tax accounting have been appropriately considered.

Management intends to continue to monitor the effectiveness of these actions and will make changes to the action plan if deemed necessary and appropriate.

109

---

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
EMCORE Corporation:

We have audited EMCORE Corporation and subsidiaries (the Company) internal control over financial reporting as of September 30, 2014, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness related to the ineffective review control over accounting for the deferred tax valuation allowance, specifically considering all available evidence associated with significant and unusual transactions through the issuance of the financial statements has been identified and included in management's assessment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of EMCORE Corporation and subsidiaries as of September 30, 2014 and 2013, and the related consolidated statements of operations and comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three year period ended September 30, 2014. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2014 consolidated financial statements, and this report does not affect our report dated December 12, 2014, which expressed an

unqualified opinion on those consolidated financial statements.

In our opinion, because of the effect of the aforementioned material weakness on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of September 30, 2014, based on criteria established in Internal Control — Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We do not express an opinion or any form of assurance on management's statement referring to remediation actions taken after September 30, 2014, relative to the aforementioned material weakness in internal control over financial reporting.

/s/ KPMG LLP

KPMG LLP  
Albuquerque, New Mexico  
December 12, 2014



ITEM 9B. Other Information

None.

PART III.

ITEM 10. Directors, Executive Officers and Corporate Governance

Information regarding our executive officers and directors required by this Item is incorporated by reference to our Definitive Proxy Statement in connection with our Annual Meeting of Stockholders (Proxy Statement), which will be filed with the Securities and Exchange Commission within 120 days after the fiscal year ended September 30, 2014. Information required by Item 405 of Regulation S-K is incorporated by reference to the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement referenced above. Information required by Items 407(c)(3), (d)(4) and (d)(5) of Regulation S-K is incorporated by reference to the Section entitled "Governance of the Company - Board Committees" in the Proxy Statement.

We have adopted a code of ethics entitled the "EMCORE Corporation Code of Business Conduct and Ethics," which is applicable to all employees, officers, and directors of the Company. The full text of our Code of Business Conduct and Ethics is included with the Corporate Governance information available on our website ([www.emcore.com](http://www.emcore.com)). We intend to disclose any changes in or waivers from its code of ethics by posting such information on its website or by filing a Current Report on Form 8-K.

ITEM 11. Executive Compensation

Information required by this Item is incorporated by reference to the sections entitled "Directors Compensation for Fiscal Year 2014," "Compensation Discussion and Analysis," "Executive Compensation," "Compensation Committee Report" and "Compensation Committee Interlocks and Insider Participation" in the Proxy Statement.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding security ownership of certain beneficial owners and management is incorporated by reference to the section entitled "Security Ownership of Certain Beneficial Owners and Management" in the Proxy Statement.

Information regarding our equity compensation plans is incorporated by reference to the section entitled "Equity Compensation Plans" in the Proxy Statement.

ITEM 13. Certain Relationships, Related Transactions and Director Independence

Information required by this Item is incorporated by reference to the sections entitled "Governance of the Company - Related Person Transaction Approval Policy" and "Governance of the Company - Director Independence" in the Proxy Statement.

ITEM 14. Principal Accounting Fees and Services

Information required by this Item is incorporated by reference to the section entitled "Fiscal 2014 & 2013 Auditor Fees and Services" in the Proxy Statement.



Table of Contents

Part IV.

ITEM 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

Included in Part II, Item 8 of this Annual Report on Form 10-K:

Consolidated Statements of Operations and Comprehensive Income (Loss) for the fiscal years ended September 30, 2014, 2013, and 2012

Consolidated Balance Sheets as of September 30, 2014 and 2013

Consolidated Statements of Shareholders' Equity for the fiscal years ended September 30, 2014, 2013, and 2012

Consolidated Statements of Cash Flows for the fiscal years ended September 30, 2014, 2013, and 2012

Notes to Consolidated Financial Statements

Reports of Independent Registered Public Accounting Firm

(a)(2) Financial Statement Schedules

The applicable financial statement schedules required under this Item 15(a)(2) are presented in our consolidated financial statements and notes thereto under Item 8 of this Annual Report on Form 10-K.

(a)(3) Exhibits

- 2.1 Master Purchase Agreement, dated March 27, 2012, between Sumitomo Electric Industries, Ltd. and the Company (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 10-Q/A filed on August 7, 2012). (+)
- 2.2 Asset Purchase Agreement, dated August 5, 2012, between Suncore Photovoltaic Technology Co, Ltd. and the Company (incorporated by reference to Exhibit 2.10 to the Company's Annual Report on Form 10-K filed on December 13, 2012).
- 2.3 Asset Purchase Agreement, dated as of September 17, 2014, by and between EMCORE Corporation and SolAero Technologies Corp. (f/k/a Photon Acquisition Corporation) ( incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on September 18, 2014).
- 2.4 Amendment No. 1, dated as of November 26, 2014, to that certain Asset Purchase Agreement, dated as of September 17, 2014, by and between EMCORE Corporation and SolAero Technologies Corp. (f/k/a Photon Acquisition Corporation) (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by the Registrant on November 26, 2014).
- 2.5 Asset Purchase Agreement, dated October 22, 2014, by and between EMCORE Corporation and NeoPhotonics Corporation (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on October 24, 2014).
- 3.1 Restated Certificate of Incorporation, dated April 4, 2008, (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on April 4, 2008).
- 3.2 Certificate of Amendment of Restated Certificate of Incorporation, dated February 15, 2012 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on February 16, 2012).
- 3.3 Amended By-Laws, as amended through August 6, 2012 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on August 7, 2012).

Edgar Filing: EMCORE CORP - Form 10-K

- 3.4 Certificate of Amendment of Restated Certificate of Incorporation of EMCORE Corporation, dated September 18, 2014 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on September 18, 2014).
- 3.5 Bylaws of EMCORE Corporation, as amended through December 10, 2014 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on December 5, 2014).
- 4.1 Specimen Certificate for Shares of Common Stock (incorporated by reference to Exhibit 4.1 to Amendment No. 3 to the registration statement on Form S-1 filed on February 24, 1997).

112

---

Edgar Filing: EMCORE CORP - Form 10-K

- 4.2 Form of Indenture (incorporated by reference to Exhibit 4.2 to the Company's registration statement on Form S-3 on Form 8-K filed August 10, 2012)
- 4.3 Form of Debt Security (Included in Exhibit 4.2)
- 4.4 Form of Warrant to Purchase Common Stock, dated October 1, 2009, between the Company and Commerce Court Small Cap Value Fund, Ltd. (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 2, 2009).
- 4.5 Tax Benefits Preservation Plan, dated September 17, 2014, by and between EMCORE Corporation and American Stock Transfer & Trust Company, LLC (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on September 18, 2014).
- 4.6 Certificate of Designation Establishing the Series A Junior Participating Preferred Stock and Fixing the Powers, Designations, Preferences and Relative, Participating, Optional and Other Special Rights, and the Qualifications, Limitations and Restrictions, of the Series A Junior Participating Preferred Stock, dated September 18, 2014 (incorporated by reference to Exhibit A of Exhibit 3.1 to the Company's Current Report on Form 8-K filed on September 18, 2014).
- 10.1† Outside Directors Cash Compensation Plan, effective October 20, 2005, as amended and restated on February 13, 2006 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on February 17, 2006).
- 10.2 Memorandum of Understanding, dated as of September 26, 2007, between Lewis Edelstein and the Company regarding shareholder derivative litigation (incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K filed on November 1, 2007).
- 10.3 Stipulation of Compromise and Settlement, dated as of November 28, 2007, executed by the Company and the other defendants and the plaintiffs in the Federal Court Action and the State Court Actions (incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K filed on December 31, 2007).
- 10.4† 2010 Equity Incentive Plan, as amended and restated on June 14, 2011 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 16, 2011).
- 10.5† EMCORE Corporation 2000 Employee Stock Purchase Plan, as amended June 14, 2011 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on June 16, 2011).
- 10.6† 2012 Equity Incentive Plan (incorporated by reference to Exhibit A to the Company's Proxy Statement filed on January 27, 2012).
- 10.7 Shareholders Agreement, dated February 3, 2010, by and among Tangshan Caofeidian Investment Corporation, Ltd. and the Company (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on February 9, 2010).
- 10.8 Supplemental Agreement, dated February 3, 2010, by and among Tangshan Caofeidian Investment Corporation, Ltd. and the Company (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on February 9, 2010).
- 10.9 Joint Venture Contract, dated July 30, 2010, by and between San'an Optoelectronics, Co., Ltd. and the Company (incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K filed on January 10, 2011).
- 10.10 Cooperation Agreement, dated July 30, 2010, by and between Fujian San'an Group Corporation and the Company (incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K filed on January 10, 2011).
- 10.11 Investment Cooperation Agreement on the Project of Terrestrial Application of High Concentration Photovoltaic Systems and Components, dated December 4, 2010, by and among Huainan Municipal Government, San'an Optoelectronics Co., Ltd., and the Company (incorporated by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K filed on January 10, 2011).
- 10.12† Officer and Director Share Purchase Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 27, 2011).
- 10.13 Long-Term Supply Agreement between the Company and Space Systems/Loral, Inc., dated May 5, 2011 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on

August 4, 2011). (+)

10.14† Employment Agreement entered into by the Company and Dr. Hong Q. Hou as of August 2, 2011 (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q filed on August 4, 2011).

10.15† Employment Agreement entered into by the Company and Mark B. Weinswig as of August 2, 2011 (incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q filed on August 4, 2011).

113

---

Edgar Filing: EMCORE CORP - Form 10-K

- 10.16† Employment Agreement entered into by the Company and Mr. Christopher Larocca as of August 2, 2011 (incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q filed on August 4, 2011).
- 10.17† Employment Agreement entered into by the Company and Dr. Charlie Wang as of August 2, 2011 (incorporated by reference to Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q filed on August 4, 2011).
- 10.18† Employment Agreement entered into by the Company and Monica D. Van Berkel as of August 2, 2011 (incorporated by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q filed on August 4, 2011).
- 10.19 Separation Agreement and General Release dated August 6, 2012, between Mr. Reuben F. Richards, Jr. and the Company (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 9, 2012).
- 10.20 Credit and Security Agreement, dated November 11, 2010, between Wells Fargo Bank National Association and the Company (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 17, 2010).
- 10.21 First Amendment to Credit and Security Agreement dated December 21, 2011, between Wells Fargo Bank National Association and the Company (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed February 14, 2012). (+)
- 10.22 Second Amendment to the Credit and Security Agreement, dated June 14, 2012, between Wells Fargo Bank National Association and the Company (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed August 8, 2012).
- 10.23 Third Amendment to Credit and Security Agreement, dated December 28, 2012, between Wells Fargo Bank National Association and the Company (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on January 4, 2013).
- 10.24 Fourth Amendment to Credit and Security Agreement, dated May 21, 2013, between Wells Fargo Bank, National Association and the Company (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 23, 2013).
- 10.25 Fifth Amendment to Credit and Security Agreement, dated August 26, 2013, between Wells Fargo Bank, National Association and the Company (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 30, 2013).
- 10.26 Sixth Amendment to Credit and Security Agreement, dated December 3, 2014, between Wells Fargo Bank, National Association and the Company (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 5, 2014).
- 10.27† Form of Indemnification Agreement (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on December 14, 2012).
- 10.28† 2007 Directors' Stock Award Plan (incorporated by reference to Exhibit A to the Company's Proxy Statement filed on January 25, 2013).
- 10.29 Equity Transfer Agreement, dated June 23, 2013, between San'an Optoelectronics Company, Ltd. and the Company (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 27, 2013).
- 10.30† Separation Agreement and General Release dated November 16, 2013, between Mr. Christopher Larocca and the Company (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K filed on December 6, 2013).
- 10.31 Settlement Agreement, dated as of December 4, 2013, by and among Steven R. Becker, Matthew A. Drapkin, BC Advisors, LLC, Becker Drapkin Management, L.P., Becker Drapkin Partners (QP), L.P., Becker Drapkin Partners, L.P., and the Company (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K filed on December 6, 2013).
- 10.32† Indemnification Agreement dated February 7, 2014 with each of the following directors: Steven R. Becker, Stephen Domenik and Gerald Fine and EMCORE Corporation (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated December 11, 2012).

Edgar Filing: EMCORE CORP - Form 10-K

- 10.33† 2012 Equity Incentive Plan, as amended on March 5, 2014 ( incorporated by reference to Exhibit A to the Company's Proxy Statement filed on January 28, 2014).
- 10.34† EMCORE Corporation 2000 Employee Stock Purchase Plan, as amended March 5, 2014 (incorporated by reference to Exhibit B to the Company's Proxy Statement filed on January 28, 2014).
- 10.35† Separation Agreement and General Release, dated September 17, 2014, by and between EMCORE Corporation and Dr. Hong Q. Hou (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on September 18, 2014).
- 10.36† Retention Letter Agreement, dated September 17, 2014, between EMCORE Corporation and Dr. Hong Q. Hou (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on September 18, 2014).



- 10.37† Retention Letter Agreement, dated September 17, 2014, between EMCORE Corporation and Mark Weinswig (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on September 18, 2014).
- 10.38† Retention Letter Agreement, dated September 17, 2014, between EMCORE Corporation and Monica Van Berkel (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on September 18, 2014).
- 10.39† Retention Letter Agreement, dated September 17, 2014, between EMCORE Corporation and Alfredo Gomez (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed on September 18, 2014).
- 10.40† Employment Agreement, dated December 10, 2014, by and between EMCORE Corporation and Jeff Rittichier (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 10, 2014).
- 10.41† Separation Agreement and General Release, dated December 10, 2014, by and between EMCORE Corporation and Monica Van Berkel (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 10, 2014).
- 10.42† Separation Agreement and General Release, dated December 10, 2014, by and between EMCORE Corporation and Alfredo Gomez (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on December 10, 2014).
- 21.1\*\* Subsidiaries of the Company.
- 23.1\*\* Consent of KPMG LLP.
- 24.1 Preferability letter from KPMG LLP (incorporated by reference to Exhibit 24.1 to the Company's Annual Report on Form 10-K filed on December 29, 2011).
- 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. \*\*‡

\*\* Filed herewith

† Management contract or compensatory plan

(+) CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY BRACKETS, HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO RULE 24B-2 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

‡ Submitted electronically with this Report.

Table of Contents

SIGNATURES

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

EMCORE CORPORATION

Date: December 12, 2014

By: /s/ Hong Hou  
Hong Q. Hou, Ph.D.  
Chief Executive Officer  
(Principal Executive Officer)

Date: December 12, 2014

By: /s/ Mark Weinswig  
Mark Weinswig  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

Each person whose signature appears below constitutes and appoints and hereby authorizes Hong Q. Hou, Ph.D. and, severally, such person's true and lawful attorneys-in-fact, with full power of substitution or resubstitution, for such person and in his name, place and stead, in any and all capacities, to sign on such person's behalf, individually and in each capacity stated below, any and all amendments, including post-effective amendments to this Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Commission granting unto said attorneys-in-fact, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as such person might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Table of Contents

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities indicated, on December 12, 2014.

Signature	Title
/s/ Hong Q. Hou, Ph.D. Hong Q. Hou, Ph.D.	Chief Executive Officer and Director (Principal Executive Officer)
/s/ Mark B. Weinswig Mark B. Weinswig	Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ Reuben F. Richards, Jr. Reuben F. Richards, Jr.	Chairman Emeritus
/s/ Steven R. Becker Steven R. Becker	Director
/s/ Robert L. Bogomolny Robert L. Bogomolny	Co-Chairman of the Board
/s/ Stephen L. Domenik Stephen L. Domenik	Director
/s/ Gerald J. Fine, Ph.D. Gerald J. Fine, Ph.D.	Co-Chairman of the Board
/s/ Sherman McCorkle Sherman McCorkle	Director
/s/ Charles T. Scott Charles T. Scott	Director
/s/ James A. Tegnalia, Ph.D. James A. Tegnalia, Ph.D.	Director