

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended March 31, 2020

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:

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).  **Yes**  No

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

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

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

As of May 4, 2020, the number of shares outstanding of our no par value common stock totaled 29,371,636.

**CAUTIONARY STATEMENT  
REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on our current expectations and projections about future events and financial trends affecting the financial condition of our business. Such forward-looking statements include, in particular, projections about our future results included in our Exchange Act reports and statements about our plans, strategies, business prospects, changes and trends in our business and the markets in which we operate, including the expected impact of the COVID-19 pandemic on our business and operations. These forward-looking statements may be identified by the use of terms and phrases such as “anticipates,” “believes,” “can,” “could,” “estimates,” “expects,” “forecasts,” “intends,” “may,” “plans,” “projects,” “should,” “targets,” “will,” “would,” and similar expressions or variations of these terms and similar phrases. Additionally, statements concerning future matters such as our expected liquidity, development of new products, enhancements or technologies, sales levels, expense levels, expectations regarding the outcome of legal proceedings and other statements regarding matters that are not historical are forward-looking statements. Management cautions that these forward-looking statements relate to future events or our future financial performance and are subject to business, economic, and other risks and uncertainties, both known and unknown, that may cause actual results, levels of activity, performance, or achievements of our business or our industry to be materially different from those expressed or implied by any forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include without limitation the following: (a) uncertainties regarding the effects of the COVID-19 pandemic and the impact of measures intended to reduce its spread on our business and operations, which is evolving and beyond our control; (b) the rapidly evolving markets for the Company’s products and uncertainty regarding the development of these markets; (c) the Company’s historical dependence on sales to a limited number of customers and fluctuations in the mix of products and customers in any period; (d) delays and other difficulties in commercializing new products; (e) the failure of new products: (i) to perform as expected without material defects, (ii) to be manufactured at acceptable volumes, yields, and cost, (iii) to be qualified and accepted by our customers, and (iv) to successfully compete with products offered by our competitors; (f) uncertainties concerning the availability and cost of commodity materials and specialized product components that we do not make internally; (g) actions by competitors; (h) risks and uncertainties related to applicable laws and regulations, including the impact of changes to applicable tax laws and tariff regulations; (i) acquisition-related risks, including that (1) the revenues and net operating results obtained from the Systron Donner Inertial, Inc. (“SDI”) business may not meet our expectations, (2) the costs and cash expenditures for integration of the SDI business operations may be higher than expected, (3) there could be losses and liabilities arising from the acquisition of SDI that we will not be able to recover from any source, and (4) we may not realize sufficient scale in our navigation systems product line from the SDI acquisition and will need to take additional steps, including making additional acquisitions, to achieve our growth objectives for this product line; (j) risks related to our ability to obtain capital; (k) risks related to the transition of certain of our manufacturing operations from our Beijing facility to a contract manufacturer’s facility; and (l) other risks and uncertainties discussed in Part II, Item 1A, Risk Factors in this Quarterly Report on Form 10-Q and in Part I, Item 1A, Risk Factors in our Annual Report on Form 10-K for the fiscal year ended September 30, 2019, as such risk factors may be amended, supplemented or superseded from time to time by our subsequent periodic reports we file with the Securities and Exchange Commission (“SEC”). These cautionary statements apply to all forward-looking statements wherever they appear in this Quarterly Report.

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

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**EMCORE Corporation**  
**FORM 10-Q**  
**For The Quarterly Period Ended March 31, 2020**

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**PART I. Financial Information.**

**ITEM 1. Financial Statements**

**EMCORE CORPORATION**  
**Condensed Consolidated Statements of Operations and Comprehensive Loss**  
**For three and six months ended March 31, 2020 and 2019**  
**(in thousands, except per share data)**  
**(unaudited)**

	For the three months ended March 31,		For the six months ended March 31,	
	2020	2019	2020	2019
Revenue	\$ 23,850	\$ 21,745	\$ 49,332	\$ 45,746
Cost of revenue	17,423	15,936	35,431	34,129
Gross profit	6,427	5,809	13,901	11,617
Operating expense:				
Selling, general, and administrative	7,139	6,996	13,026	14,589
Research and development	4,584	4,360	9,226	8,379
Gain from change in estimate on ARO obligation	—	(40)	—	(40)
Gain on sale of assets	(315)	—	(1,917)	—
Total operating expense	11,408	11,316	20,335	22,928
Operating loss	(4,981)	(5,507)	(6,434)	(11,311)
Other income:				
Interest income (expense), net	1	224	(14)	491
Foreign exchange (loss) gain	(156)	304	(9)	318
Total other (expense) income	(155)	528	(23)	809
Loss before income tax expense	(5,136)	(4,979)	(6,457)	(10,502)
Income tax benefit (expense)	55	(15)	41	(30)
Net loss	\$ (5,081)	\$ (4,994)	\$ (6,416)	\$ (10,532)
Foreign exchange translation adjustment	29	13	(7)	27
Comprehensive loss	\$ (5,052)	\$ (4,981)	\$ (6,423)	\$ (10,505)
<b>Per share data:</b>				
Net loss per basic and diluted share	\$ (0.18)	\$ (0.18)	\$ (0.22)	\$ (0.38)
Weighted-average number of basic and diluted shares outstanding used in computing net loss per share	29,033	27,652	28,931	27,592

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

**EMCORE CORPORATION**  
**Condensed Consolidated Balance Sheets**  
**As of March 31, 2020 and September 30, 2019**  
**(in thousands)**  
**(unaudited)**

	As of March 31, 2020	As of September 30, 2019
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 22,030	\$ 21,574
Restricted cash	60	403
Accounts receivable, net of allowance of \$249 and \$148, respectively	19,818	18,497
Contract assets	1,978	1,055
Inventory	23,582	24,051
Prepaid expenses and other current assets	5,183	6,389
Assets held for sale	1,661	—
Total current assets	74,312	71,969
Property, plant, and equipment, net	20,894	37,223
Goodwill	69	69
Operating lease right-of-use assets	15,202	—
Other intangible assets, net	220	239
Other non-current assets	217	62
Total assets	\$ 110,914	\$ 109,562
<b>LIABILITIES and SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Borrowings from credit facility	\$ —	\$ 5,497
Accounts payable	10,422	10,701
Accrued expenses and other current liabilities	10,400	14,521
Operating lease liabilities - current	1,048	—
Total current liabilities	21,870	30,719
Operating lease liabilities - non-current	14,225	—
Asset retirement obligations	2,006	1,890
Other long-term liabilities	—	207
Total liabilities	38,101	32,816
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Common stock, no par value, 50,000 shares authorized; 36,201 shares issued and 29,291 shares outstanding as of March 31, 2020; 35,803 shares issued and 28,893 shares outstanding as of September 30, 2019	742,416	739,926
Treasury stock at cost; 6,910 shares	(47,721)	(47,721)
Accumulated other comprehensive income	943	950
Accumulated deficit	(622,825)	(616,409)
Total shareholders' equity	72,813	76,746
Total liabilities and shareholders' equity	\$ 110,914	\$ 109,562

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

**EMCORE CORPORATION**  
**Condensed Consolidated Statements of Shareholders' Equity**  
**For the three and six months ended March 31, 2020 and 2019**  
**(in thousands)**  
**(unaudited)**

	For the three months ended March 31,		For the six months ended March 31,	
	2020	2019	2020	2019
<b>Shares of Common Stock</b>				
Balance, beginning of period	28,948	27,668	28,893	27,577
Stock-based compensation	111	121	166	212
Stock option exercises	1	1	1	1
Issuance of restricted stock units	116	—	116	—
Issuance of common stock - ESPP	115	66	115	66
Balance, end of period	<u>29,291</u>	<u>27,856</u>	<u>29,291</u>	<u>27,856</u>
<b>Value of Common Stock</b>				
Balance, beginning of period	\$ 740,680	\$ 734,341	\$ 739,926	\$ 734,066
Stock-based compensation	1,045	722	1,846	1,147
Stock option exercises	2	1	2	1
Tax withholding paid on behalf of employees for stock-based awards	—	(44)	(47)	(194)
Issuance of restricted stock units	410	—	410	—
Issuance of common stock - ESPP	279	237	279	237
Balance, end of period	<u>742,416</u>	<u>735,257</u>	<u>742,416</u>	<u>735,257</u>
<b>Treasury stock, beginning and ending of period</b>	<u>(47,721)</u>	<u>(47,721)</u>	<u>(47,721)</u>	<u>(47,721)</u>
<b>Accumulated Other Comprehensive Income</b>				
Balance, beginning of period	914	899	950	885
Translation adjustment	29	13	(7)	27
Balance, end of period	<u>943</u>	<u>912</u>	<u>943</u>	<u>912</u>
<b>Accumulated Deficit</b>				
Balance, beginning of period	(617,744)	(585,963)	(616,409)	(580,425)
Net loss	(5,081)	(4,994)	(6,416)	(10,532)
Balance, end of period	<u>(622,825)</u>	<u>(590,957)</u>	<u>(622,825)</u>	<u>(590,957)</u>
<b>Total Shareholders' Equity</b>	<u>\$ 72,813</u>	<u>\$ 97,491</u>	<u>\$ 72,813</u>	<u>\$ 97,491</u>

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

**EMCORE CORPORATION**  
**Condensed Consolidated Statements of Cash Flows**  
**For the six months ended March 31, 2020 and 2019**  
**(in thousands)**  
**(unaudited)**

	For the six months ended	
	March 31,	
	2020	2019
<b>Cash flows from operating activities:</b>		
Net loss	\$ (6,416)	\$ (10,532)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization expense	3,313	3,228
Stock-based compensation expense	1,846	1,147
Provision adjustments related to doubtful accounts	111	—
Provision adjustments related to product warranty	100	105
Net gain on disposal of property, plant and equipment	(1,917)	—
Other	(100)	(316)
Total non-cash adjustments	3,353	4,164
Changes in operating assets and liabilities:		
Accounts receivable	(2,353)	(789)
Inventory	522	699
Other assets	(13,803)	(3,247)
Accounts payable	498	(265)
Accrued expenses and other current liabilities	10,671	2,909
Total change in operating assets and liabilities	(4,465)	(693)
Net cash used in operating activities	(7,528)	(7,061)
<b>Cash flows from investing activities:</b>		
Purchase of equipment	(2,418)	(5,576)
Proceeds from disposal of property, plant and equipment	14,904	—
Net cash provided by (used in) investing activities	12,486	(5,576)
<b>Cash flows from financing activities:</b>		
Net payments on credit facilities	(5,497)	—
Proceeds from exercise of equity awards	281	238
Issuance of restricted stock units	410	—
Taxes paid related to net share settlement of equity awards	(47)	(194)
Net cash (used in) provided by financing activities	(4,853)	44
Effect of exchange rate changes provided by foreign currency	8	35
Net increase (decrease) in cash, cash equivalents and restricted cash	113	(12,558)
Cash, cash equivalents and restricted cash at beginning of period	21,977	63,195
Cash, cash equivalents and restricted cash at end of period	<u>\$ 22,090</u>	<u>\$ 50,637</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the period for interest	\$ 83	\$ 56
Cash paid during the period for income taxes	\$ 59	\$ 59
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Changes in accounts payable related to purchases of equipment	<u>\$ (762)</u>	<u>\$ 481</u>

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

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

**NOTE 1. Description of Business**

Business Overview

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

Interim Financial Statements

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

Critical Accounting Policies and Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as of the date of the financial statements, and the reported amounts of revenue and expenses during the reported period. If these estimates differ significantly from actual results, the impact to the condensed consolidated financial statements may be material. There have been no material changes in our critical accounting policies and estimates from those disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2019. Please refer to Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended September 30, 2019 for a discussion of our critical accounting policies and estimates.

**NOTE 2. Recent Accounting Pronouncements**

- (a) New Accounting Updates Recently Adopted
- In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, *Leases (Topic 842)*. ASU 2016-02 introduces a lessee model that requires recognition of assets and liabilities arising from qualified leases on the consolidated balance sheets and disclosure of

qualitative and quantitative information about lease transactions. The new standard was effective for our fiscal year beginning October 1, 2019. We adopted Topic 842 using the modified retrospective approach. The modified retrospective approach provides a method for recording existing leases at the beginning of the period of adoption. In addition, we elected the package of practical expedients permitted under the transition guidance within the new standard, which, among other things, allowed us to carry forward the historical lease classification and we elected the hindsight practical expedient to determine the lease term for existing leases. Additionally, the Company elected an accounting policy to not record operating lease right-of-use assets and lease liabilities for leases with an initial term of twelve months or less on its condensed consolidated balance sheet. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

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

- The impact of the adoption of Accounting Standards Codification (“ASC”) 842 on the balance sheet as of October 1, 2019 was:

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

In connection with the sale/leaseback of non-residential real estate on February 10, 2020, the Company recorded an additional operating lease right-of-use (“ROU”) assets and operating lease liabilities of \$10.8 million during the six months ended March 31, 2020. See also [Note 9 – Property, Plant and Equipment, net](#) in the notes to the condensed consolidated financial statements.

(b) Recent Accounting Standards or Updates Not Yet Effective

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

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

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

The Company determines if an arrangement is a lease at its inception. ROU assets and operating lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Company uses its estimated incremental borrowing rate in determining the present value of lease payments considering the term of the lease, which is derived from information available at the lease commencement date. The lease term

includes renewal options when it is reasonably certain that the option will be exercised, and excludes termination options. To the extent that the Company's agreements have variable lease payments, the Company includes variable lease payments that depend on an index or a rate and excludes those that depend on facts or circumstances occurring after the commencement date, other than the passage of time. Lease expense for these leases is recognized on a straight-line basis over the lease term. The Company has elected not to recognize ROU assets and lease liabilities that arise from short-term (12 months or less) leases for any class of underlying asset. Operating leases are included in operating lease ROU assets, current operating lease liabilities, and non-current operating lease liabilities in the Company's condensed consolidated balance sheet.

The Company's lease arrangements consist primarily of corporate, manufacturing and other facility agreements as well as various office equipment agreements. The leases expire at various dates through 2035, some of which include options to extend the lease term. The options with the longest potential total lease term consist of options for extension of up to five years following expiration of the original lease term.

During the three and six months ended March 31, 2020, the Company recorded \$0.4 million and \$0.7 million of operating lease expense, respectively. During the three and six months ended March 31, 2019, the Company recorded \$0.3 million and \$0.6 million of rent expense, respectively. The Company's finance leases and short-term leases are immaterial.

Supplemental cash information and non-cash activities related to operating leases are as follows (in thousands):

	Six Months Ended March 31, 2020	
Operating cash outflows from operating leases	\$	629
Operating lease assets obtained in exchange for new lease liabilities	\$	10,791

Maturities of operating lease liabilities as of March 31, 2020 were as follows (in thousands):

	Amount	
2020	\$	1,832
2021		1,817
2022		1,835
2023		1,770
2024		1,708
Thereafter		13,238
Total lease payments		22,200
Less imputed interest		(6,927)
Total	\$	15,273

The following is a schedule of future minimum operating lease payments as of September 30, 2019 (in thousands):

	Amount	
2020	\$	988
2021		839
2022		824
2023		853
2024		655
Thereafter		1,350
Total lease payments	\$	5,509

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

	<u>March 31, 2020</u>
Weighted average remaining lease term (years)	14.7
Weighted average discount rate	6.1 %

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

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

<i>(in thousands)</i>	<u>For the three months ended March 31,</u>				<u>For the six months ended March 31,</u>			
	<u>2020</u>	<u>% of Revenue</u>	<u>2019</u>	<u>% of Revenue</u>	<u>2020</u>	<u>% of Revenue</u>	<u>2019</u>	<u>% of Revenue</u>
Navigation and Inertial Sensing	\$ 8,842	37 %	4,094	19 %	\$19,109	39 %	6,553	14 %
Defense Optoelectronics	4,171	18 %	2,779	13 %	7,608	15 %	4,460	10 %
CA TV Lasers and Transmitters	8,782	37 %	10,762	49 %	18,165	37 %	25,534	56 %
Chip Devices	1,035	4 %	3,501	16 %	2,590	5 %	7,716	17 %
Other	1,020	4 %	609	3 %	1,860	4 %	1,483	3 %
Total revenue	<u>\$23,850</u>	<u>100 %</u>	<u>\$21,745</u>	<u>100 %</u>	<u>\$49,332</u>	<u>100 %</u>	<u>\$45,746</u>	<u>100 %</u>

**NOTE 4. Acquisition**

On June 7, 2019, we completed the acquisition of Systron Donner Inertial, Inc. (“SDI”), a private-equity backed navigation systems provider with a scalable, chip-based platform for higher volume gyro applications utilizing Quartz MEMS technology. The total purchase price was approximately \$25.0 million, consisting of (i) approximately \$22.0 million in cash after working capital adjustments and (ii) the issuance of 811,000 shares of common stock with an aggregate value of approximately \$3.0 million as of the closing date.

Following the closing, we incorporated SDI’s products into our navigation product line and have included the financial results of SDI in our condensed consolidated financial statements beginning on the acquisition date. Net revenue and net loss of SDI of \$6.3 million and \$0.9 million, respectively, is included in our condensed consolidated statements of operations and comprehensive loss for the three months ended March 31, 2020. Net revenue and net loss of SDI of \$14.4 million and \$0.8 million, respectively, is included in our condensed consolidated statements of operations and comprehensive loss for the six months ended March 31, 2020.

*Purchase Price Allocation*

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

The Company finalized the allocation of the purchase price in the quarter ended March 31, 2020, which resulted in no change from the preliminary purchase price recorded at September 30, 2019.

The table below represents the purchase price allocation to the assets acquired and liabilities assumed of SDI based on their estimated fair values as of the acquisition date. The fair values assigned to assets acquired and liabilities assumed were based on management's best estimates and assumptions at the acquisition date.

<i>(in thousands)</i>	<b>Amount</b>	<b>Weighted Average Useful Life (years)</b>
Purchase price	\$ 24,978	
Developed technology	250	7
Cash acquired	541	
Inventories	8,522	
Accounts receivable	4,291	
Other assets	355	
Land and building	12,890	
Equipment	2,913	
Net liabilities assumed	<u>(4,853)</u>	
 Goodwill	 <u>\$ 69</u>	

#### *Pro Forma Financial Information*

The following unaudited pro forma financial information presented for the three and six months ended March 31, 2020 and 2019 does not purport to be indicative of the results of operations that would have been achieved had the acquisition been consummated on October 1, 2018, nor of the results which may occur in the future. The pro forma amounts are based upon available information and certain assumptions that the Company believes are reasonable.

<i>(in thousands, except per share data)</i>	<b>For the three months ended March 31,</b>		<b>For the six months ended March 31,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
Revenue	\$ 23,850	\$ 28,527	\$ 49,332	\$ 60,922
Net loss	\$ (5,081)	\$ (6,355)	\$ (6,416)	\$ (13,039)
Net loss per basic and diluted share	\$ (0.18)	\$ (0.23)	\$ (0.22)	\$ (0.47)
Weighted-average number of basic and diluted shares outstanding	<u>29,033</u>	<u>27,652</u>	<u>28,931</u>	<u>27,592</u>

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

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

<i>(in thousands)</i>	<b>As of March 31, 2020</b>	<b>As of September 30, 2019</b>	<b>As of March 31, 2019</b>
Cash	\$ 2,985	\$ 4,338	\$ 1,944
Cash equivalents	19,045	17,236	48,660
Restricted cash	60	403	33
Total cash, cash equivalents and restricted cash	<u>\$22,090</u>	<u>21,977</u>	<u>50,637</u>

The Company's restricted cash includes cash balances which are legally or contractually restricted in use. The Company's restricted cash is included in current assets as of March 31, 2020, September 30, 2019 and March 31, 2019.

**NOTE 6. Fair Value Accounting**

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

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

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

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

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

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

**NOTE 7. Accounts Receivable**

The components of accounts receivable consisted of the following:

<i>(in thousands)</i>	As of	
	March 31, 2020	September 30, 2019
Accounts receivable, gross	\$ 20,067	\$ 18,645
Allowance for doubtful accounts	(249)	(148)
Accounts receivable, net	<u>\$ 19,818</u>	<u>\$ 18,497</u>

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

**NOTE 8. Inventory**

The components of inventory consisted of the following:

<i>(in thousands)</i>	As of	
	March 31, 2020	September 30, 2019
Raw materials	\$ 12,541	\$ 11,510
Work in-process	7,874	8,176
Finished goods	3,167	4,365
Inventory balance at end of period	<u>\$ 23,582</u>	<u>\$ 24,051</u>

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

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

<i>(in thousands)</i>	As of	
	March 31, 2020	September 30, 2019
Land	\$ —	\$ 3,484
Building	—	9,405
Equipment	26,891	42,308
Furniture and fixtures	1,004	1,109
Computer hardware and software	3,502	3,554
Leasehold improvements	3,019	2,676
Construction in progress	8,798	9,330
Property, plant, and equipment, gross	\$ 43,214	\$ 71,866
Accumulated depreciation	(22,320)	(34,643)
Property, plant, and equipment, net	<u>\$ 20,894</u>	<u>\$ 37,223</u>

During the six months ended March 31, 2020, the Company sold certain equipment and recognized a gain on sale of assets of approximately \$1.6 million. In addition, the Company entered into agreements to sell additional equipment and these assets have been reclassified to assets held for sale.

On February 10, 2020, SDI completed a sale and leaseback transaction with Eagle Rock Holdings LP (“Buyer”), of non-residential real estate (the “Sale and Leaseback Transaction”). Under the terms of the applicable purchase agreement, SDI sold its property located in Concord, California (the “Concord Real Property”) to Buyer for a total purchase price of \$13.2 million. The Company received net proceeds of \$12.8 million after reducing for transaction commissions and expenses incurred in connection with the sale. The Company recorded a gain on the sale of assets of approximately \$0.3 million in the three and six months ended March 31, 2020 related to this transaction.

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

As a result of the Lease Agreement entered into on February 10, 2020, the Company recorded net operating lease ROU assets and operating lease liabilities of \$10.8 million during the six months ended March 31, 2020.

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

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

<i>(in thousands)</i>	As of	
	March 31, 2020	September 30, 2019
Compensation	\$ 5,249	\$ 5,185
Warranty	658	654
Legal expenses and other professional fees	405	4,407
Contract liabilities	1,107	541
Income and other taxes	1,144	1,135
Severance and restructuring accruals	252	172
Other	1,585	2,427
Accrued expenses and other current liabilities	<u>\$ 10,400</u>	<u>\$ 14,521</u>

**NOTE 11. Credit Facilities**

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

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

As of March 31, 2020, there was no amount outstanding under this Credit Facility and the Company was in compliance with all financial covenants. Also, as of March 31, 2020, the Credit Facility had approximately \$0.5 million reserved for one outstanding stand-by letter of credit and \$5.5 million available for borrowing.

**NOTE 12. Income and Other Taxes**

For the three months ended March 31, 2020 and 2019, the Company recorded income tax benefit (expense) of approximately \$55,000 and \$(15,000), respectively. Income tax benefit for the three months ended March 31, 2020 is composed primarily of the reversal of a federal deferred tax liability related to the Concord Real Property partially offset by state minimum tax expense. Income tax expense for the three months ended March 31, 2019 is primarily comprised of state minimum tax expense.

For the six months ended March 31, 2020 and 2019, the Company recorded income tax benefit (expense) of approximately \$41,000 and \$(30,000), respectively. Income tax benefit for the six months ended March 31, 2020 is composed primarily of the reversal of a deferred tax liability related to the Concord Real Property partially offset by state minimum tax expense. Income tax expense for the six months ended March 31, 2019 is primarily comprised of state minimum tax expense.

For the three months ended March 31, 2020 and 2019, the effective tax rate on continuing operations was 0.2% and (0.1)%. The lower tax rate for the three months ended March 31, 2020 is primarily due to the federal income tax benefit associated with the sale of the Concord Real Property. For the six months ended March 31, 2020 and 2019, the effective tax rate on continuing operations was 0.1% and (0.1)%, respectively. The lower tax rate for the six months ended March 31, 2020 is primarily due to the federal income tax benefit associated with the sale of the Concord Real Property. The Company uses some estimates to forecast permanent differences between book and tax accounting.

We have not provided for income taxes on non-U.S. subsidiaries' undistributed earnings as of March 31, 2020 because we plan to indefinitely reinvest the unremitted earnings of our non-U.S. subsidiaries and all of our non-U.S. subsidiaries historically have negative earnings and profits.

All deferred tax assets have a full valuation allowance at March 31, 2020. On a quarterly basis, the Company evaluates the positive and negative evidence to assess whether the more likely than not criteria has been satisfied in determining whether there will be further adjustments to the valuation allowance.

During the three and six months ended March 31, 2020 and 2019, there were no material increases or decreases in unrecognized tax benefits. As of March 31, 2020 and September 30, 2019, we had approximately \$0.5 million of interest and penalties accrued as tax liabilities on our balance sheet. We believe that it is reasonably possible that none of the uncertain tax positions will be paid or settled within the next 12 months. Interest that is accrued on tax liabilities is recorded within interest expense on the condensed consolidated statements of operations.

**NOTE 13. Commitments and Contingencies**

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

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

a) Intellectual Property Lawsuits

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

b) Phoenix Navigation Components, LLC ("Phoenix") Legal Proceedings

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

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

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

Further, out of the original 97 trade secret subpart claims by Phoenix, the arbitrator found in the Interim Award that EMCORE had misappropriated a total of five trade secret subparts (the “Deemed Trade Secrets”) and found that at least one Deemed Trade Secret was being used in seven EMCORE products (the “EMCORE Products”). The arbitrator found that as a result of the foregoing, royalties of 7.5% of the sale price are owed, to the extent not previously paid, on (i) sales through July 16, 2018 on all fiber optic gyroscopes sold by EMCORE, and (ii) sales from July 16, 2018 through May 31, 2019 of the EMCORE Products, whether standalone or incorporated into a larger product, in each case together with interest at the New York statutory rate of 9% simple interest. In addition, the arbitrator found in the Interim Award that Phoenix was the prevailing party, and Phoenix was awarded attorneys’ fees and costs in the amount of approximately \$3.7 million, which amount was reduced 10% from Phoenix’s attorneys’ fees request.

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

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

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

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

#### **NOTE 14. Equity**

##### Equity Plans

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

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

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

##### Stock-based compensation

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

Stock-based Compensation Expense - by award type <i>(in thousands)</i>	For the three months ended March 31,		For the six months ended March 31,	
	2020	2019	2020	2019
Employee stock options	\$ 4	\$ 7	\$ 9	\$ 14
Restricted stock units and awards	552	396	928	782
Performance stock units and awards	363	229	655	169
Employee stock purchase plan	46	42	93	82
Outside director equity awards and fees in common stock	80	47	161	99
Total stock-based compensation expense	<u>\$1,045</u>	<u>\$ 721</u>	<u>\$1,846</u>	<u>\$1,146</u>

  

Stock-based Compensation Expense - by expense type <i>(in thousands)</i>	For the three months ended March 31,		For the six months ended March 31,	
	2020	2019	2020	2019
Cost of revenue	\$ 202	\$ 109	\$ 338	\$ 220
Selling, general, and administrative	591	473	1,076	632
Research and development	252	139	432	294
Total stock-based compensation expense	<u>\$1,045</u>	<u>\$ 721</u>	<u>\$1,846</u>	<u>\$1,146</u>

##### 401(k) Plan

We have a savings plan that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under this savings plan, participating employees may defer a portion of their pretax earnings, up to the Internal Revenue Service annual contribution limit. Since June 2015, all employer contributions are made in cash. Our matching contribution in cash for the three months ended March 31, 2020 and 2019 was approximately \$0.3 million and \$0.1 million, respectively. Our matching contribution in cash for the six months ended March 31, 2020 and 2019 was approximately \$0.5 million and \$0.3 million, respectively.

Loss Per Share

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

Basic and Diluted Net Loss Per Share <i>(in thousands, except per share)</i>	For the three months ended March 31,		For the six months ended March 31,	
	2020	2019	2020	2019
<b>Numerator:</b>				
Loss from continuing operations	\$ (5,081)	\$ (4,994)	\$ (6,416)	\$ (10,532)
Undistributed earnings allocated to common shareholders for basic and diluted net income per share	(5,081)	(4,994)	(6,416)	(10,532)
<b>Denominator:</b>				
Denominator for basic and fully diluted net loss per share - weighted average shares outstanding	29,033	27,652	28,931	27,592
Net loss per basic and fully diluted share	\$ (0.18)	\$ (0.18)	\$ (0.22)	\$ (0.38)
<b>Weighted average antidilutive options, unvested restricted stock units and awards, unvested performance stock units and ESPP shares excluded from the computation</b>				
	2,161	849	1,704	535

For diluted loss per share, the denominator includes all outstanding common shares. The anti-dilutive stock options and unvested stock were excluded from the computation of diluted net loss per share for the three and six months ended March 31, 2020 and 2019 due to the Company incurring a net loss for the periods.

Employee Stock Purchase Plan

We maintain an Employee Stock Purchase Plan (“ESPP”) that provides employees an opportunity to purchase common stock through payroll deductions. The ESPP is a 6-month duration plan with new participation periods beginning on approximately February 25 and August 26 of each year. The purchase price is set at 85% of the average high and low market price of our common stock on either the first or last trading day of the participation period, whichever is lower, and annual contributions are limited to the lower of 10% of an employee’s compensation or \$25,000.

Future Issuances

As of March 31, 2020, 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	46,342
Unvested restricted stock units and awards	1,799,427
Unvested performance stock units and awards (at 200% maximum payout)	1,812,000
Purchases under the employee stock purchase plan	428,349
Issuance of stock-based awards under the Equity Plans	822,155
Purchases under the officer and director share purchase plan	88,741
Total reserved	4,997,014

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

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

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

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

<i>(in thousands)</i>	For the three months ended March 31,		For the six months ended March 31,	
	2020	2019	2020	2019
<b>Revenue:</b>				
Aerospace and Defense	\$ 13,013	\$ 6,872	\$ 26,717	\$ 11,012
Broadband	10,837	14,873	22,615	34,734
Total revenue	<u>\$ 23,850</u>	<u>\$ 21,745</u>	<u>\$ 49,332</u>	<u>\$ 45,746</u>
<b>Segment Profit:</b>				
Aerospace and Defense gross profit	\$ 2,844	\$ 2,680	\$ 7,332	\$ 3,902
Aerospace & Defense R&D expense	3,991	1,682	7,942	3,233
Aerospace and Defense segment profit/(loss)	<u>\$ (1,147)</u>	<u>\$ 998</u>	<u>\$ (610)</u>	<u>\$ 669</u>
Broadband gross profit	\$ 3,583	\$ 3,129	\$ 6,569	\$ 7,715
Broadband R&D expense	593	2,678	1,284	5,146
Broadband segment profit	<u>\$ 2,990</u>	<u>\$ 451</u>	<u>\$ 5,285</u>	<u>\$ 2,569</u>
Total consolidated segment profit	\$ 1,843	\$ 1,449	\$ 4,675	\$ 3,238
<b>Unallocated (income) expense:</b>				
Selling, general and administrative	7,139	6,996	13,026	14,589
Gain on sale of assets	(315)	-	(1,917)	-
Gain from change in estimate on ARO obligation	-	(40)	-	(40)
Interest (income) expense, net	(1)	(224)	14	(491)
Foreign exchange loss (gain)	156	(304)	9	(318)
Total unallocated expense	<u>6,979</u>	<u>6,428</u>	<u>11,132</u>	<u>13,740</u>
Loss before income tax expense	<u>\$ (5,136)</u>	<u>\$ (4,979)</u>	<u>\$ (6,457)</u>	<u>\$ (10,502)</u>

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

<b>Revenue by Geographic Region</b> <i>(in thousands)</i>	For the three months ended March 31,		For the six months ended March 31,	
	2020	2019	2020	2019
United States and Canada	\$19,887	\$15,648	\$40,082	\$34,224
Asia	1,692	4,207	3,958	8,252
Europe	1,516	1,781	3,405	3,047
Other	755	109	1,887	223
Total revenue	<u>\$23,850</u>	<u>\$21,745</u>	<u>\$49,332</u>	<u>\$45,746</u>

**Significant Customers:** Significant customers are defined as customers representing greater than 10% of our consolidated revenue. Revenue from three and four of our significant customers represented an aggregate of 56% and 67% of our consolidated revenue for the three months ended March 31, 2020 and 2019, respectively. Revenue from three and four of our significant customers represented an aggregate of 53% and 71% of our consolidated revenue for the six months ended March 31, 2020 and 2019, respectively.

Significant portions of the Company's sales are concentrated among a limited number of customers. The duration, severity and future impact of the COVID-19 pandemic are highly uncertain and could result in significant disruptions to the business operations of the Company's customers. If one or more of these significant customers significantly decrease their orders for the Company's products, the Company's business could be materially and adversely affected.

**Long-lived Assets:** Long-lived assets consist of land, building and property, plant, and equipment. As of March 31, 2020 and September 30, 2019, approximately 96% and 85%, respectively, of our long-lived assets were located in the United States. The remaining long-lived assets are primarily located in China.

**NOTE 16. Subsequent Event**

On May 3, 2020, the Company entered into a Paycheck Protection Program Promissory Note and Agreement (the "PPP Loan Agreement") with Wells Fargo Bank, N.A. under the Paycheck Protection Program ("PPP") established under the Coronavirus Aid, Relief and Economic Security ("CARES") Act to receive loan proceeds of approximately \$6.5 million (the "PPP Loan"), which the Company received on May 6, 2020.

The PPP Loan matures on May 3, 2022 and bears interest at a fixed rate of 1.00% per annum, payable monthly commencing in November 2020. Monthly payments in the amount of \$273,160 will be due and payable beginning in November 2020 and continuing each month thereafter until maturity of the PPP Loan. There is no prepayment penalty. Under the terms of the PPP, all or a portion of the principal may be forgiven if the PPP Loan proceeds are used for qualifying expenses as described in the CARES Act, such as payroll costs, benefits, rent, and utilities. No assurance is provided that the Company will obtain forgiveness of the PPP Loan in whole or in part. With respect to any portion of the PPP Loan that is not forgiven, the PPP Loan will be subject to customary provisions for a loan of this type, including customary events of default relating to, among other things, payment defaults and breaches of the provisions of the PPP Loan Agreement.

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

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

### **Business Overview**

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

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

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

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

### **Recent Developments**

#### COVID-19

The global outbreak of the coronavirus disease 2019 (COVID-19) was declared a pandemic by the World Health Organization and a national emergency by the U.S. Government in March 2020. This has negatively affected the U.S. and global economy, disrupted global supply chains, significantly restricted travel and transportation, resulted in mandated closures and orders to “shelter-in-place,” and created significant disruption of the financial markets. The full extent of the COVID-19 impact on our operational and financial performance will depend on future developments, including the duration and spread of the pandemic and related actions taken by the U.S. government, state and local government officials, and international governments to prevent disease spread, all of which are uncertain, out of our control, and cannot be predicted.

Each region we and our supply chain partners operate in has been affected by COVID-19 at varying times and magnitudes, often creating unforeseen challenges associated with logistics, raw material supply and labor shortages. In accordance with applicable U.S. state and county ordinances generally exempting essential businesses and/or critical infrastructure workforces from mandated closures and orders to “shelter-in-place,” our U.S. production facilities have continued to operate in support of essential products and services, subject to limitations and requirements pursuant to applicable state and county orders with regard to ongoing operations that have reduced the efficiency of our engineering and operational teams. While operations at our facility in China were delayed in early February, we were able to re-establish 75% of operations by February 10 and were at planned capacity by the end of February.

We rely on third party suppliers and contract manufacturers to provide materials, major components and products, and services. Many of our suppliers have temporarily ceased or limited operations as a result of COVID-19 and failed to deliver parts or components to us. In addition, the rapid decline in commercial airline traffic created shortages in air freight capacity, making it more difficult and costly to timely procure parts and components. We continue to navigate operational challenges with respect to our supply chain and logistics partners, which caused some disruption in the last few weeks of the quarter ended March 31, 2020 and resulted in some delays in our ability to ship Aerospace and Defense products, which adversely impacted the amount of revenue we were able to recognize in the three and six months ended March 31, 2020.

We remain diligent in continuing to identify and manage risks to our business given the changing uncertainties related to COVID-19 and have plans in place intended to address or mitigate shortages of air-freight capacity, customs staffing, and sourcing of certain limited components. In the near term, labor shortages remain our biggest COVID-19-related concern and we expect the general amount of challenges in the supply chain will continue to present a changing set of obstacles for us to overcome. While we believe that our supply chain, logistics and operations teams are currently in a position to meet expected customer demand levels in the coming quarters, we recognize that unpredictable events could create new challenges in the months ahead. We may not be able to address these challenges in a timely manner, which could negatively impact our financial results.

In addition, restrictions related to the COVID-19 pandemic have negatively affected the timing of the sale and transfer of certain CATV module and transmitter manufacturing equipment to the Buyers, as described in more detail below under “Hytera Transactions”. Travel into Thailand by our manufacturing engineers to support the transfer remains difficult, and customer product qualification processes for products being manufactured in Thailand are being delayed due to our customers’ inability to access their facilities to perform testing. While we are taking actions within our supply chain and manufacturing operations to mitigate the effects of these delays, the timing and completion of these transfers may be further disrupted as a result of COVID-19, which could delay our recognition of the anticipated benefits of transferring this equipment and could disrupt our manufacturing activities for these products.

While customer orders to date remain stable with our pre-COVID-19 outlook, qualification testing for certain products has been delayed to customers’ engineering shortages and inability to access their facilities, and we are continuing to analyze how COVID-19 related actions could affect future customer demand, timing of orders, recognized revenues, and cash flows.

The continued spread of COVID-19 has also led to disruption and volatility in the global capital markets, which, depending on future developments, could impact our capital resources and liquidity in the future. If we need to raise additional capital to support operations in the future, we may be unable to access capital markets and additional capital may only be available to us on terms that could be significantly detrimental to our existing stockholders and to our business as a result of COVID-19.

#### SDI Acquisition

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

### Hytera Transactions

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

As described under “COVID-19” above, travel restrictions and delays in customer product qualification processes related to the COVID-19 pandemic have negatively affected the timing of the sale and transfer of some of the Equipment to the Buyers. The Equipment has been or will be transferred to the Buyers in three separate closings, (a) one of which occurred in the quarter ended December 31, 2019, with payment in an amount equal to approximately \$1.9 million received in such quarter, (b) one of which is now expected to occur during the quarter ending June 30, 2020, for which 80% of the applicable sale price (approximately \$1.4 million) was received in April 2020 and the remaining 20% (approximately \$0.4 million) is expected to be received in the quarter ending June 30, 2020, and (c) one of which is now expected to occur during the quarter ending September 30, 2020, with payment to be made following such transfer in an amount equal to (i) 80% of the sale price (approximately \$1.1 million) within three months following the third closing and (ii) 20% of the sale price (approximately \$0.3 million) within six months following the third closing.

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

### Other Actions Related to CATV Business

In the quarter ended September 30, 2019, we also reduced the size of our CATV-related employee headcount and reduced the capacity of our wafer fab to one shift, and in January, 2020, we further reduced the size of our employee headcount. These actions incurred costs of \$0.4 million in the quarter ended September 30, 2019 and \$0.4 million in the quarter ended March 31, 2020 and, together with headcount reduction at our Beijing, China facility and the continuing shift to a variable cost model in our CATV Lasers and Transmitters product lines as described under “Hytera Transactions” above, have collectively resulted in annual cash savings of approximately \$3.4 million beginning in the quarter ended March 31, 2020. These operational changes in CATV also fulfill a strategic objective of better positioning the CATV product lines to generate positive cash flow to help fund the other growth areas of EMCORE including Aerospace and Defense.

### Sale/Leaseback Transaction

SDI entered into a Standard Offer, Agreement and Escrow Instructions for Purchase of Real Estate (Non-Residential) (the “Concord Purchase Agreement”) dated as of December 31, 2019 with Parkview Management Group, Inc. pursuant to which the parties agreed to consummate a sale and leaseback transaction (the “Sale and Leaseback Transaction”). Under the terms of the Concord Purchase Agreement, SDI sold the property located in Concord, California (the “Concord Real Property”) to Eagle Rock Holdings, LP (“Buyer”), an affiliate of Parkview Management Group, Inc. on February 10, 2020 for a total purchase price of \$13.2 million. SDI received net proceeds of \$12.8 million after transaction commissions and expenses incurred in connection with the sale.

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

### **Results of Operations**

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

	<u>For the three months ended March 31,</u>		<u>For the six months ended March 31,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Revenue	100.0 %	100.0	100.0 %	100.0 %
Cost of revenue	73.1	73.3	71.8	74.6
Gross profit	26.9	26.7	28.2	25.4
Operating expense:				
Selling, general, and administrative	29.9	32.2	26.4	31.9
Research and development	19.2	20.0	18.7	18.3
Gain from change in estimate on ARO	—	(0.2)	—	(0.1)
Gain on sale of assets	(1.3)	—	(3.9)	—
Total operating expense	47.8	52.0	41.2	50.1
Operating loss	(20.9)	(25.3)	(13.0)	(24.7)
Other income:				
Interest (expense) income, net	—	1.0	—	1.1
Foreign exchange gain	(0.6)	1.4	—	0.7
Total other (expense) income	(0.6)	2.4	—	1.8
Loss before income tax expense	(21.5)	(22.9)	(13.0)	(22.9)
Income tax benefit (expense)	0.2	(0.1)	—	(0.1)
Net loss	(21.3)%	(23.0)	(13.0)%	(23.0)%

**Comparison of Financial Results for the Three Months Ended March 31, 2020 and 2019**

<i>(in thousands, except percentages)</i>	For the three months ended March 31,			
	2020	2019	\$ Change	% Change
Revenue	\$ 23,850	\$ 21,745	\$ 2,105	9.7%
Cost of revenue	17,423	15,936	1,487	9.3%
Gross profit	6,427	5,809	618	10.6%
Operating expense:				
Selling, general, and administrative	7,139	6,996	143	2.0%
Research and development	4,584	4,360	224	5.1%
Gain from change in estimate on ARO	—	(40)	40	100.0%
Gain on sale of assets	(315)	—	(315)	N/A
Total operating expense	11,408	11,316	92	0.8%
Operating loss	(4,981)	(5,507)	526	9.6%
Other income (expense):				
Interest income, net	1	224	(223)	-99.6%
Foreign exchange (loss) gain	(156)	304	(460)	-151.3%
Total other (expense) income	(155)	528	(683)	-129.4%
Loss before income tax expense	(5,136)	(4,979)	(157)	-3.2%
Income tax benefit (expense)	55	(15)	70	-466.7%
Net loss	\$ (5,081)	\$ (4,994)	\$ (87)	-1.7%

**Revenue**

<i>(in thousands, except percentages)</i>	For the three months ended March 31,			
	2020	2019	\$ Change	% Change
Aerospace and Defense revenue	\$ 13,013	\$ 6,872	\$ 6,141	89.4%
Broadband revenue	10,837	14,873	(4,036)	-27.1%
Total revenue	\$ 23,850	\$ 21,745	\$ 2,105	9.7%

**Aerospace and Defense Revenue:**

For the three months ended March 31, 2020, our Aerospace and Defense revenue increased \$6.1 million, or 89%, compared to the same period in the prior year. Included in Aerospace and Defense revenue is \$6.3 million of revenue from SDI for the three months ended March 31, 2020. For the three months ended March 31, 2020, our Navigation and Inertial Sensing product line revenue increased \$4.7 million compared to the same period in the prior year, primarily due to the SDI revenue of \$6.3 million. Defense Optoelectronics product line revenue increased \$1.4 million compared to the same period in the prior year primarily due to increased customer demand.

**Broadband Revenue:**

For the three months ended March 31, 2020, our Broadband revenue decreased \$4.0 million, or 27%, compared to the same period in the prior year primarily due to lower customer demand in the CATV and Chips product lines.

**Gross Profit**

<i>(in thousands, except percentages)</i>	For the three months ended March 31,			
	2020	2019	\$ Change	% Change
Aerospace and Defense gross profit	\$ 2,844	\$ 2,680	\$ 164	6.1%
Broadband gross profit	3,583	3,129	454	14.5%
Total gross profit	\$ 6,427	\$ 5,809	\$ 618	10.6%

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

Consolidated gross margins were 26.9% and 26.7% for the three months ended March 31, 2020 and 2019, respectively.

Stock-based compensation expense within cost of revenue totaled approximately \$0.2 million and \$0.1 million for the three months ended March 31, 2020 and 2019, respectively.

#### Aerospace and Defense Gross Profit:

For the three months ended March 31, 2020, Aerospace and Defense gross profit increased \$0.2 million, or 6%, compared to the same period in the prior year, primarily due to higher revenue, of which \$1.2 million results from the inclusion of SDI gross profit in the three months ended March 31, 2020, partially offset by lower gross margins. For the three months ended March 31, 2020 and 2019, Aerospace and Defense gross margin was 21.9% and 39.0%, respectively. The lower gross margin in the three months ended March 31, 2020 is primarily due to product mix.

#### Broadband Gross Profit:

For the three months ended March 31, 2020, Broadband gross profit increased \$0.5 million or 15% compared to the same period in the prior year, primarily as a result of lower costs in the three months ended March 31, 2020 due to actions taken through March 31, 2020 in connection with our ongoing transition to a variable cost model in our CATV Laser and Transmitter product lines. For the three months ended March 31, 2020 and 2019, Broadband gross margin was 33.1% and 21.0%, respectively. The higher gross margin in the three months ended March 31, 2020 is primarily due to product mix.

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

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

Stock-based compensation expense within SG&A totaled approximately \$0.6 million and \$0.5 million for the three months ended March 31, 2020 and 2019, respectively.

SG&A expense for the three months ended March 31, 2020 was higher than the amount reported in the same period in the prior year primarily due to higher compensation (including due to a higher U.S. headcount than the prior period due to the SDI acquisition), commissions, consulting, insurance and customer related expenses partially offset by lower attorneys’ fees and costs arising from litigation proceedings.

As a percentage of revenue, SG&A expenses were 29.9% and 32.2% for the three months ended March 31, 2020 and 2019, respectively.

#### **Research and Development (“R&D”)**

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

Stock-based compensation expense within R&D totaled approximately \$0.2 million and \$0.1 million during the three months ended March 31, 2020 and 2019, respectively.

For the three months ended March 31, 2020 and 2019, Aerospace and Defense R&D expense was \$4.0 million and \$1.7 million, respectively. For the three months ended March 31, 2020 and 2019, Broadband R&D expense was \$0.6 million and \$2.7 million, respectively.

R&D expense for the three months ended March 31, 2020 was higher than the amounts reported in the same period in the prior year primarily due to an increase in compensation costs (including due to a higher R&D headcount than the prior period due to the SDI acquisition), partially offset by lower project spending, primarily in Aerospace and Defense.

As a percentage of revenue, R&D expenses were 19.2% and 20.0% for the three months ended March 31, 2020 and 2019, respectively.

### **Operating Loss**

Operating loss represents revenue less the cost of revenue and operating expenses incurred. Operating loss is a measure that executive management uses to assess performance and make decisions. As a percentage of revenue, our operating loss was (20.9)% and (25.3)% for the three months ended March 31, 2020 and 2019, respectively. The decrease in operating loss as a percentage of revenue in the three months ended March 31, 2020 compared to the same period in the prior year is primarily due to the increase in gross profit and the gain on sale of assets, partially offset by the increase in SG&A expense and R&D expense in the three months ended March 31, 2020.

### **Other Income**

#### Interest Income, net

During the three months ended March 31, 2020 and 2019, we recorded \$0.1 million and \$0.3 million, respectively, of interest income earned on cash and cash equivalents balances, which was partially offset by interest expense and letter of credit fees related to our Credit Facility (as defined below). Interest income for the three months ended March 31, 2020 was lower than the amount reported in the prior year due to lower cash and cash equivalents balances.

#### Foreign Exchange

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

### **Income Tax Expense**

For the three months ended March 31, 2020 and 2019, the Company recorded income tax benefit (expense) of approximately \$55,000 and \$(15,000), respectively. Income tax benefit for the three months ended March 31, 2020 is composed primarily of the reversal of a federal deferred tax liability related to the Concord Real Property acquired as part of the SDI acquisition, partially offset by state minimum tax expense. Income tax expense for the three months ended March 31, 2019 is primarily comprised of state minimum tax expense.

**Comparison of Financial Results for the Six Months Ended March 31, 2020 and 2019**

<i>(in thousands, except percentages)</i>	For the six months ended March 31,			
	2020	2019	\$ Change	% Change
Revenue	\$ 49,332	\$ 45,746	\$ 3,586	7.8%
Cost of revenue	35,431	34,129	1,302	3.8%
Gross profit	13,901	11,617	2,284	19.7%
Operating expense:				
Selling, general, and administrative	13,026	14,589	(1,563)	-10.7%
Research and development	9,226	8,379	847	10.1%
Gain from change in estimate on ARO	—	(40)	40	100.0%
Gain on sale of assets	(1,917)	—	(1,917)	N/A
Total operating expense	20,335	22,928	(2,593)	-11.3%
Operating loss	(6,434)	(11,311)	4,877	43.1%
Other income (expense):				
Interest (expense) income, net	(14)	491	(505)	-102.9%
Foreign exchange (loss) gain	(9)	318	(327)	-102.8%
Total other (expense) income	(23)	809	(832)	-102.8%
Loss before income tax expense	(6,457)	(10,502)	4,045	38.5%
Income tax benefit (expense)	41	(30)	71	236.7%
Net loss	\$ (6,416)	\$ (10,532)	\$ 4,116	39.1%

**Revenue**

<i>(in thousands, except percentages)</i>	For the six months ended March 31,			
	2020	2019	\$ Change	% Change
Aerospace and Defense revenue	\$ 26,717	\$ 11,012	\$ 15,705	142.6%
Broadband revenue	22,615	34,734	(12,119)	-34.9%
Total revenue	\$ 49,332	\$ 45,746	\$ 3,586	7.8%

**Aerospace and Defense Revenue:**

For the six months ended March 31, 2020, our Aerospace and Defense revenue increased \$15.7 million, or 143%, compared to the same period in the prior year. Included in Aerospace and Defense revenue is \$14.4 million of revenue from SDI for the six months ended March 31, 2020. For the six months ended March 31, 2020, our Navigation and Inertial Sensing product line revenue increased \$12.6 million compared to the same period in the prior year, primarily due to the SDI revenue of \$14.4 million, as there was no contribution by SDI of revenue in the six months ended March 31, 2019. For the six months ended March 31, 2020, our Defense Optoelectronics product line revenue increased \$3.1 million compared to the same period in the prior year, primarily due to increased customer demand.

**Broadband Revenue:**

For the six months ended March 31, 2020, our Broadband revenue decreased \$12.1 million, or 35%, compared to the same period in the prior year primarily due to lower customer demand in the CATV and Chips product lines.

**Gross Profit**

<i>(in thousands, except percentages)</i>	For the six months ended March 31,			
	2020	2019	\$ Change	% Change
Aerospace and Defense gross profit	\$ 7,332	\$ 3,902	\$ 3,430	87.9%
Broadband gross profit	6,569	7,715	(1,146)	-14.9%
Total gross profit	\$ 13,901	\$ 11,617	\$ 2,284	19.7%

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

Consolidated gross margins were 28.2% and 25.4% for the six months ended March 31, 2020 and 2019, respectively.

Stock-based compensation expense within cost of revenue totaled approximately \$0.3 million and \$0.2 million for the six months ended March 31, 2020 and 2019, respectively.

**Aerospace and Defense Gross Profit:**

For the six months ended March 31, 2020, Aerospace and Defense gross profit increased \$3.4 million, or 88%, compared to the same period in the prior year, primarily due to higher revenue, of which \$3.5 million results from the inclusion of SDI gross profit in the six months ended March 31, 2020 compared to no contribution by SDI to gross profit in the six months ended March 31, 2019. For the six months ended March 31, 2020 and 2019, Aerospace and Defense gross margin was 27.4% and 35.4%, respectively. The lower gross margin in the six months ended March 31, 2020 is primarily due to product mix.

**Broadband Gross Profit:**

For the six months ended March 31, 2020, Broadband gross profit decreased \$1.1 million, or 15%, compared to the same period in the prior year, primarily as a result of lower revenues in the six months ended March 31, 2020. For the six months ended March 31, 2020 and 2019, Broadband gross margin was 29.1% and 22.2%, respectively. The higher gross margin in the six months ended March 31, 2020 was primarily the result of product mix and a \$0.5 million inventory reserve on non-current inventory in the six months ended March 31, 2019 due to the decline in sales and future demand for the inventory at such time.

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

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

Stock-based compensation expense within SG&A totaled approximately \$1.1 million and \$0.6 million for the six months ended March 31, 2020 and 2019, respectively.

SG&A expense for the six months ended March 31, 2020 was lower than the amount reported in the same period in the prior year, primarily due to lower attorneys’ fees and costs arising from litigation proceedings, partially offset by an increase in bad debt expense.

As a percentage of revenue, SG&A expenses were 26.4% and 31.9% for the six months ended March 31, 2020 and 2019, respectively.

## **Research and Development (“R&D”)**

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

Stock-based compensation expense within R&D totaled approximately \$0.4 million and \$0.3 million for the six months ended March 31, 2020 and 2019, respectively.

For the six months ended March 31, 2020 and 2019, Aerospace and Defense R&D expense was \$7.9 million and \$3.2 million, respectively. For the six months ended March 31, 2020 and 2019, Broadband R&D expense was \$1.3 million and \$5.2 million, respectively.

R&D expense for the six months ended March 31, 2020 was higher than the amounts reported in the same period in the prior year primarily due to an increase in compensation costs (including due to a higher R&D headcount than the prior period due to the SDI acquisition) partially offset by lower project spending, primarily in Aerospace and Defense.

As a percentage of revenue, R&D expenses were 18.7% and 18.3% for the six months ended March 31, 2020 and 2019, respectively.

## **Operating Loss**

Operating loss represents revenue less the cost of revenue and direct operating expenses incurred. Operating loss is a measure that executive management uses to assess performance and make decisions. As a percentage of revenue, our operating loss was (13.0)% and (24.7)% for the six months ended March 31, 2020 and 2019, respectively. The decrease in operating loss as a percentage of revenue in the six months ended March 31, 2020 compared to the same period in the prior year is primarily due to the increase in gross profit, the gain on sale of assets and the decrease in SG&A expense, partially offset by the increase in R&D expense in the six months ended March 31, 2020.

## **Other Income**

### Interest Income, net

During the six months ended March 31, 2020 and 2019, we recorded \$0.2 million and \$0.6 million, respectively, of interest income earned on cash and cash equivalents balances, which was partially offset by interest expense and letter of credit fees related to our Credit Facility (as defined below). Interest income for the six months ended March 31, 2020 was lower than the amount reported in the prior year due to lower cash and cash equivalents balances.

### Foreign Exchange

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

## **Income Tax Expense**

For the six months ended March 31, 2019, the Company recorded income tax benefit (expense) of approximately \$41,000 and \$(30,000), respectively. Income tax benefit for the six months ended March 31, 2020 is composed primarily of the reversal of a deferred tax liability related to the Concord Real Property, partially offset by state minimum tax expense. Income tax expense for the six months ended March 31, 2019 is primarily comprised of state minimum tax expense.

## **Order Backlog**

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

## **Liquidity and Capital Resources**

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

As of March 31, 2020, cash and cash equivalents totaled \$22.1 million and net working capital totaled approximately \$52.4 million. Net working capital, calculated as current assets (including inventory) minus current liabilities, is a financial metric we use which represents available operating liquidity.

On November 11, 2010, we entered into a Credit and Security Agreement (as amended to date, the "Credit Facility") with Wells Fargo Bank, N.A. ("Wells Fargo"). The Credit Facility currently provides us with a revolving credit line of up to \$15.0 million that can be used for working capital requirements, letters of credit, acquisitions, and other general corporate purposes subject to requirements that (a) the Company have (i) liquidity of at least \$10.0 million, and (ii) for certain specific uses, liquidity of at least \$25.0 million after such use and (b) the Company maintain excess availability of at least \$1.0 million. The Credit Facility has a maturity date expiring in November 2021, is secured by the Company's assets and is subject to a borrowing base formula based on the Company's eligible accounts receivable, inventory, and machinery and equipment accounts. See [Note 11 - Credit Facilities](#) in the notes to the condensed consolidated financial statements for additional disclosures. As of May 4, 2020, there was no outstanding balance under this Credit Facility, \$0.5 million reserved for one outstanding stand-by letter of credit and \$8.0 million available for borrowing.

The Company has a history of operating losses and negative cash flows from operations. We believe that our existing balances of cash and cash equivalents, cash flows from operations and amounts expected to be available under our Credit Facility and any amounts that may be available to us under governmental lending programs will provide us with sufficient financial resources to meet our cash requirements for operations, working capital, and capital expenditures for at least the next twelve months from the date of the issuance of these financial statements. We have taken a number of actions to continue to support our operations and meet our obligations, including completing the sale of the Concord Real Property, headcount reductions and other cost reductions. In addition, should we require more capital than what is generated by our operations, we could engage in additional sales or other monetization of certain fixed assets, additional cost reductions, or elect to raise capital in the U.S. through debt or equity issuances. These alternatives may not be available to us on reasonable terms or at all, and could result in higher effective tax rates, increased interest expense, and/or dilution of our earnings.

As described above, the continued spread of COVID-19 has led to disruption and volatility in the global capital markets, which, depending on future developments, could impact our capital resources in the future. If we need to raise additional capital to support operations in the future, we may be unable to access capital markets and additional capital may only be available to us on terms that could be significantly detrimental to our existing stockholders and to our business.

## **Cash Flow**

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

<i>Operating Activities</i> <i>(in thousands, except percentages)</i>	<b>For the six months ended March 31,</b>			
	<b>2020</b>	<b>2019</b>	<b>\$ Change</b>	<b>% Change</b>
Net cash used in operating activities	<b>\$(7,528)</b>	<b>\$(7,061)</b>	<b>\$ (467)</b>	<b>-6.6%</b>

Fiscal 2020:

For the six months ended March 31, 2020, our operating activities used cash of \$7.5 million, primarily due to our net loss of \$6.4 million, changes in our operating assets and liabilities (or working capital components, which includes non-current inventory) of \$4.5 million and gain on disposal of assets of \$1.9 million, partially offset by adjustments for non-cash charges, including depreciation and amortization expense of \$3.3 million, stock-based compensation expense of \$1.8 million, product warranty provision of \$0.1 million and bad debt provision of \$0.1 million. The change in our operating assets and liabilities was primarily the result of an increase in accounts receivable of \$2.4 million and other assets of \$13.8 million and a decrease in accounts payable of \$0.5 million and accrued expenses and other liabilities of \$10.7 million, partially offset by a decrease in inventory of \$0.5 million.

Fiscal 2019:

For the six months ended March 31, 2019, our operating activities used cash of \$7.1 million, primarily due to our net loss of \$10.5 million and changes in our operating assets and liabilities (or working capital components, which includes non-current inventory) of \$0.7 million, partially offset by adjustments for non-cash charges, including depreciation and amortization expense of \$3.2 million, stock-based compensation expense of \$1.1 million and warranty provision of \$0.1 million. The change in our operating assets and liabilities was primarily the result of increases in accounts receivable of \$0.8 million and other assets of \$3.2 million and a decrease in accounts payable of \$0.3 million, partially offset by a decrease in inventory of \$0.7 million and an increase in other liabilities of \$2.9 million.

Working Capital Components:

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

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

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

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

Net Cash Provided By (Used In) Investing Activities

<i>Investing Activities</i> <i>(in thousands, except percentages)</i>	<b>For the six months ended March 31,</b>			
	<b>2020</b>	<b>2019</b>	<b>\$ Change</b>	<b>% Change</b>
Net cash provided by (used in) investing activities	\$12,486	\$(5,576)	\$18,062	323.9%

Fiscal 2020:

For the six months ended March 31, 2020, our investing activities provided cash of \$12.5 million primarily from cash proceeds from the disposal of property, plant and equipment of \$14.9 million partially offset by capital-related expenditures of \$2.4 million.

Fiscal 2019:

For the six months ended March 31, 2019, our investing activities used \$5.6 million of cash for capital related expenditures of \$5.6 million primarily related to investment in our wafer fabrication facility.

Net Cash (Used In) Provided By Financing Activities

<i>Financing Activities</i> <i>(in thousands, except percentages)</i>	<b>For the six months ended March 31,</b>			
	<b>2020</b>	<b>2019</b>	<b>\$ Change</b>	<b>% Change</b>
Net cash (used in) provided by financing activities	<u>\$ (4,853)</u>	<u>\$ 44</u>	<u>\$ (4,897)</u>	<u>-11129.5%</u>

Fiscal 2020:

For the six months ended March 31, 2020, our financing activities used cash of \$4.9 million primarily due to net payments related to borrowings from our bank Credit Facility of \$5.5 million partially offset by proceeds from stock plan transactions of \$0.3 million and issuance of restricted stock units of \$0.4 million.

Fiscal 2019:

For the six months ended March 31, 2019, our financing activities provided cash of \$44,000 primarily from proceeds from stock plan transactions of \$0.2 million partially offset by tax withholding paid on behalf of employees for stock-based awards of \$0.2 million.

**Contractual Obligations and Commitments**

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

**Off-Balance Sheet Arrangements**

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

**Critical Accounting Policies and Estimates**

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as of the date of the financial statements, and the reported amounts of revenue and expenses during the reported period. If these estimates differ significantly from actual results, the impact to the condensed consolidated financial statements may be material. There have been no material changes in our critical accounting policies and estimates from those disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2019. Please refer to Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended September 30, 2019 for a discussion of our critical accounting policies and estimates.

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

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

**Foreign Currency Exchange Risks**

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

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

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

During the normal course of business, we are exposed to market risks associated with fluctuations in foreign currency exchange rates due to the Yuan Renminbi. To reduce the impact of these risks on our earnings and to increase the predictability of cash flows, we use natural offsets in receipts and disbursements within the applicable currency as the primary means of reducing the risk.

Some of our foreign suppliers may adjust their prices (in U.S. dollars) from time to time to reflect currency exchange fluctuations, and such price changes could impact our future financial condition or results of operations. We do not currently hedge our foreign currency exposure.

#### **Interest Rate Risks**

We monitor our interest rate risk on cash balances primarily through cash flow forecasting. Cash that is surplus to immediate requirements is invested in short-term deposits with banks accessible with short notice and invested in money market accounts. Based on the LIBOR rate loans outstanding under our credit facility during the three and six months ended March 31, 2020, a hypothetical 50 basis points increase in interest rates would have resulted in an insignificant amount of additional interest expense.

#### **Inflation Risks**

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

#### **Credit Market Conditions**

The U.S. and global capital markets periodically experience turbulent conditions, particularly in the credit markets, which can result in tightening of lending standards, reduced availability of credit, and reductions in certain asset values. The continued spread of COVID-19 has led to disruption and volatility in the global capital markets, which, depending on future developments, could impact our capital resources in the future. If we need to raise additional capital to support operations in the future, we may be unable to access capital markets and additional capital may only be available to us on terms that could be significantly detrimental to our existing stockholders and to our business. This could also impact our ability to obtain additional funding through asset sales.

### **ITEM 4. Controls and Procedures**

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

Our management, with the participation of its Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer and Accounting Officer), evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of March 31, 2020. Based upon this

evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

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

As a result of the acquisition of SDI on June 7, 2019, our management is in the process of reviewing and evaluating the design and operating effectiveness of its internal control over financial reporting relating to SDI. Certain changes have been made and will continue to be made to our internal controls until management has completed its evaluation and integrated SDI's information and accounting systems and processes, and any such changes that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting will be disclosed in the Company's annual report on Form 10-K for the year ending September 30, 2020.

There have been no other changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Exchange Act) during the quarter ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. Other Information**

**ITEM 1. Legal Proceedings**

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

**ITEM 1A. Risk Factors**

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

***The full effects of COVID-19 and other potential future public health crises, epidemics, pandemics or similar events are uncertain and could have a material and adverse effect on our business, financial condition, operating results and cash flows.***

The global outbreak of the coronavirus disease 2019 ("COVID-19") was declared a pandemic by the World Health Organization and a national emergency by the U.S. Government in March 2020. This has negatively affected the U.S. and global economy, disrupted global supply chains, significantly restricted travel and transportation, resulted in mandated closures and orders to "shelter-in-place," and created significant disruption of the financial markets. The full extent of the COVID-19 impact on our operational and financial performance will depend on future developments, including the duration and spread of the pandemic and related actions taken by the U.S. government, state and local government officials, and international governments to prevent disease spread, all of which are uncertain, out of our control and cannot be predicted.

In accordance with applicable U.S. state and county ordinances generally exempting essential businesses and/or critical infrastructure workforces from mandated closures and orders to "shelter-in-place," our U.S. production facilities have continued to operate in support of essential products and services, subject to limitations and requirements pursuant to applicable state and county orders with regard to ongoing operations that have reduced the efficiency of our engineering

and operational teams. However, facility closures or further work slowdowns or temporary stoppages could occur, and in many cases, our facilities and supplier facilities are not operating under full staffing as a result of COVID-19, which could have a longer-term impact and could delay our deliveries to customers. In addition, other countries have different practices and policies that can affect our international operations and the operations of our suppliers and customers. For example, operations at our Beijing facility ceased for one additional week beyond the Chinese New Year holiday in early February as a result of the COVID-19 situation, and additional closures could occur.

In addition, the COVID-19 pandemic has negatively affected, and could have further negative effects on, the timing of the sale and transfer of certain CATV module and transmitter manufacturing equipment that we have agreed, as part of our efforts to streamline operations and move to a variable cost model in our CATV Lasers and Transmitters product lines, to sell to Hytera Communications (Hong Kong) Company Limited (“Hytera HK”), and Shenzhen Hytera Communications Co., Ltd. (“Shenzhen Hytera”, and together with Hytera HK, the “Buyers”), for use by the Buyers in connection with the manufacturing of certain CATV module and transmitter products for us from a manufacturing facility located in Thailand. The sale and transfer of the equipment will occur in three separate closings, one of which occurred in the quarter ended December 31, 2019 and the other two of which are now expected to occur during the quarters ending June 30, 2020 and September 30, 2020, respectively. The timing and completion of these transfers may be further disrupted as a result of COVID-19, which could delay our recognition of the anticipated benefits of transferring this equipment and could disrupt our manufacturing activities for these products.

If significant portions of our workforce are unable to work effectively, including because of illness, quarantines, absenteeism, government actions, facility closures, travel restrictions or other restrictions in connection with the COVID-19 pandemic, our operations will be negatively impacted. We may be unable to perform fully on our contracts and our costs may increase as a result of the COVID-19 outbreak. The impact of COVID-19 could worsen if there is an extended duration of any COVID-19 outbreak or a resurgence of COVID-19 infection in affected regions after they have begun to experience improvement.

As described in Item 1A, Risk Factors of our Annual Report on Form 10-K for the fiscal year ended September 30, 2019, we rely on other companies to provide materials, major components and products, and to perform a portion of the services that are provided to our customers under the terms of most of our contracts where we rely on these third parties. Many of our suppliers have temporarily ceased or limited operations as a result of COVID-19 and failed to deliver parts or components to us. An extended period of global supply chain disruption caused by the response to COVID-19 could impact our ability to perform on our contracts and, if we are not able to implement alternatives or other mitigations, product deliveries could be adversely impacted. In addition, the rapid decline in commercial airline traffic created shortages in air freight capacity, making it more difficult and costly to timely procure parts and components.

As a result of COVID-19, we could see reduced customer orders in certain of our product lines, which could adversely affect our revenues, financial performance and cash flows, and could result in inventory write-downs and impairment losses. Delays in inspection, acceptance and payment by our customers, many of whom are teleworking, could also affect our revenues and cash flows, and current limitations on travel to customers could impact orders. Limitations on government operations can also impact regulatory approvals such as export licenses that are needed for international sales and deliveries for certain of our products. Government funding priorities may change as a result of the costs of COVID-19, which could adversely affect our revenues arising from government contracts or subcontracts, and with respect to such contracts, we could experience delays in new program starts or awards of future work as well as the uncertain impact of contract modifications to respond to the national emergency.

The continued spread of COVID-19 has also led to disruption and volatility in the global capital markets, which, depending on future developments, could impact our capital resources and liquidity in the future. If we need to raise additional capital to support operations in the future, we may be unable to access capital markets and additional capital may only be available to us on terms that could be significantly detrimental to our existing stockholders and to our business as a result of COVID-19. We are also monitoring the impacts of COVID-19 on the fair value of our assets. While we do not currently anticipate any material impairments on our assets as a result of COVID-19, future changes in expectations for sales, earnings and cash flows related to intangible assets and goodwill below our current projections could cause these assets to be impaired.

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

- 2.1 [Purchase and Sale Agreement, dated as of June 7, 2019 by and among EMCORE Corporation, The Resilience Fund IV, L.P., The Resilience Fund IV-A, L.P., Aerospace Newco Holdings, Inc. and Ember Acquisition Sub, Inc. \(incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on June 10, 2019\).](#)
- 2.2 [Asset Purchase Agreement, dated as of October 25, 2019 by and among EMCORE Corporation, Hytera Communications \(Hong Kong\) Company Limited and Shenzhen Hytera Communications Co., Ltd. \(incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on October 30, 2019\).](#)
- 10.1 [Standard Offer, Agreement and Escrow Instructions for Purchase of Real Estate \(Non-Residential\) dated as of December 31, 2019 by and between Parkview Management Group, Inc. and Systron Donner Inertial, Inc \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8 K filed on January 6, 2020\).](#)
- 10.2 [First Amendment to Standard Offer, Agreement and Escrow Instructions for Purchase of Real Estate \(Non-Residential\) dated as of January 13, 2020 by and between Parkview Management Group, Inc. and Systron Donner Inertial, Inc. \(incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q filed on February 10, 2020\).](#)
- 10.3 [Single-Tenant Triple Net Lease, dated as of February 10, 2020 by and between Systron Donner Inertial, Inc. and Eagle Rock Holdings, LP \(incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8 K filed on February 11, 2020\).](#)
- 10.4 [Lease Guaranty, dated as of February 10, 2020, by and between Systron Donner Inertial, Inc. and Eagle Rock Holdings, LP \(incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on February 11, 2020\).](#)
- 10.5 [Paycheck Protection Program Promissory Note and Agreement, dated May 3, 2020, entered into by and between EMCORE Corporation and Wells Fargo Bank, National Association \(incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 6, 2020\).](#)
- 10.6†\*\* [Directors' Compensation Policy \(effective March 19, 2020\).](#)
- 31.1\*\* [Certificate of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 31.2\*\* [Certificate of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 32.1\*\*\* [Certificate of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 32.2\*\*\* [Certificate of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 101.INS\*\* XBRL Instance Document.
- 101.SCH\*\* XBRL Taxonomy Extension Schema Document.
- 101.CAL\*\* XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.LAB\*\* XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE\*\* XBRL Taxonomy Extension Presentation Linkbase Document.
- 101.DEF\*\* XBRL Taxonomy Extension Definition Linkbase Document.

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† *Management contract or compensatory plan*

\*\* *Filed herewith*

\*\*\* *Furnished herewith*

**SIGNATURES**

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

**EMCORE CORPORATION**

Date: **May 7, 2020**

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

Date: **May 7, 2020**

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

**EMCORE CORPORATION**  
**DIRECTORS' COMPENSATION POLICY**

**(Amended Effective as of March 19, 2020)**

Directors of EMCORE Corporation (the "Company") who are not employed by the Company or one of its subsidiaries ("non-employee directors") are entitled to the compensation set forth below for their service as a member of the Board of Directors (the "Board") of the Company. The Board has the right to amend this policy from time to time.

**Cash Compensation**

*All Board Members*

Annual Cash Retainer	\$37,000
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*Board Committee Chairpersons*

Annual Audit Committee Chairperson Retainer	\$20,000
Annual Compensation Committee Chairperson Retainer	\$ 9,500
Annual Nominating Committee Chairperson Retainer	\$ 8,000
Annual Strategy and Alternatives Committee Chairperson Retainer	\$ 8,000

*Other Board Committee Members*

Annual Audit Committee Member Retainer	\$10,000
Annual Compensation Committee Member Retainer	\$ 5,000
Annual Nominating Committee Member Retainer	\$ 3,000
Annual Strategy and Alternatives Committee Member Retainer	\$ 3,000

**Equity Compensation**

Annual Equity Award	\$54,000
Annual Chairperson Equity Award	\$42,500

**Cash Compensation**

Each non-employee director will be entitled to an annual cash retainer while serving on the Board in the amount set forth above (the "Annual Cash Retainer"). A non-employee director who serves as the Chairperson of the Audit Committee, the Compensation Committee, the Nominating Committee or the Strategy and Alternatives Committee of the Board will be entitled to an additional annual cash retainer while serving in that position in the applicable amount set forth above (an "Additional Committee Chair Retainer"). A non-employee director who serves as a member of the Audit Committee, the Compensation Committee, the Nominating Committee or the Strategy and Alternatives Committee of the Board (but is not Chairperson of such Board committee) will be entitled to an additional annual cash retainer while serving in that position in the applicable amount set forth above (an "Additional Committee Member Retainer").

The amounts of the Annual Cash Retainer, Additional Committee Chair Retainer and Additional Committee Member Retainer (collectively, the "Cash Retainer") reflected above are expressed as annualized amounts. These retainers will be paid on a quarterly basis, at the end of each quarter in arrears, and will be pro-rated if a non-employee director serves (or serves in the corresponding position, as the case may be) for only a portion of the quarter (with the proration based on the number of calendar days in the quarter that the director served as a non-employee director or held the particular position, as the case may be).

**Elective Grants of Equity Awards**

Any time that the Company's trading window is open under the Company's Executive Insider Trading Policy, a non-employee director may elect that all or a portion of his or her Cash Retainer be converted into fully vested shares of the Company's common stock (such amount the "Exchanged Retainer"). Such election shall be made by completing the election form as the Board may prescribe from time to time (an "Election Form"), and filing such completed form with the Company during an open trading window under the Company's Executive Insider Trading Policy. The number of shares issued pursuant to an Election Form shall be determined by dividing (i) the amount of the Exchanged Retainer for the applicable quarter by (ii) the per-share closing price of the Company's common

stock on the last trading day of the applicable quarter, with the result rounded down to the nearest whole share. Any fractional amount of the Exchanged Retainer less than the price of a share of the common stock on the payment date shall be forfeited. Any such shares issued pursuant to an Election Form shall be issued under, and subject to the terms of, the Company's 2019 Equity Incentive Plan or any other equity compensation plan approved by the Company's shareholders and in effect at the time of grant (the "Equity Plan").

## **Equity Compensation**

### *Annual Equity Award*

On the date of each annual meeting of the Company's shareholders, each non-employee director serving as a director immediately following such annual meeting will automatically be granted an award of restricted stock units (an "Annual Equity Award") determined by dividing (1) the Annual Equity Award grant value set forth above by (2) the per-share closing price of the Company's common stock on the date of such annual meeting (rounded down to the nearest whole unit). Each Annual Equity Award will vest on the first anniversary of the grant date (or, if the Company's next annual meeting of shareholders occurs prior to such vesting date, on the day prior to that annual meeting), subject to the non-employee director's continued service on the Board through such vesting date.

For each new non-employee director appointed or elected to the Board other than on the date of an annual meeting of the Company's shareholders, on the date that the new non-employee director first becomes a member of the Board, the new non-employee director will automatically be granted a pro-rata portion of the Annual Equity Award (a "Pro-Rata Annual Equity Award") determined by dividing (1) a pro-rata portion of the Annual Equity Award grant value set forth above by (2) the per-share closing price of the Company's common stock on the date the new non-employee director first became a member of the Board (rounded down to the nearest whole unit). The pro-rata portion of the Annual Equity Award grant value for purposes of a Pro-Rata Annual Equity Award will equal the Annual Equity Award grant value set forth above multiplied by a fraction (not greater than one), the numerator of which is 12 minus the number of whole months that as of the particular grant date had elapsed since the Company's last annual meeting of shareholders at which Annual Equity Awards were granted by the Company to non-employee directors, and the denominator of which is 12. Each Pro-Rata Annual Equity Award will vest on the first anniversary of the last annual meeting of shareholders at which Annual Equity Awards were granted by the Company to non-employee directors (or, if the Company's next annual meeting of shareholders occurs prior to such vesting date, on the day prior to that annual meeting), subject to the non-employee director's continued service on the Board through such vesting date.

### *Annual Chairperson Equity Award*

On the date of each annual meeting of the Company's shareholders, each non-employee director then serving as the Chairperson of the Board immediately following such annual meeting will automatically be granted an award of restricted stock units (an "Annual Chairperson Equity Award") determined by dividing (1) the Annual Chairperson Equity Award grant value set forth above by (2) the per-share closing price of the Company's common stock on the date of such annual meeting (rounded down to the nearest whole unit). Each Annual Chairperson Equity Award will vest in full on the first anniversary of the grant date (or, if the Company's annual meeting of shareholders in the year following the year in which the award was granted occurs prior to such vesting date, on the day prior to that annual meeting), subject to the non-employee director's continued service on the Board through such vesting date; provided, however that a non-employee director that ceases to serve as Chairperson after the date of the last annual meeting of shareholders and prior to the first anniversary of such meeting date (but remains a non-employee director of the Board) shall be entitled to vest in a pro-rata portion of any outstanding Annual Chairperson Equity Award determined by multiplying (1) the number of restricted stock units subject to such Annual Chairperson Equity Award by (2) a fraction (not greater than one), the numerator of which is the number of months that as of such date have elapsed since the Company's last annual meeting of shareholders at which the Annual Chairperson Equity Award was granted by the Company to the Chairperson of the Board and the denominator of which is 12 (rounded down to the nearest whole unit).

For a non-employee director that is newly appointed to serve as Chairperson of the Board other than on the date of an annual meeting of the Company's shareholders, on the date that the new non-employee director first becomes Chairperson, the new Chairperson of the Board will automatically be granted a pro-rata portion of the Annual Chairperson Equity Award (a "Pro-Rata Annual Chairperson Equity Award") determined by dividing (1) a pro-rata portion of the Annual Chairperson Equity Award grant value set forth above by (2) the per-share

closing price of the Company's common stock on the date the new non-employee director first became Chairperson (rounded down to the nearest whole unit). The pro-rata portion of the Annual Chairperson Equity Award grant value for purposes of a Pro-Rata Annual Chairperson Equity Award will equal the Annual Chairperson Equity Award grant value set forth above multiplied by a fraction (not greater than one), the numerator of which is 12 minus the number of whole months that as of the particular grant date had elapsed since the Company's last annual meeting of shareholders at which an Annual Chairperson Equity Award was granted by the Company to the Chairperson of the Board and the denominator of which is 12. Each Pro-Rata Annual Chairperson Equity Award will vest on the first anniversary of the last annual meeting of shareholders at which Annual Equity Awards were granted by the Company to non-employee directors (or, if the Company's next annual meeting of shareholders occurs prior to such vesting date, on the day prior to that annual meeting), subject to the non-employee director's continued service on the Board through such vesting date.

#### *General*

Unless otherwise determined by the Board, each award of restricted stock units will be made under and subject to the terms and conditions of the Equity Plan.

Restricted stock unit awards granted under the Equity Plan are generally forfeited as to the unvested portion of the award upon the non-employee director's termination of service as a director for any reason. However, vesting of a non-employee director's outstanding and unvested restricted stock units will accelerate should the director's services terminate due to the director's death or Disability (as defined in the Equity Plan).

#### **Expense Reimbursement**

All directors will be entitled to reimbursement from the Company for their reasonable travel (including airfare and ground transportation), lodging and meal expenses incident to meetings of the Board or committees thereof or in connection with other Board related business.

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

I, Jeffrey Rittichier, certify that:

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

Date: May 7, 2020

By: /s/ Jeffrey Rittichier

Jeffrey Rittichier  
Chief Executive Officer  
(Principal Executive Officer)

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

I, Tom Minichiello, certify that:

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

Date: May 7, 2020

By: /s/ Tom Minichiello

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

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

In connection with the Quarterly Report on Form 10-Q of EMCORE Corporation (the "Company") for the quarterly period ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey Rittichier, Chief Executive Officer (Principal Executive Officer) of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 7, 2020

By: /s/ Jeffrey Rittichier

Jeffrey Rittichier

Chief Executive Officer

(Principal Executive Officer)

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

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

In connection with the Quarterly Report on Form 10-Q of EMCORE Corporation (the "Company") for the quarterly period ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Tom Minichiello, Chief Financial (Principal Financial and Accounting Officer) of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: **May 7, 2020**

By: **/s/ Tom Minichiello**

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

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

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