

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K/A

Amendment No. 1

**CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

Date of Report (date of earliest event reported): **June 7, 2019**



EMCORE CORPORATION

(Exact name of Registrant as specified in its charter)

New Jersey
(State or other jurisdiction
of incorporation)

001-36632
(Commission
File Number)

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

2015 W. Chestnut Street Alhambra, CA 91803
(Address of principal executive offices)

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

N/A
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class:	Trading Symbol(s)	Name of each exchange on which registered:
Common stock, no par value	EMKR	The Nasdaq Stock Market LLC (Nasdaq Global Market)

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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. ☐

Explanatory Note

EMCORE Corporation (the “Company”) filed a Current Report on Form 8-K (the “Original Form 8-K”) with the Securities and Exchange Commission on June 10, 2019 announcing the closing of its acquisition of Aerospace Newco Holdings, Inc., the sole stockholder of Systron Donner Inertial, Inc. (“SDI”). This Amendment to the Original Form 8-K (“Amendment No. 1”) is being filed solely to amend and supplement the Original Form 8-K to include the historical audited financial statements of SDI, the unaudited condensed financial statements of SDI, and unaudited pro forma condensed combined financial information related to the Company’s acquisition of SDI. The disclosures and exhibits included in the Original Form 8-K otherwise remain unchanged.

Item 9.01 Financial Statements and Exhibits

(a) Financial Statements of Business Acquired

The audited financial statements of SDI as of and for the year ended December 31, 2018, as well as the accompanying notes and independent auditors’ report are filed as Exhibit 99.1 and are incorporated by reference herein.

The unaudited condensed financial statements of SDI as of and for the three months ended March 31, 2019 and 2018, as well as the accompanying notes are filed as Exhibit 99.2 and are incorporated by reference herein.

(b) Pro Forma Financial Information

The Company’s unaudited pro forma condensed combined balance sheet as of March 31, 2019, the unaudited pro forma condensed combined statements of operations for the six months ended March 31, 2019 and for the fiscal year ended September 30, 2018, as well as the accompanying notes are filed as Exhibit 99.3 and are incorporated by reference herein.

(d) Exhibits

Exhibit No.	Description
23.1	Consent of Independent Auditors
99.1	Audited Financial Statements of SDI as of and for the fiscal year ended December 31, 2018
99.2	Unaudited Condensed Financial Statements of SDI as of and for the three months ended March 31, 2019 and 2018
99.3	Unaudited Pro Forma Condensed Combined Financial Information

Signature

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 hereunto duly authorized.

Dated: August 23, 2019

EMCORE CORPORATION

/s/ Mark A. Gordon

Mark A. Gordon

Interim Principal Financial and Accounting Officer

Consent of Independent Auditors

We consent to the incorporation by reference in Registration Statements (Form S-8 Nos. 333-160368, 333-37306, 333-60816, 333-118076, 333-132317, 333-160360, 333-132318, 333-159769, 333-27507, 333-36445, 333-118074, 333-39547, 333-45827, 333-171929, 333-175777, 333-185699, 333-185698, 333-189451, 333-197179, 333-211912, 333-217799, and 333-230709) pertaining to the 1995 Incentive and Non-Statutory Option Plan, MicroOptical Devices, Inc. 1996 Stock Option Plan, Directors' Stock Award Plan, 2000 Stock Option Plan, Officer and Director Share Purchase Plan, 2000 Employee Stock Purchase Plan, 2007 Directors' Stock Award Plan, 2010 Equity Incentive Plan, Amended 2012 Equity Incentive Plan and 2019 Equity Incentive Plan of EMCORE Corporation of our report dated August 22, 2019, with respect to the financial statements of Systron Donner Inertial, Inc. included in this Current Report (Form 8-K/A) of EMCORE Corporation.

/s/ Ernst & Young LLP

Los Angeles, CA
August 23, 2019

Systron Donner Inertial, Inc.
INDEX TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2018

	<u>Page(s)</u>
Report of Independent Auditors	2
Statement of Operations	3
Balance Sheet	4
Statement of Shareholder's Equity	5
Statement of Cash Flows	6
Notes to Financial Statements	7

Report of Independent Auditors

The Board of Directors
EMCORE Corporation

We have audited the accompanying financial statements of Systron Donner Inertial, Inc., which comprise the balance sheet as of December 31, 2018, and the related statements of operations, changes in shareholders' equity and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Systron Donner Inertial, Inc. at December 31, 2018, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Los Angeles, CA
August 23, 2019

Systron Donner Inertial, Inc.
Statement of Operations
Year Ended December 31, 2018
(in thousands)

	Year Ended December 31, 2018
Revenue	\$ 27,047
Cost of revenue	20,588
Gross profit	6,459
Operating expense:	
Selling, general, and administrative	5,389
Research and development	4,988
Total operating expense	10,377
Operating loss	(3,918)
Other expense:	
Interest expense, net	(12)
Total other expense	(12)
Loss from operations before income tax expense	(3,930)
Income tax expense	—
Net loss	\$ (3,930)

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

Systron Donner Inertial, Inc.
Balance Sheet
As of December 31, 2018
(in thousands, except for shares of Common Stock and per share amounts)

	As of December 31, 2018
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 3,407
Accounts receivable, net of allowance of \$273	4,777
Inventory	8,376
Prepaid expenses and other current assets	657
Total current assets	17,217
Property, plant, and equipment, net	6,980
Total assets	<u>\$ 24,197</u>
LIABILITIES and SHAREHOLDER'S EQUITY	
Current liabilities:	
Accounts payable	\$ 1,240
Accrued expenses and other current liabilities	3,529
Total current liabilities	4,769
Customer advance payment	311
Other long-term liabilities	24
Total liabilities	5,104
Commitments and contingencies	
Shareholder's equity:	
Common stock, \$0.01 par value, 5,000 shares authorized; 1 share issued and outstanding as of December 31, 2018	
Additional Paid-In-Capital	12,500
Retained earnings	6,593
Total shareholder's equity	19,093
Total liabilities and shareholder's equity	<u>\$ 24,197</u>

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

Systron Donner Inertial, Inc.
Statement of Shareholder's Equity
Year Ended December 31, 2018
(in thousands, except for Shares of Common Stock)

	Shares of Common Stock	Value of Common Stock	Additional Paid-In-Capital	Retained Earnings	Total Shareholder's Equity
Balance as of December 31, 2017	1	\$ —	\$ 12,500	\$ 10,523	\$ 23,023
Net loss	—	—	—	(3,930)	(3,930)
Balance as of December 31, 2018	1	\$ —	\$ 12,500	\$ 6,593	\$ 19,093

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

Systron Donner Inertial, Inc.
Statement of Cash Flows
Year Ended December 31, 2018
(in thousands)

	Year Ended December 31, 2018
Cash flows from operating activities:	
Net loss	\$ (3,930)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation expense	1,031
Provision adjustments related to doubtful accounts	64
Net gain on disposal of equipment	(4)
Total non-cash adjustments	1,091
Changes in operating assets and liabilities:	
Accounts receivable	567
Inventory	(219)
Other assets	(228)
Accounts payable	(1,111)
Accrued expenses and other current liabilities	948
Total change in operating assets and liabilities	(43)
Net cash used in operating activities	(2,882)
Cash flows from investing activities:	
Purchase of equipment	(169)
Proceeds from disposal of equipment	3
Net cash used in investing activities	(166)
Cash flows from financing activities:	
Net decrease in cash	(3,048)
Cash at beginning of period	6,455
Cash at end of period	\$ 3,407
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid during the period for interest	\$ 13
Cash paid during the period for income taxes	\$ 5

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

NOTE 1. Description of Business

Business Overview

Systron Donner Inertial, Inc. (referred to herein, together with its subsidiaries, as the “Company,” “we,” “our,” or “SDI”) was established in 2015 as a Delaware corporation. SDI is a navigation systems provider with a scalable, chip-based platform for higher volume gyro applications utilizing Quartz MEMS technology. SDI is located in Concord, California.

Basis of Presentation

The accompanying financial statements are prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP”). Through the year ended December 31, 2018, SDI was a wholly-owned subsidiary of Carros Sensors Topco Limited.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. For the year ended December 31, 2018, the Company reported a net loss of \$(3,930) and net cash used in operating activities of \$(2,882). Management has evaluated these conditions and determined that they do not raise substantial doubt about the Company’s ability to continue as a going concern for at least one year after the date that these financials statements have been issued. The Company’s plans that are intended to mitigate these conditions consist of accessing additional equity capital as provided for through the acquisition of the Company by EMCORE Corporation on June 7, 2019, continuing to increase revenues, and if necessary, reducing operating expenses. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 2. Summary of Significant Accounting Policies

Use of Estimates: The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as of the date of the financial statements, and the reported amounts of revenue and expenses during the reported period. The accounting estimates that require our most significant, difficult, and/or subjective judgments include:

- the valuation of inventory;
- the allowance for doubtful accounts; and
- the valuation allowance for deferred tax assets and liabilities, and
- loss making contract accrual.

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

Concentration of Credit Risk: Financial instruments that may subject us to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. When necessary, we perform credit evaluations on our customers’ financial condition and occasionally we request deposits in advance of shipping product to our customers. These financial evaluations require significant judgment and are based on a variety of factors including, but not limited to, current economic trends, historical payment patterns, bad debt write-off experience, and financial review of the particular customer. During the year ended December 31, 2018, revenue from four customers represented approximately 22%, 14%, 14% and 8% of our revenue and 12%, 11%, 11% and 23% of the gross accounts receivable balance as of December 31, 2018.

Cash and Cash Equivalents: Cash and cash equivalents consists primarily of bank deposits.

Accounts Receivable: We regularly evaluate the collectability of our accounts receivable and maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to meet their financial obligations to us. The

allowance is based on the age of receivables and a specific identification of receivables considered at risk of collection. We classify charges associated with the allowance for doubtful accounts as selling, general, and administrative expense.

Inventory: Inventory is stated at the lower of cost or net realizable value (first-in, first-out). Inventory that is expected to be used within the next 12 months is classified as current inventory. We write-down inventory once it has been determined that conditions exist that may not allow the inventory to be sold for its intended purpose or the inventory is determined to be excess or obsolete based on assumptions about future demand and market conditions. The charge related to inventory write-downs is recorded as a cost of revenue. We evaluate inventory levels annually against historical usage on a significant part-by-part basis, in addition to determining its overall inventory risk. We have incurred, and may in the future incur charges to write-down our inventory. See Note 5 - Inventory in the notes to the financial statements for additional information related to our inventory.

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

Description	Estimated Useful Life
Building	20 years
Building improvements	10 years
Equipment	5 to 10 years
Furniture and fixtures	3 to 8 years
Computer hardware and software	3 to 8 years

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

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

Revenue Recognition: Revenue is recognized upon shipment or delivery of services, provided persuasive evidence of a contract exists, the price is fixed, the product meets our customer's specifications, title and ownership have transferred to the customer, and there is reasonable assurance of collection of the sales proceeds. The majority of our products have shipping terms that are free on board or free carrier alongside ("FCA") shipping point, which means that we fulfill our delivery obligation when the goods are handed over to the freight carrier at our shipping dock. This means the customer bears all costs and risks of loss or damage to the goods from that point. We account for shipping and related transportation costs by recording the charges that are invoiced to customers as revenue, with the corresponding cost recorded as cost of revenue. Any warranty cost and remaining obligations that are inconsequential or perfunctory are accrued when the corresponding revenue is recognized.

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

Research and Development: Research and development costs are charged as an expense when incurred.

Income Taxes: In accordance with ASC 740, *Income Taxes*, deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. We record valuation allowances against all deferred tax assets for amounts which are not considered more likely to be realized.

NOTE 3. Recent Accounting Pronouncements and U.S. Tax Reform

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

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

- In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 introduces a lessee model that requires recognition of assets and liabilities arising from qualified leases on the balance sheets and disclosure of qualitative and quantitative information about lease transactions. This guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those years. We are in the process of implementing changes to our systems and processes in conjunction with our review of lease agreements. Topic 842 will be effective for our annual reporting period beginning January 1, 2020 and expect to elect certain available transitional practical expedients. Early adoption is permitted.

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

- In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* which will supersede most current U.S. GAAP guidance on this topic. In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* to clarify two aspects of the guidance within ASU No. 2014-09 on identifying performance obligations and the licensing implementation guidance. Under the new standards, recognition of revenue occurs when the seller satisfies a performance obligation by transferring to the customer promised goods or services in an amount that reflects the consideration the entity expects to receive for those goods or services. The new standard, as amended through December 2016, will be effective for our fiscal year beginning January 1, 2019. The standard permits the use of either the full retrospective or modified retrospective method. We are evaluating the input the adoption of the new standard will have on our financial statements and related disclosures.

U.S. Tax Reform

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act significantly revises the future ongoing U.S. corporate income tax by, among other things, lowering U. S. corporate income tax rates and implementing a territorial tax system. As the Company has a December 31 fiscal year-end, the lower corporate income tax rate was effective January 1, 2018, resulting in a U.S. statutory federal rate of approximately 21% for our year ending December 31, 2018. In addition, the Tax Act eliminates the domestic manufacturing deduction and moves to a territorial system, which also eliminates the ability to credit certain foreign taxes that existed prior to enactment of the Tax Act. For the year ended December 31, 2018, the elimination of the manufacturing deduction and credit for certain foreign taxes paid did not result in a significant impact on our financial statements.

The Securities and Exchange Commission issued rules that allow for a measurement period of up to one year after the enactment date of the Tax Act to finalize the recording of the related tax impacts. See also Note 8 - Income and other Taxes.

NOTE 4. Accounts Receivable

The components of accounts receivable consisted of the following:

<u>(in thousands)</u>	<u>As of December 31, 2018</u>
Accounts receivable, gross	\$ 5,050
Allowance for doubtful accounts	(273)
Accounts receivable, net	<u>\$ 4,777</u>

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

The following table summarizes changes in the allowance for doubtful accounts for the fiscal year ended December 31, 2018.

<u>Allowance for Doubtful Accounts (in thousands)</u>	<u>Year Ended December 31, 2018</u>
Balance at beginning of period	\$ 209
Provision adjustment - expense, net of recoveries	64
Balance at end of period	<u>\$ 273</u>

During the year ended December 31, 2018, we recorded a \$0.1 million reserve on accounts receivable related to specific customers account balances for which management had uncertainty with respect to its respective total collectability.

NOTE 5. Inventory

The components of inventory consisted of the following:

<u>(in thousands)</u>	<u>As of December 31, 2018</u>
Raw materials	\$ 4,971
Finished goods	3,405
Inventory balance at end of period	<u>\$ 8,376</u>

NOTE 6. Property, Plant, and Equipment, net

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

(in thousands)	As of December 31, 2018
Equipment	\$ 29,313
Furniture and fixtures	325
Computer hardware and software	971
Land, building and building improvements	7,021
Construction in progress	194
Property, plant, and equipment, gross	\$ 37,824
Accumulated depreciation	(30,844)
Property, plant, and equipment, net	<u>\$ 6,980</u>

Depreciation expense totaled \$1.0 million the year ended December 31, 2018.

Impairment testing

As of December 31, 2018, we determined no impairment triggers were present, and therefore, an impairment test was not performed.

NOTE 7. Accrued Expenses and Other Current Liabilities

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

(in thousands)	As of December 31, 2018
Compensation	\$ 1,301
Management fees	1,216
Provision for estimated losses	487
Customer deposits	150
Income and other taxes	15
Other	360
Accrued expenses and other current liabilities	<u>\$ 3,529</u>

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

Management fees: Management fees is comprised of amounts owed to a parent company for services provided during the year ended December 31, 2018.

Provision for estimated losses: In accordance with ASC 605-35, provision for anticipated losses requires recognition of the entire loss on a contract in the period when the loss first becomes evident.

NOTE 8. Income and Other Taxes

For the year ended December 31, 2018, the Company recorded no income tax expense. For the year ended December 31, 2018, the effective tax rate was 0.0% due to a valuation allowance on all deferred tax assets net of deferred tax liabilities.

The Company accounts for income taxes under ASC 740. Deferred income tax assets and liabilities are determined based upon differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The following table provides a reconciliation between income taxes computed at the federal statutory rate and the provision for income taxes (in thousands):

Provision for Income Taxes (in thousands)	Year Ended December 31, 2018
Income tax benefit computed at U.S. federal statutory rate	\$ (825)
State tax expense benefit, net of U.S. federal effect	(274)
Change in valuation allowance	1,099
Income tax expense	\$ —
Effective tax rate	0.0%

Significant components of our deferred tax assets are as follows:

Deferred Tax Assets (in thousands)	As of December 31, 2018
Deferred tax assets:	
Net operating loss carryforwards	\$ 1,758
Section 263 (unicap)	320
Inventory reserves	85
Accounts receivable reserves	76
Accrued warranty reserve	22
Deferred compensation	244
Other	127
Total deferred tax assets	2,632
Valuation allowance	(1,066)
Deferred tax liability:	
Property, plant and equipment	(1,566)
Net deferred tax assets	\$ —

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. Based on the weight of all evidence, including a history of operating losses, management has determined that it is more likely than not that the net deferred tax assets will not be realized. A valuation allowance of \$1.1 million as of December 31, 2018, has been established to offset the deferred tax assets as realization of such assets is uncertain.

As of December 31, 2018, the Company had net operating loss carryforwards for U.S. federal income tax purposes of approximately \$7.3 million. As of December 31, 2018, the Company had state net operating loss carryforwards of approximately \$4.5 million. The federal and state loss carryforwards begin to expire in 2037, unless previously utilized. Federal net operating losses generated in 2018 can be carried forward indefinitely under the Tax Cuts and Jobs Act.

Future utilization of the Company's net operating loss carryforwards to offset future taxable income may be subject to an annual limitation, pursuant to Internal Revenue Code (IRC) Section 382, as a result of ownership changes that may have occurred or that could occur in the future. An ownership change occurs when a cumulative change in ownership of more than 50% occurs within a three-year period. The Company has not completed an IRC Section 382 analysis regarding the limitation of net operating loss carryforwards.

The Company assesses the likelihood that uncertain tax positions will be accepted by the applicable taxing authority based on the technical merits of the position. Tax positions meeting the more-likely-than-not recognition threshold are measured and recognized in the financial statements at the largest amount of benefit that has a greater than 50% likelihood of being realized upon measurement of a tax position taken in a prior annual period, including interest and penalties, and are recognized during the period in which the change occurs.

The Company has not identified any uncertain tax positions as of December 31, 2018. The Company's policy is to recognize interest and penalties associated with income taxes as a component of the income tax provision in the statements of operations. The Company did not record any interest and penalties related to income taxes in the statements of operations during the year ended December 31, 2018.

The Company files income tax returns in the U.S. federal, state, and local jurisdictions. Due to cumulative net operating losses generated in these jurisdictions, all of the tax years are subject to audit by federal, state and local tax authorities. The Company believes all of the tax positions are sustainable upon audit and have not accrued any uncertain tax reserve in any jurisdictions.

The Tax Cuts and Jobs Act was enacted on December 22, 2017. The Act reduces the US federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred, and creates new taxes on certain foreign sourced earnings. At December 31, 2017, the Company made a reasonable estimate of the effects on their existing deferred tax balances. As of December 31, 2018, the Company has completed its assessment of the impact of the Tax Cuts and Jobs Act with no additional impact recorded in the current year.

NOTE 9. Employee Benefit Plans

401(k) Plan

We have a savings plan that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under this savings plan, participating employees may defer a portion of their pretax earnings, up to the Internal Revenue Service annual contribution limit. All employer contributions are made in cash. Our matching contribution in cash for the year ended December 31, 2018 was approximately \$0.5 million.

NOTE 10. Geographical Information

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

(in thousands)	For the year ended December 31, 2018
United States	\$ 25,055
International	1,992
Total revenue	<u>\$ 27,047</u>

No individual countries outside the United States represented 10% or more of total revenues.

Substantially all of the Company's property and equipment is located in the United States.

NOTE 11. Related Party Transactions

During the year ended December 31, 2018, the Company incurred expenses from our parent company and other related entities totaling \$2.9 million. Of this total, \$1.3 million was incurred from our parent company, Carros Sensors Topco Limited and Subsidiaries, for reimbursement of corporate overhead charges and consulting fees incurred and \$0.1 million for reimbursement of insurance costs incurred. Another \$1.5 million was paid to an affiliate of our parent company, Schneider Electric, for the allocation of employee benefits incurred on behalf of the Company. As of December 31, 2018, of the \$2.9 million in expenses incurred during the year 2018, \$0.1 million and \$1.3 million was unpaid and is recorded in accounts payable and accrued expenses, respectively.

NOTE 12. Subsequent Events

In February 2019, the Company was purchased by a private equity group, The Resilience Fund IV, L.P., a Delaware limited partnership and The Resilience Fund IV-A, L.P., a Delaware limited partnership.

On June 7, 2019, EMCORE Corporation ("EMCORE") entered into a Purchase and Sale Agreement (the "Purchase Agreement") with The Resilience Fund IV, L.P., a Delaware limited partnership and The Resilience Fund IV-A, L.P., a Delaware limited partnership (collectively, the "Seller"), Aerospace Newco Holdings, Inc., a Delaware corporation ("Holdings") and Ember Acquisition Sub, Inc., a Delaware corporation and a wholly-owned subsidiary of EMCORE ("Parent Sub"), pursuant to which Parent Sub purchased 100% of the outstanding equity securities of Holdings (the "Transaction"). Holdings is the sole stockholder of Systron Donner Inertial, Inc. EMCORE purchased Holdings for aggregate consideration of \$25.8 million, of which \$22.8 million was in cash and \$3.0 million was in the issuance of shares of EMCORE common stock.

Systron Donner Inertial, Inc.
INDEX TO FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2019 and 2018

	<u>Page(s)</u>
Condensed Statement of Operations (unaudited)	2
Condensed Balance Sheet (unaudited)	3
Condensed Statement of Shareholder's Equity (unaudited)	4
Condensed Statement of Cash Flows (unaudited)	5
Notes to Condensed Financial Statements	6

Systron Donner Inertial, Inc.
Condensed Statement of Operations
Three Months Ended March 31, 2019 and 2018
(in thousands)
(unaudited)

	Three months ended March 31,	
	2019	2018
Revenue	\$ 6,815	\$ 5,398
Cost of revenue	4,842	4,792
Gross profit	1,973	606
Operating expense:		
Selling, general, and administrative	789	789
Research and development	1,300	1,031
Total operating expense	3,263	1,820
Operating loss	(1,290)	(1,214)
Other expense:		
Interest expense, net	(1)	—
Total other expense	(1)	—
Loss from operations before income tax expense	(1,291)	(1,214)
Income tax expense	—	—
Net loss	\$ (1,291)	\$ (1,214)

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

Systron Donner Inertial, Inc.
Condensed Balance Sheet
As of March 31, 2019
(in thousands, except for shares of Common Stock and per share amounts)
(unaudited)

	As of March 31, 2019	As of December 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,173	\$ 3,407
Accounts receivable, net of allowance of \$273 and \$209	5,273	4,777
Inventory	9,870	8,376
Prepaid expenses and other current assets	403	657
Total current assets	16,719	17,217
Property, plant, and equipment, net	6,933	6,980
Total assets	<u>\$ 23,652</u>	<u>\$ 24,197</u>
LIABILITIES and SHAREHOLDER EQUITY		
Current liabilities:		
Accounts payable	\$ 2,149	\$ 1,240
Accrued expenses and other current liabilities	2,153	3,529
Total current liabilities	4,302	4,769
Customer advance payment	165	311
Other long-term liabilities	11	24
Total liabilities	4,478	5,104
Commitments and contingencies		
Shareholder's equity:		
Common stock, \$0.01 par value, 5,000 shares authorized; 1 share issued and outstanding as of March 31, 2019 and December 31, 2018	—	—
Additional Paid-In-Capital	13,872	12,500
Retained earnings	5,302	6,593
Total Shareholder's equity	19,174	19,093
Total liabilities and Shareholder's equity	<u>\$ 23,652</u>	<u>\$ 24,197</u>

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

Systron Donner Inertial, Inc.
Condensed Statement of Shareholder's Equity
Three Months Ended March 31, 2019
(in thousands, except for Shares of Common Stock)
(unaudited)

	Shares of Common Stock	Value of Common Stock	Additional Paid-In-Capital	Retained Earnings	Total Shareholder's Equity
Balance as of December 31, 2018	1	\$ —	\$ 12,500	\$ 6,593	\$ 19,093
Capital Contribution	—	—	1,372	—	1,372
Net loss	—	—	—	(1,291)	(1,291)
Balance as of March 31, 2019	1	\$ —	\$ 13,872	\$ 5,302	\$ 19,174

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

Systron Donner Inertial, Inc.
Condensed Statement of Cash Flows
Three Months Ended March 31, 2019 and 2018
(in thousands)
(unaudited)

	Three months ended March 31,	
	2019	2018
Cash flows from operating activities:		
Net loss	\$ (1,291)	\$ (1,214)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	272	256
Provision adjustments related to doubtful accounts	—	—
Total non-cash adjustments	272	256
Changes in operating assets and liabilities:		
Accounts receivable	(495)	1,611
Inventory	(1,494)	(92)
Other assets	254	45
Accounts payable	909	(506)
Accrued expenses and other current liabilities	(1,536)	(579)
Total change in operating assets and liabilities	(2,362)	479
Net cash used in operating activities	(3,381)	(479)
Cash flows from investing activities:		
Capital Contribution	1,372	—
Purchase of equipment	(225)	(215)
Net cash provided by (used in) investing activities	1,147	(215)
Cash flows from financing activities:		
Net cash provided by (used in) financing activities	—	—
Net decrease in cash	(2,234)	(694)
Cash at beginning of period	3,407	6,455
Cash at end of period	<u>\$ 1,173</u>	<u>\$ 5,761</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest	<u>\$ 1</u>	<u>\$ 1</u>
Cash paid during the period for income taxes	<u>\$ —</u>	<u>\$ —</u>

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

Systron Donner Inertial, Inc.

Notes to our Condensed Financial Statements

For the three months ended March 31, 2019 (unaudited)

NOTE 1. Description of Business

Business Overview

Systron Donner Inertial, Inc. (referred to herein, together with its subsidiaries, as the “Company,” “we,” “our,” or “SDI”) was established in 2015 as a Delaware corporation. SDI is a navigation systems provider with a scalable, chip-based platform for higher volume gyro applications utilizing Quartz MEMS technology. SDI is located in Concord, California.

Basis of Presentation and Principles of Consolidation

The accompanying financial statements are prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). Through February 2019, SDI was a wholly-owned subsidiary of Carros Sensors, Inc., after which it was a wholly-owned subsidiary of The Resilience Fund IV., LP and The Resilience Fund IV-A, L.P.

Unaudited Interim Condensed Financial Information

The accompanying interim condensed balance sheet as of March 31, 2019, the condensed statements of operations, shareholder equity and cash flows for the three months ended March 31, 2019 and the related note disclosures are unaudited. These unaudited interim condensed financial statements include all adjustments necessary to state fairly the Company’s financial position as of March 31, 2019 and the results of operations and cash flows for the three months ended March 31, 2019. The financial data and other information disclosed in these notes to the condensed financial statements related to the three-month periods are unaudited. The results for the three months ended March 31, 2019 are not necessarily indicative of the operating results expected for the full fiscal year or any future period.

NOTE 2. Summary of Significant Accounting Policies

Use of Estimates: The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as of the date of the financial statements, and the reported amounts of revenue and expenses during the reported period. The accounting estimates that require our most significant, difficult, and/or subjective judgments include:

- the valuation of inventory;
- the allowance for doubtful accounts; and,
- the valuation allowance for deferred tax assets and liabilities.
- loss making contract accrual

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

Concentration of Credit Risk: Financial instruments that may subject us to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. When necessary, we perform credit evaluations on our customers’ financial condition and occasionally we request deposits in advance of shipping product to our customers. These financial evaluations require significant judgment and are based on a variety of factors including, but not limited to, current economic trends, historical payment patterns, bad debt write-off experience, and financial review of the particular customer. During the three months ended March 31, 2019 and 2018, revenue from four and three of our customers represented approximately 63% and 60%, respectively, of our revenue.

Cash and Cash Equivalents: Cash and cash equivalents consists primarily of bank deposits.

Accounts Receivable: We regularly evaluate the collectability of our accounts receivable and maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to meet their financial obligations to us. The

allowance is based on the age of receivables and a specific identification of receivables considered at risk of collection. We classify charges associated with the allowance for doubtful accounts as selling, general, and administrative expense.

Inventory: Inventory is stated at the lower of cost or net realizable value (first-in, first-out). Inventory that is expected to be used within the next 12 months is classified as current inventory. We write-down inventory once it has been determined that conditions exist that may not allow the inventory to be sold for its intended purpose or the inventory is determined to be excess or obsolete based on assumptions about future demand and market conditions. The charge related to inventory write-downs is recorded as a cost of revenue. We evaluate inventory levels annually against historical usage on a significant part-by-part basis, in addition to determining its overall inventory risk. We have incurred, and may in the future incur charges to write-down our inventory. See Note 5 - Inventory in the notes to the condensed financial statements for additional information related to our inventory.

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

Description	Estimated Useful Life
Building	20 years
Equipment	5 to 10 years
Furniture and fixtures	3 to 8 years
Computer hardware and software	3 to 8 years

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

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

Revenue Recognition: Revenue is recognized upon shipment, provided persuasive evidence of a contract exists, the price is fixed, the product meets our customer's specifications, title and ownership have transferred to the customer, and there is reasonable assurance of collection of the sales proceeds. The majority of our products have shipping terms that are free on board or free carrier alongside ("FCA") shipping point, which means that we fulfill our delivery obligation when the goods are handed over to the freight carrier at our shipping dock. This means the customer bears all costs and risks of loss or damage to the goods from that point. We account for shipping and related transportation costs by recording the charges that are invoiced to customers as revenue, with the corresponding cost recorded as cost of revenue. In those instances where inventory is maintained at a consigned location, revenue is recognized only when our customer pulls product for use and after title and ownership has transferred to the customer. Any warranty cost and remaining obligations that are inconsequential or perfunctory are accrued when the corresponding revenue is recognized. The Company will disclose the adoption of ASC 606 in the annual reporting period beginning January 1, 2019.

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

Research and Development: Research and development costs are charged as an expense when incurred.

Income Taxes: In accordance with ASC 740, *Income Taxes*, deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. We record valuation allowances against all deferred tax assets for amounts which are not considered more likely to be realized.

NOTE 3. Recent Accounting Pronouncements

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

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

- In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 introduces a lessee model that requires recognition of assets and liabilities arising from qualified leases on the balance sheets and disclosure of qualitative and quantitative information about lease transactions. This guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those years. We are in the process of implementing changes to our systems and processes in conjunction with our review of lease agreements. Topic 842 will be effective for our fiscal year beginning October 1, 2019 and expect to elect certain available transitional practical expedients. Early adoption is permitted.

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

- In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* which will supersede most current U.S. GAAP guidance on this topic. In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* to clarify two aspects of the guidance within ASU No. 2014-09 on identifying performance obligations and the licensing implementation guidance. Under the new standards, recognition of revenue occurs when the seller satisfies a performance obligation by transferring to the customer promised goods or services in an amount that reflects the consideration the entity expects to receive for those goods or services. The new standard, as amended through December 2016, will be effective for our annual reporting period beginning January 1, 2019. The standard permits the use of either the full retrospective or modified retrospective method.

We believe that the key revenue streams will be split between product sales and firm fixed price contracts, which comprise the majority of our business. Based upon our evaluation completed, the Company believes that the pattern of revenue recognition for these revenue streams upon implementation will generally be at a point-in-time for product sales and over a period of time for firm fixed price contracts, which is consistent with current guidance. As of December 31, 2018, the Company plans to adopt ASU 2014-09 utilizing a modified retrospective method on January 1, 2019. The adoption of ASU 2014-09 did not have a material impact on the Company's financial statements and related disclosures.

NOTE 4. Accounts Receivable

The components of accounts receivable consisted of the following:

<u>(in thousands)</u>	<u>As of March 31,</u> <u>2019</u>	<u>As of December 31,</u> <u>2018</u>
Accounts receivable, gross	\$ 5,546	\$ 5,050
Allowance for doubtful accounts	(273)	(273)
Accounts receivable, net	<u>\$ 5,273</u>	<u>\$ 4,777</u>

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

The following table summarizes changes in the allowance for doubtful accounts for the three months ended March 31, 2019.

<u>Allowance for Doubtful Accounts</u> <u>(in thousands)</u>	<u>Three Months ended</u> <u>March 31,</u> <u>2019</u>	<u>Three Months ended</u> <u>March 31,</u> <u>2018</u>
Balance at beginning of period	\$ 273	\$ 209
Provision adjustment - expense, net of recoveries	—	—
Balance at end of period	<u>\$ 273</u>	<u>\$ 209</u>

NOTE 5. Inventory

The components of inventory consisted of the following:

<u>(in thousands)</u>	<u>As of March 31,</u> <u>2019</u>	<u>As of December 31,</u> <u>2018</u>
Raw materials	\$ 6,354	\$ 4,971
Finished goods	3,516	3,405
Inventory balance at end of period	<u>\$ 9,870</u>	<u>\$ 8,376</u>

NOTE 6. Property, Plant, and Equipment, net

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

(in thousands)	As of March 31, 2019	As of December 31, 2018
Equipment	\$ 29,289	\$ 29,313
Furniture and fixtures	325	325
Computer hardware and software	996	971
Land and building improvements	7,021	7,021
Construction in progress	418	194
Property, plant, and equipment, gross	\$ 38,049	\$ 37,824
Accumulated depreciation	(31,116)	(30,844)
Property, plant, and equipment, net	<u>\$ 6,933</u>	<u>\$ 6,980</u>

NOTE 7. Accrued Expenses and Other Current Liabilities

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

(in thousands)	As of March 31, 2019	As of December 31, 2018
Compensation	\$ 1,313	\$ 1,301
Management fees	—	1,216
Provision for estimated losses	244	487
Customer deposits	283	150
Income and other taxes	7	15
Other	306	360
Accrued expenses and other current liabilities	<u>\$ 2,153</u>	<u>\$ 3,529</u>

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

Management fees: Management fees is comprised of amounts owed to a parent company for services provided during the respective period.

Provision for estimated losses: In accordance with ASC 605-35, provision for anticipated losses requires recognition of the entire loss on a contract in the period when the loss first becomes evident.

NOTE 8. Income and Other Taxes

For the three months ended March 31, 2019 and 2018, the Company recorded no income tax expense due to the operating loss generated. Income tax expense is computed in accordance with ASC 740.

All deferred tax assets have a full valuation allowance at March 31, 2019 and December 31, 2018. However, on a quarterly basis, the Company will evaluate the positive and negative evidence to assess whether the more likely than not criteria, mandated by ASC 740, has been satisfied in determining whether there will be further adjustments to the valuation allowance.

NOTE 9. Employee Benefit Plans401(k) Plan

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

NOTE 10. Geographical Information

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

(in thousands)	For the Three Months Ended March 31,	
	2019	2018
United States	\$ 6,236	\$ 4,928
International	579	470
Total revenue	<u>\$ 6,815</u>	<u>\$ 5,398</u>

No individual countries outside the United States represented 10% or more of total revenues.

Substantially all of the Company's property and equipment is located in the United States.

NOTE 11. Related Party Transactions

During the three months ended March 31, 2019, the Company incurred expenses from our parent company and other related entities totaling \$0.7 million. Of this total, \$0.6 million was incurred from our parent company, Innovista, for reimbursement of corporate overhead charges incurred. The remaining \$0.1 million was paid to an affiliate of our parent company, Schneider, for the allocation of employee benefits incurred on behalf of the company. As of March 31, 2019, of the \$0.7 million in expenses incurred during the three months ended March 31, 2019, \$0.3 million was unpaid and is recorded in accounts payable. There was no expenses incurred from our parent Company and other related entities during the three months ended March 31, 2018.

NOTE 12. Sale of Company and Subsequent Event

In February 2019, the Company was purchased by a private equity group, The Resilience Fund IV., L.P., a Delaware limited partnership and The Resilience Fund IV-A, L.P., a Delaware limited partnership.

On June 7, 2019, EMCORE Corporation ("EMCORE") entered into a Purchase and Sale Agreement (the "Purchase Agreement") with The Resilience Fund IV, L.P., a Delaware limited partnership and The Resilience Fund IV-A, L.P., a Delaware limited partnership (collectively, the "Seller"), Aerospace Newco Holdings, Inc., a Delaware corporation ("Holdings") and Ember Acquisition Sub, Inc., a Delaware corporation and a wholly-owned subsidiary of EMCORE ("Parent Sub"), pursuant to which Parent Sub purchased 100% of the outstanding equity securities of Holdings (the "Transaction"). Holdings is the sole stockholder of Systron Donner Inertial, Inc. EMCORE purchased Holdings for aggregate consideration of \$25.8 million, of which \$22.8 million was in cash and \$3.0 million was in the issuance of shares of EMCORE common stock.

EMCORE Corporation**Unaudited Pro Forma Condensed Combined Financial Information**

On June 7, 2019, EMCORE Corporation (the terms “EMCORE,” “we,” “us,” and “our” mean EMCORE Corporation and its subsidiaries unless the context indicates otherwise) entered into a Purchase and Sale Agreement with The Resilience Fund IV, L.P., a Delaware limited partnership and The Resilience Fund IV-A, L.P., a Delaware limited partnership, Aerospace Newco Holdings, Inc., a Delaware corporation (“Holdings”) and Ember Acquisition Sub, Inc., a Delaware corporation and a wholly-owned subsidiary of EMCORE (“Parent Sub”), pursuant to which Parent Sub, on June 7, 2019, purchased 100% of the outstanding equity securities of Holdings (the “Transaction”). Holdings is the sole stockholder of Systron Donner Inertial, Inc. (“SDI”). The following unaudited pro forma condensed combined financial information presents the historical consolidated financial statements of EMCORE and SDI after giving effect to the Transaction based on the assumptions, reclassifications, and adjustments described in the accompanying notes to the unaudited pro forma condensed combined financial information.

The unaudited pro forma condensed combined balance sheet as of March 31, 2019 is presented as if the Transaction had occurred on March 31, 2019. The unaudited pro forma condensed statements of operations for the six months ended March 31, 2019 and the fiscal year ended September 30, 2018 are presented as if the Transaction had occurred on October 1, 2017, the first date of our fiscal year ended September 30, 2018.

The unaudited pro forma condensed combined financial information was prepared in accordance with Rule 8-05 and Article 11 of Regulation S-X. The unaudited pro forma adjustments reflecting the Transaction have been prepared in accordance with business combination accounting guidance as provided in Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 805, *Business Combinations*, and reflect the preliminary allocation of the purchase price to the acquired assets and assumed liabilities based on preliminary estimates of fair values, using available information and the assumptions set forth in the notes to the unaudited pro forma condensed combined financial information. These preliminary values may change in future reporting periods upon finalization of the valuation, which will occur no later than the third quarter of our fiscal year ending September 30, 2020.

The unaudited pro forma condensed combined financial information included herein was derived from EMCORE’s historical consolidated financial statements and those of SDI, which were both prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). Additionally, we have reclassified certain line items within SDI’s historical financial statements to conform to the presentation of our historical consolidated financial statements. The historical consolidated financial statements have been adjusted to give effect to pro forma events that are (i) directly attributable to the Transaction, (ii) factually supportable, and (iii) with respect to the unaudited pro forma condensed combined statements of operations, expected to have a continuing impact on the combined results.

The unaudited pro forma condensed combined financial information should be read in conjunction with (i) our audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2018, (ii) our unaudited condensed consolidated financial statements included in our Quarterly Report on Form 10-Q for the three and six months ended March 31, 2019, and (iii) SDI’s audited financial statements for the fiscal year ended December 31, 2018 and SDI’s unaudited condensed financial statements for the three months ended March 31, 2019 and 2018, which are included as Exhibit 99.1 and Exhibit 99.2, respectively, to the Form 8-K/A of which this Exhibit 99.3 forms a part.

The unaudited pro forma adjustments are not necessarily indicative of or intended to represent the results that would have been achieved had the Transaction been completed as of the dates indicated or that may be achieved in the future. The actual results reported by the combined company in periods following the Transaction may differ significantly from those that are reflected in the unaudited pro forma condensed combined financial information due to many factors, including the effects of applying final purchase accounting and the incremental costs incurred to integrate the two companies. The unaudited pro forma condensed combined financial information does not reflect any cost savings, or associated costs to achieve such savings, from operating efficiencies, synergies, or other restructuring that may result from the Transaction.

EMCORE Corporation

Unaudited Pro Forma Condensed Combined Balance Sheet
As of March 31, 2019
(in thousands)

	<u>Historical</u>				
	<u>EMCORE Corporation (As reported)</u>	<u>SDI, Inc.</u>	<u>Pro Forma Adjustments</u>		<u>Pro Forma Combined</u>
Assets					
Current assets:					
Cash and cash equivalents	\$ 50,604	\$ 1,173	\$ (23,087)	(a),(b)	\$ 28,690
Restricted cash	33	—	—		33
Accounts receivable, net	20,131	5,273	(982)	(c)	24,422
Inventory	20,672	9,870	(1,348)	(c)	29,194
Prepaid expenses and other current assets	16,392	403	332	(c)	17,127
Total current assets	107,832	16,719	(25,085)		99,466
Property and equipment, net	21,095	6,933	7,482	(c)	35,510
Non-current inventory	1,114	—	—		1,114
Acquisition-related intangible assets, net	—	—	250	(c)	250
Goodwill	—	—	798	(d)	798
Other non-current assets	84	—	—		84
Total assets	\$ 130,125	\$ 23,652	\$ (16,555)		\$ 137,222
Liabilities and stockholders' equity					
Current liabilities:					
Accounts payable	13,321	2,149			15,470
Accrued expenses and other current liabilities	17,381	2,153	—		19,534
Total current liabilities	30,702	4,302	—		35,004
Asset retirement obligations	1,836	—	—		1,836
Other liabilities	96	176	—		272
Total liabilities	32,634	4,478	—		37,112
Redeemable convertible preferred stock					
Stockholders' equity:					
Common stock	735,257	13,872	(10,953)	(a),(e)	738,176
Treasury stock	(47,721)	—	—		(47,721)
Accumulated other comprehensive income	912	—	—		912
Accumulated deficit	(590,957)	5,302	(5,602)	(b),(e)	(591,257)
Total stockholders' equity	97,491	19,174	(16,555)		100,110
Total liabilities and stockholders' equity	\$ 130,125	\$ 23,652	\$ (16,555)		\$ 137,222

See Notes to the Unaudited Pro Forma Condensed Combined Financial Information

EMCORE Corporation

Unaudited Pro Forma Condensed Combined Statement of Operations and Comprehensive Loss
Six Months Ended March 31, 2019
(in thousands, except per share data)

	<u>Historical</u>			
	<u>EMCORE Corporation (As reported)</u>	<u>SDI, Inc.</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Combined</u>
Revenue	\$ 45,746	\$ 15,266	\$ —	\$ 61,012
Costs and expenses:				
Cost of revenue	34,129	10,750	(104) (a)	44,775
Gross profit	11,617	4,517	(104)	16,238
Selling, general and administrative	14,589	4,291	(1,900) (b)	16,980
Research and development	8,379	2,864	—	11,243
Gain from change in estimate on ARO obligation	(40)	—	—	(40)
Total operating expense	22,928	7,155	(1,900)	28,183
Operating loss	(11,311)	(2,638)	2,004	(11,945)
Interest income (expense), net	491	(3)	—	488
Foreign exchange gain	318	—	—	318
Loss before income tax expense	(10,502)	(2,641)	2,004	(11,139)
Income tax expense	(30)	—	—	(30)
Net loss	<u>(10,532)</u>	<u>(2,641)</u>	<u>2,004</u>	<u>(11,169)</u>
Foreign exchange translation adjustment	27	—	—	27
Comprehensive loss	\$ <u>(10,505)</u>	\$ <u>(2,641)</u>	<u>2,004</u>	\$ <u>(11,142)</u>
Per share data:				
Net loss per share, basic and diluted	\$ <u>(0.38)</u>			\$ <u>(0.39)</u>
Weighted-average shares used to compute net loss per share, basic and diluted	<u>27,592</u>		<u>811</u> (c)	<u>28,403</u>

See Notes to the Unaudited Pro Forma Condensed Combined Financial Information

EMCORE Corporation

Unaudited Pro Forma Condensed Combined Statement of Operations
Fiscal Year Ended September 30, 2018
(in thousands, except per share data)

	<u>Historical</u>			
	<u>EMCORE Corporation (As reported)</u>	<u>SDI, Inc.</u>	<u>Pro Forma Adjustments</u>	<u>Pro Forma Combined</u>
Revenue	\$ 85,617	27,784	—	113,401
Costs and expenses:				
Cost of revenue	67,130	21,560	(149) (a)	88,541
Gross profit	18,487	6,224	(149)	24,860
Selling, general and administrative	21,232	5,224	(656) (b)	25,800
Research and development	15,387	4,741	—	20,128
Loss from change in estimate on ARO obligation	145	—	—	145
Loss on sale of assets	34	—	—	34
Total operating expense	36,798	9,965	(656)	46,107
Operating loss	(18,311)	(3,741)	805	(21,247)
Other income (expense):				
Interest income (expense), net	733	(11)	—	722
Foreign exchange loss	(434)	—	—	(434)
Other income	110	—	—	110
Total other income (expense)	409	(11)	—	398
Loss before provision for income taxes	(17,902)	(3,752)	805	(20,849)
Income tax benefit	449	2,321	—	2,770
Net loss	(17,453)	(1,431)	805	(18,079)
Foreign exchange translation adjustment	324	—	—	324
Comprehensive loss	\$ (17,129)	(1,431)	805	\$ (17,755)
Per share data:				
Net loss per share, basic and diluted	\$ (0.64)			\$ (0.64)
Weighted-average shares used to compute net loss per share, basic and diluted	27,266		811 (c)	28,077

See Notes to the Unaudited Pro Forma Condensed Combined Financial Information

EMCORE Corporation

Notes to Unaudited Pro Forma Condensed Combined Financial Information

1. Basis of Pro Forma Presentation

The historical consolidated financial statements have been adjusted to give effect to pro forma events that are (i) directly attributable to the Transaction, (ii) factually supportable, and (iii) with respect to the unaudited pro forma condensed combined statements of operations, expected to have a continuing impact on the combined results. The unaudited pro forma adjustments are preliminary and based on estimates of the fair values and useful lives of the assets acquired and liabilities assumed and have been prepared to illustrate the estimated effect of the Transaction. The final determination of the purchase price allocation will be based on the final valuation of the fair values of assets acquired and liabilities assumed.

The unaudited pro forma condensed combined financial information included herein was deprived from EMCORE's and Syston Donner Inertial's ("SDI") historical consolidated financial statements, which were both prepared in accordance with U.S. GAAP. In order to conform the SDI historical financial statements to our financial statement presentation, we have reclassified certain line items within the SDI historical financial statements. Reclassifications mainly relate to conforming the names of the financial statement line items from SDI's to EMCORE's presentation.

The pro forma combined provision for income taxes does not necessarily reflect the amounts that would have resulted had EMCORE and SDI filed consolidated income tax returns during the periods presented. The pro forma combined provision for income taxes assumes the deferred tax liability related to purchase price basis adjustments will be fully offset by existing EMCORE deferred tax assets via the partial release of the valuation allowance.

The unaudited pro forma condensed combined financial information has been prepared using EMCORE's significant accounting policies as set forth in our audited consolidated financial statements for the fiscal year ended September 30, 2018. Based on the procedures performed to date, the accounting policies of SDI are similar in most material respects to EMCORE's accounting policies. The unaudited pro forma condensed combined statements of operations have been updated to reflect SDI's adoption of FASB ASC Topic 606, *Revenue from Contracts with Customers*, as of October 1, 2018, the same date as our adoption of the standard. The adoption did not have a material impact on revenue recognition.

As more information becomes available, we will complete a more detailed review of SDI's accounting policies. As a result of that review, differences could be identified between the accounting policies of the two companies that, when conformed, could have a material impact on the combined financial statements.

2. Preliminary Purchase Consideration and Purchase Price Allocation

The preliminary purchase consideration paid in exchange for all of the outstanding equity interests of SDI was approximately \$25.7 million, consisting of a cash payment to the holder of SDI's common stock, of approximately \$22.8 million and the issuance of \$2.9 million of EMCORE common stock.

The preliminary purchase price allocation is as follows (in thousands):

(in thousands)	Amount
Developed technology	\$ 250
Total identifiable intangible assets	250
Goodwill	798
Tangible assets acquired:	
Cash acquired	\$ 541
Inventories	8,522
Accounts receivable	4,291
Other assets	355
Land and building	12,890
Property and equipment	2,873
Total tangible assets acquired	29,472
Net liabilities assumed	(4,817)
Purchase price	\$ 25,703

The Transaction was accounted for as a business combination. We used the cost or market approach to estimate the fair value of property and equipment. As part of the preliminary purchase price allocation, we determined that SDI's separately identifiable intangible asset consisted of developed technology. We used the market approach to estimate the fair value of the developed technology asset; specifically, we utilized the, relief-from-royalty method.

The valuation model was based on estimates of future operating projections of SDI and rights to sell new products containing the acquired technology as well as judgments on the discount rates used and other variables. We developed forecasts based on a number of factors including future revenue and operating cost projections, a discount rate that is representative of the weighted-average cost of capital, and long-term sustainable growth rates based on a market analysis. We depreciated the acquired property and equipment and amortized the acquired intangible assets over their estimated useful lives.

The allocation of purchase consideration is preliminary and is therefore subject to potential future adjustments during the measurement period. The primary areas of the preliminary purchase price allocation that are not yet finalized relate to the fair values of certain tangible and intangible assets acquired and liabilities assumed, taxes, and residual goodwill. The preliminary estimated fair values (in thousands) and useful lives (in years) are as follows:

	Estimated Fair Values	Estimated Useful Lives
Developed technology	\$ 250,000	7.0
Total acquisition-related intangible asset	\$ 250,000	

The goodwill of \$0.8 million arising from the Transaction is mainly due to the value of the acquired workforce, the opportunity to expand our customer base, and the ability to add breadth and depth to our core navigation and aerospace defense products by accelerating our development roadmap. Goodwill is not expected to be deductible for income tax purposes.

3. Adjustments to the Unaudited Pro Forma Condensed Combined Balance Sheet

- (a) Reflects purchase price consideration on acquisition of SDI, consisting of cash paid of \$22.8 million and issuance of 811,000 shares of EMCORE common stock valued at approximately \$2.9 million on June 7, 2019.
- (b) Reflects the payment of \$0.3 million of estimated transaction costs incurred by EMCORE in June 2019.
- (c) Reflects the estimated fair value of SDI's identified tangible and intangible assets acquired. Refer to Note 2 for the purchase price allocation and the intangible assets recognized and the associated useful lives.
- (d) The pro forma adjustment to goodwill of \$0.8 million represents the excess of the preliminary purchase price over the fair value of the assets acquired and liabilities assumed.
- (e) Reflects the elimination of SDI's historical equity balance.

4. Adjustments to the Unaudited Pro Forma Condensed Combined Statements of Operations

- (a) Reflects the impact to depreciation expense and amortization expense as a result of the change in fair value of property and equipment and intangible assets acquired. Adjustment was made to the unaudited pro forma condensed combined statements of operations for the six months ended March 31, 2019 and the fiscal year ended September 30, 2018, respectively.
 - (b) Reflects the elimination of management and consulting fees charged by SDI's parent company during the periods presented.
 - (c) Reflects the issuance of 810,698 shares issued in conjunction with the sale of SDI on June 7, 2019 to EMCORE as if the shares issued were outstanding as of the beginning of all periods presented for the computation of earnings per share information.
-