

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

FORM 10-Q

(Mark one):

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

For the quarterly period ended June 30, 2002

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: 0-22175

EMCORE Corporation  
(Exact name of Registrant as specified in its charter)

NEW JERSEY  
(State or other jurisdiction of incorporation or organization)

22-2746503  
(IRS Employer Identification No.)

145 Belmont Drive  
Somerset, NJ 08873  
(Address of principal executive offices) (zip code)

(732) 271-9090  
(Registrant's telephone number, including area code)

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:☐

The number of shares of the registrant's common stock, no par value,  
outstanding as of August 1, 2002 was 36,727,520.

ITEM 1. Financial Statements

EMCORE CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
For the three and nine months ended June 30, 2002 and 2001  
(in thousands, except per share data)  
(unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2002	2001	2002	2001
Revenues:				
Systems-related.....	\$ 9,910	\$38,711	\$24,546	\$93,915
Materials-related.....	10,365	13,941	37,944	42,652
Total revenues.....	20,275	52,652	62,490	136,567
Cost of revenues:				
Systems-related.....	6,859	20,932	19,123	53,011
Materials-related.....	10,889	9,694	47,425	29,016
Total cost of revenues.....	17,748	30,626	66,548	82,027
Gross profit (loss).....	2,527	22,026	(4,058)	54,540
Operating expenses:				
Selling, general and administrative .....	6,522	7,096	23,003	21,631
Goodwill amortization.....	-	155	-	992
Research and development.....	9,398	13,889	32,970	39,066
Impairment and restructuring.....	-	-	35,939	-
Total operating expenses.....	15,920	21,140	91,912	61,689

Operating profit (loss).....	(13,393)	886	(95,970)	(7,149)
Other expenses:				
Interest expense (income), net.....	1,761	(68)	4,371	(2,354)
Other expense (income), net.....	-	-	13,262	(5,890)
Equity in net loss of unconsolidated affiliate.	769	2,725	1,997	10,525
	-----			
Total other expenses.....	2,530	2,657	19,630	2,281
	-----			
Loss before cumulative effect of a change in accounting principle.....	(15,923)	(1,771)	(115,600)	(9,430)
Cumulative effect of a change in accounting principle.....	-	-	-	(3,646)
	-----			
Net loss.....	\$(15,923)	\$(1,771)	\$(115,600)	\$(13,076)
	=====			
Per share data: (see note 5)				
Loss per basic and diluted shares before cumulative effect of a change in accounting principle.....	\$(0.43)	\$(0.05)	\$(3.17)	\$(0.28)
	=====			
Net loss per basic and diluted shares.....	\$(0.43)	\$(0.05)	\$(3.17)	\$(0.38)
	=====			

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

EMCORE CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS  
As of June 30, 2002 and September 30, 2001  
(in thousands, except share data)

ASSETS	As of June 30, 2002	As of September 30, 2001
	-----	-----
	(unaudited)	
Current assets:		
Cash and cash equivalents.....	\$54,290	\$71,239
Marketable securities.....	34,807	76,422
Accounts receivable, net of allowance for doubtful accounts of \$3,674 and \$1,139 at June 30, 2002 and September 30, 2001, respectively.....	19,974	30,918
Accounts receivable - related party.....	478	2,161
Inventories.....	32,011	47,382
Prepaid expenses and other current assets.....	2,214	4,471
	-----	-----
Total current assets.....	143,774	232,593
Property, plant and equipment, net.....	104,589	143,223
Goodwill, net.....	20,384	2,687
Investments in unconsolidated affiliate.....	9,191	9,228
Intangible assets, net.....	3,190	-
Other assets, net.....	12,372	15,822
	-----	-----
Total assets.....	\$293,500	\$403,553
	=====	=====
LIABILITIES and SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$8,026	\$14,075
Accrued expenses.....	10,518	13,533
Advanced billings.....	4,195	3,715
Capitalized lease obligation - current.....	74	57
	-----	-----
Total current liabilities.....	22,813	31,380
Convertible subordinated notes.....	175,000	175,000
Capitalized lease obligation, net of current portion.....	102	46
	-----	-----
Total liabilities.....	197,915	206,426
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$0.0001 par, 5,882,352 shares authorized, no shares outstanding.....	-	-
Common stock, no par value, 100,000,000 shares authorized, 36,711,335 shares issued and 36,691,507 outstanding at June 30, 2002; 35,617,303 shares issued and 35,597,475 outstanding at September 30, 2001.....	333,909	327,559
Accumulated deficit.....	(236,752)	(121,152)
Accumulated other comprehensive loss.....	(606)	(8,314)
Shareholders' notes receivable.....	(34)	(34)
Treasury stock, at cost; 19,828 shares at June 30, 2002 and September 30, 2001.....	(932)	(932)
	-----	-----
Total shareholders' equity.....	95,585	197,127
	-----	-----
Total liabilities and shareholders' equity.....	\$293,500	\$403,553
	=====	=====

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

EMCORE CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the nine months ended June 30, 2002 and 2001  
(in thousands) (unaudited)

	Nine Months Ended June 30,	
	2002	2001
Cash flows from operating activities:		
Net loss.....	\$(115,600)	\$(13,076)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization.....	13,633	12,333
Provision for doubtful accounts.....	1,579	342
Deferred gain on sale to unconsolidated affiliate.....	-	351
Equity in net loss of unconsolidated affiliate.....	1,997	10,525
Compensatory stock issuances.....	573	671
Impairment of equity investment.....	13,262	-
Cumulative effect of a change in accounting principle.....	-	3,646
Loss from impairment, restructuring charges and other charges.....	50,443	-
Decrease (increase) in assets:		
Accounts receivable - trade.....	6,768	(22,089)
Accounts receivable - related parties.....	1,683	(1,579)
Inventories.....	3,315	(22,509)
Other current assets.....	2,257	(4,049)
Other assets.....	(586)	(10,804)
Increase (decrease) in liabilities:		
Accounts payable.....	(6,049)	7,929
Accrued expenses.....	(3,971)	6,037
Advanced billings.....	480	(6,601)
Other.....	145	(209)
Total adjustments.....	85,529	(26,006)
Net cash used for operating activities.....	(30,071)	(39,082)
Cash flows from investing activities:		
Purchase of property, plant, and equipment.....	(6,460)	(79,111)
Investments in unconsolidated affiliate.....	(1,960)	(6,302)
Proceeds from collection of notes receivable.....	5,000	-
Cash paid for acquisition, net of cash acquired.....	(25,084)	(1,707)
Proceeds from sales of marketable securities, net.....	35,916	(27,375)
Net cash provided by (used for) investing activities.....	7,412	(114,495)
Cash flows from financing activities:		
Payments on capital lease obligations.....	(67)	(8)
Proceeds from exercise of stock options and employee stock purchase plan.....	1,583	3,645
Proceeds from shareholders' notes receivable.....	-	5,760
Proceeds from convertible subordinated debenture.....	-	175,000
Proceeds from exercise of stock purchase warrants.....	4,194	48
Net cash provided by financing activities.....	5,710	184,445
Net decrease in cash and cash equivalents.....	(16,949)	30,868
Cash and cash equivalents, beginning of period.....	71,239	50,849
Cash and cash equivalents, end of period.....	54,290	\$81,717
=====		
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest.....	\$8,229	\$26
=====		

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

EMCORE CORPORATION  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
For the years ended September 30, 2000 and 2001 and the nine months  
ended June 30, 2002  
(unaudited)  
(in thousands)

	Common Stock Shares	Common Stock Amount	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Shareholders' Notes Receivable	Treasury Stock	Total Shareholders' Equity
Balance at September 30, 1999...	26,708	\$152,426	(\$83,256)	-	(\$7,547)	-	\$61,623
Net loss.....			(25,485)				(25,485)
Unrealized gain on marketable securities.....				5			5
Comprehensive loss.....							(25,480)
Preferred stock dividends.....			(83)				(83)
Accretion of redeemable preferred stock to redemption value.....			(40)				(40)
Issuance of common stock purchase warrants.....		689					689
Issuance of common stock, net of issuance cost of \$8,500.....	2,000	127,500					127,500
Stock option exercise.....	506	2,197					2,197
Stock purchase warrant exercise.....	1,996	10,874					10,874
Conversion of convertible preferred stock into common stock.....	2,060	14,193					14,193
Compensatory stock issuances.....	23	1,401					1,401
Conversion of subordinated notes into common stock.....	682	5,500					5,500
Treasury stock .....	(3)					(239)	(239)
Redemptions of shareholders' notes receivable.....					1,187		1,187
Balance at September 30, 2000.....	33,972	314,780	(108,864)	5	(6,360)	(239)	199,322
Net loss.....			(12,288)				(12,288)
Unrealized loss on marketable securities.....				(8,085)			(8,085)
Translation adjustment.....				(234)			(234)
Comprehensive loss.....							(20,607)
Issuance of common stock in connection with acquisitions.....	41	1,840					1,840
Stock option exercise.....	438	3,247					3,247
Stock purchase warrant exercise.....	1,111	5,508					5,508
Compensatory stock issuances.....	34	1,507					1,507
Issuance of common stock - Employee Stock Purchase Plan.....	17	677					677
Treasury stock.....	(16)					(693)	(693)
Redemptions of shareholders' notes receivable.....					6,326		6,326
Balance at September 30, 2001.....	35,597	327,559	(121,152)	(8,314)	(34)	(932)	197,127
Net loss.....			(115,600)				(115,600)
Impairment of equity investment.....				7,667			7,667
Unrealized loss on marketable securities.....				(104)			(104)
Translation adjustment.....				145			145
Comprehensive loss.....							(107,892)

Stock option exercise.....	159	1,022					1,022
Stock purchase warrant exercise.....	823	4,194					4,194
Compensatory stock issuances.....	64	573					573
Issuance of common stock - Employee Stock Purchase Plan.....	48	561					561
	<hr/>						
Balance at June 30, 2002.....	36,691	\$333,909	\$(236,752)	\$606	\$(34)	\$(932)	\$95,585
	=====	=====	=====	=====	=====	=====	=====

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

## EMCORE CORPORATION

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1. Interim Financial Information and Description of Business

The accompanying unaudited condensed consolidated financial statements of EMCORE Corporation ("EMCORE" or the "Company") reflect all adjustments considered necessary by management to present fairly EMCORE's consolidated financial position as of June 30, 2002, the consolidated results of operations for the three and nine-month periods ended June 30, 2002 and 2001 and the consolidated cash flows for the nine-month periods ended June 30, 2002 and 2001. All adjustments reflected in the accompanying unaudited condensed consolidated financial statements are of a normal recurring nature unless otherwise noted. Prior period balances have been reclassified to conform with the current period financial statement presentation. The results of operations for the nine-month period ended June 30, 2002 are not necessarily indicative of the results for the fiscal year ending September 30, 2002 or any future interim period.

EMCORE has two reportable operating segments: the systems-related business unit and the materials-related business unit. The systems-related business unit designs, develops and manufactures tools and manufacturing processes used to fabricate compound semiconductor wafers and devices. This business unit assists customers with device design, process development and optimal configuration of TurboDisc production systems. Revenues for the systems-related business unit consist of sales of EMCORE's TurboDisc production systems as well as spare parts and services related to these systems. The materials-related business unit designs, develops and manufactures compound semiconductor materials. Revenues for the materials-related business unit include sales of semiconductor wafers, devices, packaged devices, modules and process development technology. EMCORE's vertically integrated product offering allows it to provide a complete compound semiconductor solution to its customers. The segments reported are the segments of EMCORE for which separate financial information is available and for which gross profit amounts are evaluated regularly by executive management in deciding how to allocate resources and in assessing performance. There are no intercompany sales transactions between the two operating segments. Available segment information has been presented in the Statements of Operations.

#### NOTE 2. Impairment and Restructuring Charges

##### Subsequent Event

For the nine-month periods ended June 30, 2002 and 2001, revenues decreased 54% or \$74.1 million from \$136.6 million in the prior year to \$62.5 million. The current economic climate has reduced capital spending dramatically during the past year, particularly in the data and telecommunication sectors, where EMCORE has traditionally sold a significant portion of equipment and material-related products. In July 2002, EMCORE announced a workforce reduction of approximately 90 employees, all of whom were entitled to termination benefits. Current headcount is now 553 employees, a reduction of 314, or 36% since September 2001. EMCORE will pay out approximately \$750,000 for employee termination costs in the fourth quarter ended September 30, 2002. Management does not believe that the restructuring will have a material impact on revenues.

##### Second Quarter Events

During the quarter ended March 31, 2002, EMCORE recorded pre-tax charges to income totaling \$50.4 million, which included restructuring and impairment charges of \$35.9 million and other charges of \$14.5 million, as described below.

## NOTE 2. Impairment and Restructuring Charges (continued)

## Restructuring Charges

During the second quarter of fiscal year 2002, EMCORE continued a restructuring program, consisting of the appointment of a Chief Operating Officer, re-alignment of all engineering, manufacturing and sales/marketing operations, as well as workforce reductions. Included in the provision for restructuring and impairment charges were severance charges of \$1.1 million related to employee termination costs for approximately 120 employees. The workforce was reduced in both of EMCORE's business segments, all of which were entitled to termination benefits. Of the severance charges recorded in the second quarter, \$637,000 related to EMCORE's systems business segment and \$463,000 related to the materials business segment. As of June 30, 2002, substantially all cash outlays for the employee termination costs accrued at March 31, 2002 have been paid.

## Impairment Charges

During the second quarter of fiscal year 2002, EMCORE recorded \$34.8 million of non-cash impairment charges related to its fixed assets. Of this charge, \$11.3 million related to certain manufacturing assets to be disposed of. Management has committed to a plan to dispose of these assets, through either abandonment or sale. Such decision was made based upon the continued downturn in the economic environment that affects certain business units, which caused these manufacturing assets to become idle. EMCORE expects to complete its disposal of these assets by December 31, 2002. The carrying value of this equipment before write-down to net realizable value was \$11.5 million.

The remainder of the impairment charge related principally to EMCORE's electronic materials, electronic devices and fiber-optic business units. During the past two years, EMCORE has completed new facilities for these businesses in anticipation of expanding market prospects. Business forecasts updated in the second quarter indicated significantly diminished prospects for these units, primarily based on the downturn in the telecommunications industry. As a result of these circumstances, management determined that the long-lived assets of these operations should be assessed for impairment. Based on the outcome of this assessment pursuant to SFAS 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed Of", EMCORE recorded a \$23.5 million non-cash asset impairment charge to fixed assets in the second quarter of 2002. The fair values of the assets were determined based upon a calculation of the present value of the expected future cash flows to be generated by these facilities.

Of the impairment charges recorded in the second quarter, \$4.0 million related to EMCORE's systems business segment and \$30.8 million related to the materials business segment.

## Other Charges

During the second quarter of fiscal year 2002, EMCORE recorded a \$11.9 million charge to cost of revenues, of which \$3.5 million related to EMCORE's systems business segment and \$8.4 million related to the materials business segment. Consistent with the downturn in the markets served by EMCORE, management evaluated its inventory levels in light of actual and forecasted revenue. The inventory charge related to reserves for excess inventory that EMCORE believed it was carrying as a result of the market conditions. EMCORE will continue to monitor its reserves and to the extent that inventories that have been reserved as excess are ultimately sold, such amounts will be disclosed in the future.

Included in selling, general, and administrative expense was a \$2.6 million charge principally related to a loss provision for accounts receivable for customers whose current financial condition and payment history indicate payment is doubtful.



## EMCORE CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 2. Impairment and Restructuring Charges (continued)

## First Quarter Event

The Uniroyal Technology Corporation, Inc. (UTC) common stock received in August 2001 is classified by EMCORE as an available-for-sale security with any unrealized gains and losses being recorded as a component of accumulated other comprehensive loss in shareholders' equity. In the quarter ended December 31, 2001, management evaluated the relevant facts and circumstances, including the current fair market value of UTC common stock, and determined that an other-than-temporary impairment of the investment existed. Accordingly, EMCORE took a charge of \$13.3 million to establish a new cost basis of \$753,000 for the UTC common stock, which was recorded as other expense in the consolidated Statement of Operations. As of June 30, 2002, the UTC common stock had a fair market value of \$198,000, with \$550,000 recorded as an unrealized loss in shareholders' equity. The investment of UTC common stock is subject to market risk of equity price changes. While EMCORE cannot predict or manage the future price for such stock, management continues to evaluate its investment position on an ongoing basis, which may result in the write down of the investment to an estimated realizable value and our results of operations could be adversely affected.

## NOTE 3. Acquisition

In March 2002, EMCORE acquired certain assets of the Applied Solar Division of Tecstar, Inc. and Tecstar Power Systems, Inc. ("Tecstar"). This acquisition vertically integrates all aspects of satellite solar panel construction within EMCORE and enables the Company to further penetrate the satellite communications market. The total cash purchase price, including related acquisitions costs, was approximately \$25.1 million. The results of operations from this acquisition have been included in EMCORE's consolidated results of operations from the acquisition closing date. The purchase price allocation was as follows:

Property and equipment	\$2,242
Other assets	558
Intellectual property	1,900
Goodwill	20,384
	-----
Total	\$25,084
	=====

## NOTE 4. Divestiture

In May 2002, EMCORE sold Analytical Solutions, Inc. and Training Solutions, Inc. back to the original owner. These companies will continue to provide engineering support and analytical services to EMCORE. The total consideration received for these two companies was approximately \$3.0 million in the form of a six-year promissory note with an interest rate of 5.71% per annum. Total consideration approximated net book value so no material gain or loss was recorded from this sale. Principal and interest payments owed to EMCORE can be applied against credits for services provided by the companies.

## NOTE 5. Loss Per Share

EMCORE accounts for earnings per share under the provision of SFAS No. 128 "Earnings per Share." Basic earnings per common share was calculated by dividing net loss by the weighted average number of common stock shares outstanding during the period. The effect of outstanding common stock purchase options, warrants and shares issuable upon conversion of convertible subordinated debt have been excluded from the diluted weighted average share calculation since the effect of such securities is anti-dilutive. The following table reconciles the number of shares utilized in the earnings per share calculations.

## EMCORE CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 5. Loss Per Share (continued)

(in thousands, except per share data)	For the three months ended June 30,		For the nine months ended June 30,	
	2002	2001	2002	2001
	----	----	----	----
Loss before cumulative effect of a change in accounting principle.....	\$(15,923)	\$(1,771)	\$(115,600)	\$(9,430)
Cumulative effect of a change in accounting principle....	-	-	-	(3,646)
Net loss attributable to common shareholders.....	<u>\$(15,923)</u>	<u>\$(1,771)</u>	<u>\$(115,600)</u>	<u>\$(13,076)</u>
- - - - -				
Weighted average of outstanding common shares - basic and diluted.	<u>36,683</u>	<u>34,452</u>	<u>36,496</u>	<u>34,256</u>
- - - - -				
Loss per basic and diluted share before cumulative effect of a change in accounting principle.....	<u>\$(0.43)</u>	<u>\$(0.05)</u>	<u>\$(3.17)</u>	<u>\$(0.28)</u>
Loss per basic and diluted share - Cumulative effect of a change in accounting principle.....	-	-	-	(\$0.10)
Net loss per basic and diluted share.....	<u>\$(0.43)</u>	<u>\$(0.05)</u>	<u>\$(3.17)</u>	<u>\$(0.38)</u>

## NOTE 6. Inventories

The components of inventories consisted of the following:

(in thousands)

	As of June 30, 2002	As of September 30, 2001
	-----	-----
Raw materials	\$20,278	\$32,795
Work-in-process	8,728	10,161
Finished goods	3,005	4,426
	-----	-----
Total	<u>\$32,011</u>	<u>\$47,382</u>

## NOTE 7. Debt Facilities

In March 2001, EMCORE entered into a \$20.0 million Amended and Restated Revolving Loan and Security Agreement with a bank. There have been no borrowings under this facility since inception and management had no plans to use this facility. EMCORE canceled this facility in May 2002.

## NOTE 8. Joint Venture

In May 1999, General Electric Lighting and EMCORE formed GELcore, a joint venture to develop and market High Brightness Light-Emitting Diode (HB LED) lighting products. General Electric Lighting and EMCORE have agreed that this joint venture will be the exclusive vehicle for each party's participation in solid state lighting. Under the terms of the joint venture agreement, EMCORE has a 49% non-controlling interest in the GELcore venture and accounts for its investment under the equity method of accounting. For the three-month periods ended June 30, 2002, and 2001, EMCORE recognized a loss of \$0.8 million and \$1.4 million, respectively. For the nine-month periods ended June 30, 2002 and 2001, EMCORE recognized a loss of \$2.0 million and \$3.6 million, respectively, related to this joint venture which has been recorded as a component of other income and expense. As of June 30, 2002, EMCORE's net investment in this joint venture amounted to approximately \$9.2 million.

## NOTE 9. Related Party

The President of Hakuto Co. Ltd. (Hakuto), the Company's Asian distributor, is a member of EMCORE's Board of Directors and Hakuto is a minority shareholder of EMCORE. During the three-month periods ended June 30, 2002 and 2001, sales made through Hakuto amounted to approximately \$0.2 million and \$0.8 million, respectively. During the nine-month period ended June 30, 2002 and 2001, sales made through Hakuto amounted to approximately \$1.2 million and \$8.7 million, respectively.

## NOTE 10. Recent Accounting Pronouncements

In June 2001, SFAS No. 142, "Goodwill and Other Intangible Assets" was approved by the FASB. SFAS No. 142 changes the accounting for goodwill and indefinite lived intangible assets from an amortization method to an impairment-only approach. Amortization of goodwill, including goodwill recorded in past business combinations and indefinite lived intangible assets, will cease upon adoption of this statement. Identifiable intangible assets will continue to be amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". EMCORE adopted SFAS No. 142 on October 1, 2001 and completed its transition test for impairment during the quarter ended March 31, 2002. No impairment adjustment was deemed necessary by management. Had SFAS No. 142 been in effect for the three and nine months ended June 30, 2001, EMCORE's net loss for those periods would have decreased by \$155,000 or \$0.00 per share and \$992,000 or \$0.03 per share, respectively.

In August 2001, the FASB issued SFAS No. 143 "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations and costs associated with the retirement of tangible long-lived assets. EMCORE is required to implement SFAS No. 143 in fiscal year 2003. EMCORE is currently evaluating the impact that the adoption of SFAS No. 143 will have on its results of operations and financial position. Management believes that adopting this statement will not have a material impact on the financial position, results of operations or cash flows of EMCORE.

In October 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 replaces SFAS No. 121 and establishes accounting and reporting standards for long-lived assets to be disposed of by sale. This standard applies to all long-lived assets, including discontinued operations. SFAS No. 144 requires that those assets be measured at the lower of carrying amount or fair value less cost to sell. SFAS No. 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity that will be eliminated from the ongoing operations of the entity in a disposal transaction. EMCORE is required to implement SFAS No. 144 in fiscal year 2003. EMCORE is currently evaluating the impact that the adoption of SFAS No. 144 will have on its results of operations and financial position. Management believes that adopting this statement will not have a material impact on the financial position, results of operations or cash flows of EMCORE.

## NOTE 10. Recent Accounting Pronouncements (continued)

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements 4, 44 and 64, Amendment of FASB Statement 13, and Technical Corrections". SFAS No. 145 rescinds the provisions of SFAS No. 4 that requires companies to classify certain gains and losses from debt extinguishments as extraordinary items, eliminates the provisions of SFAS No. 44 regarding transition to the Motor Carrier Act of 1980 and amends the provisions of SFAS No. 13 to require that certain lease modifications be treated as sale leaseback transactions. The provisions of SFAS No. 145 related to classification of debt extinguishment are effective for fiscal years beginning after May 15, 2002. Commencing October 1, 2002, EMCORE will classify debt extinguishment costs within income from operations and will reclassify previously reported debt extinguishments as such. The provisions of SFAS No. 145 related to lease modification are effective for transactions occurring after May 15, 2002. Management believes that adopting this statement will not have a material impact on the financial position, results of operations or cash flows of EMCORE.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 nullifies Emerging Issues Task Force ("EITF") No. 94-3, "Liability Recognition for certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in as Restructuring)". The principal difference between SFAS No. 146 and EITF No. 94-3 relates to its requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. SFAS No. 146 is effective for exit and disposal activities that are initiated after December 31, 2002. Management believes that adopting this statement will not have a material impact on the financial position, results of operations or cash flows of EMCORE.

## FORWARD-LOOKING STATEMENTS

The information provided herein may include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 relating to future events that involve risks and uncertainties. Words such as "expects," "anticipates," "intends," "plans," "believes," and "estimates," and variations of these words and similar expressions, identify these forward-looking statements. These forward-looking statements include, without limitation, (a) any statements or implications regarding EMCORE's ability to remain competitive and a leader in its industry, and the future growth of EMCORE, the industry and the economy in general; (b) statements regarding the expected level and timing of benefits to EMCORE from its restructuring and realignment efforts, including (i) expected cost reductions and their impact on EMCORE's financial performance, (ii) expected improvement to EMCORE's product and technology development programs, and (iii) the belief that the restructuring and realignment efforts will position EMCORE well in the current business environment and prepare it for future growth with increasingly competitive new product offerings and long-term cost structure; (c) statements regarding the anticipated cost of the restructuring and realignment efforts; (d) statements regarding the anticipated charges to be recorded by EMCORE to reduce the carrying value of excess and obsolete inventory and doubtful accounts; and (e) any and all guidance provided by EMCORE regarding its expected financial performance in current or future periods, including, without limitation, with respect to anticipated revenues for the fourth quarter of Fiscal 2002 and subsequent periods. These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected, including without limitation, the following: (1) EMCORE's restructuring and realignment efforts may not be successful in achieving their expected benefits, may be insufficient to align EMCORE's operations with customer demand and the changes affecting our industry, or may be more costly than currently anticipated; (2) due to the current economic slowdown, in general, and setbacks in our customers' businesses, in particular, our ability to predict EMCORE's financial performance for future periods is far more difficult than in the past; and (3) other risks and uncertainties described in EMCORE's filings with the Securities and Exchange Commission such as cancellations, rescheduling or delays in product shipments; manufacturing capacity constraints; lengthy sales and qualification cycles; difficulties in the production process; changes in semiconductor industry growth, increased competition, delays in developing and commercializing new products, and other factors. The forward-looking statements contained in this Form 10-Q are made as of the date hereof and EMCORE does not assume any obligation to update the reasons why actual results could differ materially from those projected in the forward-looking statements.

## ITEM 2.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

EMCORE Corporation designs, develops and manufactures compound semiconductor wafers and devices and is a leading developer and manufacturer of the tools and manufacturing processes used to fabricate compound semiconductor wafers and devices. Compound semiconductors are composed of two or more elements and usually consist of a metal, such as gallium, aluminum or indium, and a non-metal such as arsenic, phosphorus or nitrogen. Many compound semiconductors have unique physical properties that enable electrons to move through them at least four times faster than through silicon-based devices and are therefore well suited to serve the growing need for efficient, high performance electronic systems.

EMCORE offers a comprehensive portfolio of products and systems for the broadband, wireless communications and solid state lighting markets. We have developed extensive materials science expertise and process technology to address our customers' needs. Customers can take advantage of our vertically integrated solutions approach by purchasing custom-designed wafers and devices from us, or by manufacturing their own devices in-house using one of our metal organic chemical vapor deposition (MOCVD) production systems configured to their specific needs. Our products and systems enable our customers to cost effectively introduce new and improved high performance products to the market faster in high volumes.

Growth in our industry had been driven by the widespread deployment of fiber optic networks, introduction of new wireless networks and services, rapid build-out of satellite communication systems, increasing use of more power efficient lighting sources, increasing use of electronics in automobiles and emergence of advanced consumer electronic applications. In addition, until recently the demands for higher volumes of a broad range of higher performance devices have resulted in manufacturers increasingly outsourcing their needs for compound semiconductor wafers and devices. We believe our expertise in materials science and process technology provides us with a competitive advantage to manufacture compound semiconductor wafers and devices in high volumes.

#### Wafers and Devices

EMCORE offers a broad array of compound semiconductor wafers and devices, including optical devices, such as VCSELs and photodetectors used in high-speed data communications and telecommunications networks, radio frequency materials (RF materials) employed in mobile communications products such as wireless modems and handsets, solar cells and panels used to power commercial and military satellites, high brightness light-emitting diodes (HB LEDs) used for several lighting markets, and magneto resistive sensors (MR sensors) used for various automotive applications.

- o Solar Cells and Panels. Solar panels are typically the largest single cost component of a satellite. Our compound semiconductor solar cells, which are used to power commercial and military satellites, have achieved industry-leading efficiencies. Solar cells provide the electrical power for a satellite while solar cell efficiency dictates the amount of electrical power to the satellite and bears upon the weight, launch costs and potential revenues of the satellite. With the Tecstar acquisition, EMCORE has fully integrated the production of solar panels using EMCORE's solar cells.
- o Optical Components and Modules. Our family of VCSELs and VCSEL array transceiver and transponder products, as well as our photodiode array components, serve the high-speed data communications network and telecommunications markets, including the Gigabit Ethernet, FibreChannel, Very Short Reach OC-192, the emerging Very Short Reach OC-768 and related markets. Our strategy is to manufacture the otherwise high cost optical components and subassemblies in-house, using our proprietary technologies, to reduce the overall cost of our transceiver and transponder modules.
- o RF Materials. We currently produce 4-inch and 6-inch InGaP HBT and pHEMT materials that are used by our wireless customers for power amplifiers for GSM, TDMA, CDMA and the emerging 3G multiband wireless handsets.
- o HB LEDs. Through our joint venture with General Electric Lighting, we provide advanced HB LED technology used in devices and in such applications as traffic lights, miniature lamps, automotive lighting, channel lettering and flat panel displays.

#### Production Systems

EMCORE is a leading provider of compound semiconductor technology processes and MOCVD production tools. We believe that our proprietary TurboDisc deposition technology makes possible one of the most cost-effective production processes for the commercial volume manufacture of high-performance compound semiconductor wafers and devices, which are integral to solid state lighting and global communications applications.

#### Customers

Our customers include Agilent Technologies Ltd., Anadigics Inc., Boeing-Spectrolab, General Motors Corp., Honeywell International Inc., Infineon Technologies AG, Loral Space & Communications Ltd., Lucent Technologies, Inc., LumiLeds Lighting, Motorola, Inc., Nortel Networks Corp., Siemens AG's Osram GmbH subsidiary, TriQuint Semiconductor, Inc. and more than a dozen of the largest electronics manufacturers in Japan.

## Results of Operations

The following table sets forth the condensed consolidated Statement of Operations data of EMCORE expressed as a percentage of total revenues for the three and nine months ended June 30, 2002 and 2001:

### Statements of Operations Data:

	For the three months ended June 30,		For the nine months ended June 30,	
	2002	2001	2002	2001
	----	----	----	----
Revenues.....	100.0%	100.0%	100.0%	100.0%
Cost of revenues.....	87.5%	58.2%	106.5%	60.1%
	-----	-----	-----	-----
Gross profit (loss).....	12.5%	41.8%	(6.5)%	39.9%
Operating expenses:				
Selling, general and administrative.....	32.2%	13.5%	36.8%	15.8%
Goodwill amortization.....	-	0.3%	-	0.7%
Research and development.....	46.4%	26.4%	52.8%	28.6%
Impairment and restructuring.....	-	-	57.5%	-
	-----	-----	-----	-----
Total operating expenses.....	78.5%	40.2%	147.1%	45.2%
	-----	-----	-----	-----
Operating profit (loss).....	(66.1)%	1.7%	(153.6)%	(5.2)%
Other expenses:				
Interest expense (income), net.....	8.7%	(0.2)%	7.0%	(1.7)%
Other expense (income), net.....	-	-	21.2%	(4.3)%
Equity in net loss of unconsolidated affiliate..	3.8%	5.2%	3.2%	7.7%
	-----	-----	-----	-----
Total other expenses.....	12.5%	5.0%	31.4%	1.7%
	-----	-----	-----	-----
Loss before cumulative effect of a change in accounting principle.....	(78.5)%	(3.4)%	(185.0)%	(6.9)%
	-----	-----	-----	-----
Cumulative effect of a change in accounting principle.....	-	-	-	(2.7)%
	-----	-----	-----	-----
Net loss.....	(78.5)%	(3.4)%	(185.0)%	(9.6)%
	=====	=====	=====	=====

EMCORE has generated a significant portion of its sales to customers outside the United States. EMCORE anticipates that international sales will continue to account for a significant portion of revenues. Historically, EMCORE has received substantially all payments for products and services in U.S. dollars and thus does not anticipate that fluctuations in any currency will have a material effect on its financial condition or results of operations. The following chart contains a breakdown of EMCORE's consolidated revenues by geographic region.

	For the three months ended June 30,					For the nine months ended June 30,			
	2002		2001			2002		2001	
	Revenue	%	Revenue	%		Revenue	%	Revenue	%
Region:	-----	-	-----	-		-----	-	-----	-
North America	\$14,471	71%	\$30,658	58%		\$46,348	74%	\$74,269	55%
Asia	4,089	20%	16,655	32%		8,883	14%	53,635	39%
Europe	1,715	9%	5,339	10%		7,259	12%	8,663	6%
	-----		-----			-----		-----	
TOTAL	\$20,275	100%	\$52,652	100%		\$62,490	100%	\$136,567	100%
	=====	=====	=====	=====		=====	=====	=====	=====

EMCORE has two reportable operating segments: the systems-related business unit and the materials-related business unit. The systems-related business unit designs, develops and manufactures tools and manufacturing processes used to fabricate compound semiconductor wafers and devices. This business unit assists customers with device design, process development and optimal configuration of TurboDisc production systems. Revenues for the systems-related business unit consist of sales of EMCORE's TurboDisc production systems as well as spare parts and services related to these systems. The materials-related business unit designs, develops and manufactures compound semiconductor materials. Revenues for the materials-related business unit include sales of semiconductor wafers, devices, packaged devices, modules, solar panels and process development technology. EMCORE's vertically integrated product offering allows it to provide a complete compound semiconductor solution to its customers. The segments reported are the segments of EMCORE for which separate financial information is available and for which gross profit amounts are evaluated regularly by executive management in deciding how to allocate resources and in assessing performance. There are no intercompany sales transactions between the two operating segments.

#### Comparison of the three and nine-month periods ended June 30, 2002 and 2001

Revenues. EMCORE's quarterly revenues decreased 62% or \$32.4 million from \$52.7 million for the three months ended June 30, 2001 to \$20.3 million for the three months ended June 30, 2002. For the nine-month periods ended June 30, 2002 and 2001, revenues decreased 54% or \$74.1 million from \$136.6 million in the prior year to \$62.5 million. The decline in revenues was primarily a result of decreased demand experienced within EMCORE's systems-related product line. The current economic climate has reduced capital spending dramatically during the past year, particularly in the data and telecommunication sectors, where EMCORE has traditionally sold a significant portion of equipment and material-related products.

For the three months ended June 30, 2002 and 2001, systems-related revenues decreased 74% or \$28.8 million from \$38.7 million reported in the prior year to \$9.9 million. The number of MOCVD production systems shipped during the three-month periods decreased 77% from 26 systems in 2001 to 6 systems in 2002. For the nine months ended June 30, 2002 and 2001, systems-related revenues decreased 74% or \$69.4 million from \$93.9 million reported in the prior year to \$24.5 million. The number of MOCVD production systems shipped during the nine-month periods decreased 84% from 67 systems in 2001 to 11 systems in 2002. Average selling prices of MOCVD production tools has also dropped from an average of \$1.3 million in fiscal year 2001 to \$1.2 million in fiscal year 2002.

For the three months ended June 30, 2002 and 2001, materials-related revenues decreased 26% or \$3.5 million from \$13.9 million reported in the prior year to \$10.4 million. On a product line basis, sales of solar cell products decreased \$1.9 million or 38%, electronic materials and devices increased \$0.5 million or 13%, and optical devices and components decreased \$2.1 million or 47%, from the prior year. For the nine months ended June 30, 2002 and 2001, materials-related revenues decreased 11% or \$4.7 million from \$42.6 million reported in the prior year to \$37.9 million. On a product line basis, sales of solar cell products increased \$1.1 million or 8%, electronic materials and devices decreased \$0.8 million or 5%, and optical devices and components decreased \$5.0 million or 44%, from the prior year.

As a percentage of revenues, systems and materials-related revenues accounted for 49% and 51%, respectively, for the quarter ended June 30, 2002, and 74% and 26%, respectively, for the quarter ended June 30, 2001. For the nine-month periods, systems and materials-related revenues accounted for 39% and 61% in fiscal year 2002, and 69% and 31% in fiscal year 2001. International sales accounted for 29% of revenues for the quarter ended June 30, 2002 and 42% of revenues for the quarter ended June 30, 2001. For the nine-month periods, international sales accounted for 26% of revenues in fiscal year 2002 and 46% of revenues in fiscal year 2001.



Gross Profit. EMCORE's quarterly gross profit decreased 89% or \$19.5 million from \$22.0 million for the quarter ended June 30, 2001 to \$2.5 million for the quarter ended June 30, 2002. For the nine-month periods ended June 30, 2002 and 2001, gross profit decreased 107% or \$58.6 million from \$54.5 million to \$(4.1) million. The decline in gross profit was primarily related to decreased revenues and unabsorbed overhead expenses. During the past two years, EMCORE completed new facilities for its businesses in anticipation of expanding market prospects. EMCORE has a significant amount of fixed expenses relating to capital equipment and manufacturing overhead in its new facilities where materials-related products are manufactured. Lower than forecasted materials-related revenues causes these fixed expenses to be allocated across reduced production volumes, which adversely affected gross profits and margins.

For the three months ended June 30, 2002 and 2001, gross profit earned on systems-related revenues decreased 83% or \$14.7 million from \$17.8 million earned in the prior year to \$3.1 million. For the nine months ended June 30, 2002 and 2001, gross profit earned on systems-related revenues decreased 87% or \$35.5 million from \$40.9 million earned in the prior year to \$5.4 million. For the nine months ended June 30, 2002 and 2001, gross margins for systems-related revenues decreased from 44% to 22%. This decrease is due primarily to the decrease in sales of MOCVD production systems and specific inventory write-down charges of \$4.2 million recorded in the second quarter.

For the three months ended June 30, 2002 and 2001, gross profit earned on materials-related revenues decreased 112% or \$4.7 million from \$4.2 million earned in the prior year to \$(0.5) million. For the nine months ended June 30, 2002 and 2001, gross profit earned on materials-related revenues decreased 170% or \$23.1 million from \$13.6 million earned in the prior year to \$(9.5) million. For the nine months ended June 30, 2002 and 2001, gross margins for materials-related revenues decreased from 32% to (25%). This decrease is due primarily to unabsorbed overhead expenses and specific inventory write-down charges of \$7.7 million recorded in the second quarter.

Selling, General and Administrative. EMCORE's quarterly selling, general and administrative expenses decreased 8% or \$0.6 million from \$7.1 million for the three months ended June 30, 2001 to \$6.5 million for the three months ended June 30, 2002. For the nine-month periods ended June 30, 2002 and 2001, selling, general and administrative expenses increased 6% or \$1.4 million from \$21.6 million to \$23.0 million. The nine-month increase in selling, general and administrative expenses was primarily related to a \$2.6 million additional receivable reserve for doubtful accounts recorded in the second quarter. As a percentage of revenue, selling, general and administrative expenses increased from 16% for the nine months ended June 30, 2001 to 37% for the nine months ended June 30, 2002 as a result of lower revenues. Management expects selling, general and administrative expenses in the fourth quarter to decrease to 28% as a percentage of revenues as a result of implemented cost control and restructuring programs.

Goodwill Amortization. In June 2001, SFAS No. 142, "Goodwill and Other Intangible Assets" was approved by the FASB. Amortization of goodwill, including goodwill recorded in past business combinations and indefinite lived intangible assets, would cease upon adoption of this statement. EMCORE adopted SFAS No. 142 on October 1, 2001 and completed its transition test for impairment during the quarter ended March 31, 2002. No impairment adjustment was deemed necessary by management. Had SFAS No. 142 been in effect for the three and nine months ended June 30, 2001, EMCORE's net loss for those periods would have decreased by \$155,000 or \$0.00 per share and \$992,000 or \$0.03 per share, respectively.

Research and Development. EMCORE's quarterly research and development expenses decreased 32% or \$4.5 million from \$13.9 million for the three months ended June 30, 2001 to \$9.4 million for the three months ended June 30, 2002. For the nine-month periods ended June 30, 2002 and 2001, research and development expenses decreased 16% or \$6.1 million from \$39.1 million to \$33.0 million. As a percentage of revenue, research and development expenses increased from 29% for the nine months ended June 30, 2001 to 53% for the nine months ended June 30, 2002 as a result of lower revenues. To maintain growth and to continue to pursue market leadership in materials science technology, management expects to continue to invest a significant amount of its resources in research and development. Management expects research and development expenses in the fourth quarter to decrease approximately 35% from prior year, due to the deferral or elimination of certain non-critical projects.

#### Impairment and Restructuring Charges.

During the quarter ended March 31, 2002, EMCORE recorded pre-tax charges to income totaling \$50.4 million, which included restructuring and impairment charges of \$35.9 million and other charges of \$14.5 million, as described below.

##### Restructuring Charges

During the second quarter of fiscal year 2002, EMCORE continued a restructuring program, consisting of the appointment of a Chief Operating Officer, re-alignment of all engineering, manufacturing and sales/marketing operations, as well as workforce reductions. Included in the provision for restructuring and impairment charges were severance charges of \$1.1 million related to employee termination costs for approximately 120 employees. The workforce was reduced in both of EMCORE's business segments, all of which were entitled to termination benefits. Of the severance charges recorded in the second quarter, \$637,000 related to EMCORE's systems business segment and \$463,000 related to the materials business segment. As of June 30, 2002, substantially all cash outlays for the employee termination costs accrued at March 31, 2002 have been paid.

##### Impairment Charges

During the second quarter of fiscal year 2002, EMCORE recorded \$34.8 million of non-cash impairment charges related to its fixed assets. Of this charge, \$11.3 million related to certain manufacturing assets to be disposed of. Management has committed to a plan to dispose of these assets, through either abandonment or sale. Such decision was made based upon the continued downturn in the economic environment that affects certain business units, which caused these manufacturing assets to become idle. EMCORE expects to complete its disposal of these assets by December 31, 2002. The carrying value of this equipment before write-down to net realizable value was \$11.5 million.

The remainder of the impairment charge related principally to EMCORE's electronic materials, electronic devices and fiber-optic business units. During the past two years, EMCORE has completed new facilities for these businesses in anticipation of expanding market prospects. Business forecasts updated in the second quarter indicated significantly diminished prospects for these units, primarily based on the downturn in the telecommunications industry. As a result of these circumstances, management determined that the long-lived assets of these operations should be assessed for impairment. Based on the outcome of this assessment pursuant to SFAS 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed Of", EMCORE recorded a \$23.5 million non-cash asset impairment charge to fixed assets in the second quarter of 2002. The fair values of the assets were determined based upon a calculation of the present value of the expected future cash flows to be generated by these facilities.

Of the impairment charges recorded in the second quarter, \$4.0 million related to EMCORE's systems business segment and \$30.8 million related to the materials business segment.

Interest Income/Expense. For the quarter ended June 30, 2002, net interest changed \$1.9 million from net interest income of \$0.1 million to net interest expense of \$1.8 million. For the nine months ended June 30, 2002, net interest changed \$6.7 million from net interest income of \$2.3 million to net interest expense of \$4.4 million. The decrease in interest income is a result of interest expense being incurred from the 5% convertible subordinated notes due in May 2006 offset by lower interest income earned on decreased amounts in cash, cash equivalents and marketable securities.

Other Expense. In August 2001, EMCORE received common stock in Uniroyal Technology Corporation (UTCI) which is classified as an available-for-sale security with any unrealized gains and losses being recorded as a component of comprehensive income in shareholders' equity. During the quarter ended December 31, 2001, management determined that an other-than-temporary impairment of the investment existed. Accordingly, EMCORE took a charge of \$13.3 million to establish a new cost basis for the UTCI common stock, which was recorded as other expense. Other income for the three months ended March 31, 2001 included a net gain of \$5.9 million related to the settlement of litigation.

Equity in Unconsolidated Affiliate. Because EMCORE does not have a controlling economic and voting interest in its joint venture with General Electric Lighting, EMCORE accounts for it under the equity method of accounting. For the three and nine months ended June 30, 2002, EMCORE incurred a net loss of \$0.8 million and \$2.0 million, respectively, related to the GELcore joint venture. For the three and nine months ended June 30, 2001, EMCORE incurred a net loss of \$1.4 million and \$3.6 million, respectively, related to the GELcore joint venture. For the three and nine months ended June 30, 2001, EMCORE also incurred a net loss of \$1.3 million and \$6.9 million related to the Uniroyal joint venture.

Income Taxes. As a result of its losses, EMCORE did not incur any income tax expense in both the three and nine-month periods ended June 30, 2002 and 2001.

#### Liquidity and Capital Resources

EMCORE has funded operations to date through sales of equity, bank borrowings, subordinated debt and revenues from product sales. In June 1999, EMCORE completed a secondary public offering and raised approximately \$52.0 million, net of issuance costs. In March 2000, EMCORE completed an additional public offering and raised approximately \$127.5 million, net of issuance costs. As of June 30, 2002, EMCORE had working capital of approximately \$121.0 million, including \$89.1 million in cash, cash equivalents and marketable securities.

Cash used for operating activities approximated \$30.1 million during the nine months ended June 30, 2002 primarily because of EMCORE's net loss of \$115.6 million offset by the non-cash charges related to impairment and restructuring charges on fixed assets and marketable securities of \$63.7 million and depreciation and amortization charges of \$13.6 million. For the nine months ended June 30, 2002, net cash provided by investment activities amounted to approximately \$7.4 million. EMCORE's net investment in marketable securities decreased by \$35.9 million which represents proceeds from sales of marketable securities of \$41.2 million offset by \$5.3 million relating to the impairment charge on UTCI stock. In March 2002, EMCORE completed the Tecstar acquisition at a total cost of \$25.1 million. Capital expenditures for the nine months ended June 30, 2002 totaled \$6.5 million and in November 2001 EMCORE made a \$2.0 million capital contribution to GELcore. Net cash provided by financing activities for the nine months ended June 30, 2002 amounted to approximately \$5.7 million of which \$4.2 million related to the exercise of warrants.

In May 2001, EMCORE issued \$175.0 million of 5% convertible subordinated notes due in May 2006. In May 2002, the Board of Directors authorized EMCORE from time to time to repurchase in one or more open market transactions, in accordance with certain guidelines established by the Board, a portion of the notes.

In March 2001, EMCORE entered into a \$20.0 million Amended and Restated Revolving Loan and Security Agreement with a bank. There have been no borrowings under this facility since inception and management had no plans to use this facility. EMCORE canceled this facility in May 2002.

EMCORE believes that its current liquidity should be sufficient to meet its cash needs for working capital through fiscal year 2003. However, if cash generated from operations and cash on hand are not sufficient to satisfy EMCORE's liquidity requirements, EMCORE will seek to obtain additional equity or debt financing. Additional funding may not be available when needed or on terms acceptable to EMCORE. If EMCORE is required to raise additional financing and if adequate funds are not available or not available on acceptable terms, the ability to continue to fund expansion, develop and enhance products and services, or otherwise respond to competitive pressures will be severely limited. Such a limitation could have a material adverse effect on EMCORE's business, financial condition or operations.

## Critical Accounting Policies

The preparation of financial statements requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. The significant accounting policies which we believe are the most critical to the understanding of reported financial results include the following:

- o Accounts Receivable - EMCORE maintains allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, additional allowances may be required.
- o Inventories - Inventories are stated at the lower of cost or market with cost being determined using the first-in, first-out (FIFO) method. EMCORE provides estimated inventory allowances for obsolete and excess inventory based on assumptions about future demand and market conditions. If future demand or market conditions are different than those projected by management, adjustments to inventory allowances may be required.
- o Impairment of Long-lived Assets - The carrying amount of long-lived assets are reviewed on a regular basis for the existence of facts or circumstances, both internally and externally, that suggest impairment. EMCORE records impairment losses on long-lived assets when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than their carrying amount. Management's estimates of future cash flows are based upon EMCORE's current operating forecast, which is believed to be reasonable. However, different assumptions regarding such cash flows could materially affect these estimates.

The impact and any associated risks relating to these policies on our business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results.

## Recent Accounting Pronouncements

In June 2001, SFAS No. 142, "Goodwill and Other Intangible Assets" was approved by the FASB. SFAS No. 142 changes the accounting for goodwill and indefinite lived intangible assets from an amortization method to an impairment-only approach. Amortization of goodwill, including goodwill recorded in past business combinations and indefinite lived intangible assets, will cease upon adoption of this statement. Identifiable intangible assets will continue to be amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 121 "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed Of". EMCORE adopted SFAS No. 142 on October 1, 2001 and completed its transition test for impairment during the quarter ended March 31, 2002. No impairment adjustment was deemed necessary by management. Had SFAS No. 142 been in effect for the three and nine months ended June 30, 2001, EMCORE's net loss for those periods would have decreased by \$155,000 or \$0.00 per share and \$992,000 or \$0.03 per share, respectively.

In August 2001, the FASB issued SFAS No. 143 "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations and costs associated with the retirement of tangible long-lived assets. EMCORE is required to implement SFAS No. 143 in fiscal year 2003. EMCORE is currently evaluating the impact that the adoption of SFAS No. 143 will have on its results of operations and financial position. Management believes that adopting this statement will not have a material impact on the financial position, results of operations or cash flows of EMCORE.

In October 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 replaces SFAS No. 121 and establishes accounting and reporting standards for long-lived assets to be disposed of by sale. This standard applies to all long-lived assets, including discontinued operations. SFAS No. 144 requires that those assets be measured at the lower of carrying amount or fair value less cost to sell. SFAS No. 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity that will be eliminated from the ongoing operations of the entity in a disposal transaction. EMCORE is required to implement SFAS No. 144 in fiscal year 2003. EMCORE is currently evaluating the impact that the adoption of SFAS No. 144 will have on its results of operations and financial position. Management believes that adopting this statement will not have a material impact on the financial position, results of operations or cash flows of EMCORE.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements 4, 44 and 64, Amendment of FASB Statement 13, and Technical Corrections". SFAS No. 145 rescinds the provisions of SFAS No. 4 that requires companies to classify certain gains and losses from debt extinguishments as extraordinary items, eliminates the provisions of SFAS No. 44 regarding transition to the Motor Carrier Act of 1980 and amends the provisions of SFAS No. 13 to require that certain lease modifications be treated as sale leaseback transactions. The provisions of SFAS No. 145 related to classification of debt extinguishment are effective for fiscal years beginning after May 15, 2002. Commencing October 1, 2002, EMCORE will classify debt extinguishment costs within income from operations and will reclassify previously reported debt extinguishments as such. The provisions of SFAS No. 145 related to lease modification are effective for transactions occurring after May 15, 2002. Management believes that adopting this statement will not have a material impact on the financial position, results of operations or cash flows of EMCORE.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". SFAS No. 146 nullifies Emerging Issues Task Force ("EITF") No. 94-3, "Liability Recognition for certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in as Restructuring)". The principal difference between SFAS No. 146 and EITF No. 94-3 relates to its requirements for recognition of a liability for a cost associated with an exit or disposal activity. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF No. 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. SFAS No. 146 is effective for exit and disposal activities that are initiated after December 31, 2002. Management believes that adopting this statement will not have a material impact on the financial position, results of operations or cash flows of EMCORE.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in lawsuits, claims, investigations and proceedings which arise in the ordinary course of business. There are no matters pending that we expect to be material in relation to our business, consolidated financial condition, results of operations or cash flows.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

ITEM 5. OTHER INFORMATION

The following members of Registrant's Board of Directors and Executive Officers of Registrant have adopted or intend to adopt "plans" under Rule 10b5-1 of the Securities Exchange Act of 1934, as amended, for trading in shares of Registrant's common stock:

Reuben F. Richards, Jr.  
Dr. Richard A. Stall

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) List of Exhibits:

Exhibit No.	Exhibit Description
10.1	Amended and Restated Note
10.2	Amended and Restated Pledge Agreement
99(1)	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99(2)	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K:

No reports on Form 8-K were filed during the quarter ended June 30, 2002.

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

EMCORE CORPORATION

Date: August 14, 2002	By: /s/ Reuben F. Richards, Jr. ----- Reuben F. Richards, Jr. President and Chief Executive Officer
Date: August 14, 2002	By: /s/ Thomas G. Werthan ----- Thomas G. Werthan Vice President and Chief Financial Officer

## AMENDED AND RESTATED PROMISSORY NOTE

\$3,000,000

Somerset, New Jersey  
May 23, 2002

## RECITALS

WHEREAS, on February 22, 2001 Reuben F. Richards, Jr. (the "Borrower") executed a Promissory Note (the "Note") payable to the order of EMCORE Corporation (the "Company") in consideration for a loan in the principal amount of \$3,000,000;

WHEREAS, the Board of Directors has deemed it in the best interests of the Company to amend certain terms of the Note as approved by the Board on May 21, 2002; and

WHEREAS, the parties intend to amend and restate the Note (herein referred to as the "Amended and Restated Note") to reflect the changed terms and conditions.

NOW, THEREFORE, it is hereby agreed as follows:

FOR VALUE RECEIVED, the undersigned, Reuben F. Richards, Jr. (the "Borrower"), hereby promises to pay to the order of EMCORE Corporation (the "Company"), in lawful money of the United States of America in immediately available funds, at its offices at 145 Belmont Drive, Somerset, New Jersey 08873 (or such other place as Company may direct) the principal sum of THREE MILLION DOLLARS AND NO CENTS (\$3,000,000.00). Principal and accrued interest shall be payable on February 22, 2006 (the "Maturity Date") at the foregoing address.

1. Interest. Interest shall accrue on the unpaid principal balance of this Amended and Restated Note at a rate of 5.18% per annum from February 22, 2001 to May 23, 2002 compounded annually and at a rate of 4.99% per annum thereafter until the Maturity Date. Interest shall be payable on the Maturity Date.

2. Full Recourse. The loan evidenced by this Amended and Restated Note is a general obligation of the Borrower.

3. Security. All obligations of Borrower under this Amended and Restated Note are secured by a pledge of certain shares of EMCORE Corporation common stock ("Common Stock") pursuant to the Amended and Restated Pledge Agreement. By executing this Amended and Restated Note, the Borrower hereby agrees to execute such other instruments as the Company may direct in order to evidence and perfect Company's

security interest in such Common Stock (together with the Amended and Restated Pledge Agreement, the "Pledge Documents").

4. Application of Payment. Each payment hereunder may be made, at the option of the Borrower, in either lawful tender of the United States or in shares of Common Stock and shall be applied first to any accrued but unpaid interest on this Amended and Restated Note and the balance to the unpaid principal. Prepayment of the principal balance of this Amended and Restated Note, together with any accrued and unpaid interest, may be made in whole or in part at any time without penalty. For valuation purposes, the fair market value per share of Common Stock on any date shall be determined in accordance with the following provisions:

- (a) If the Common Stock is at the time traded on the NASDAQ National Market, the fair market value shall be the closing selling price per share of Common Stock on the date in question, as such prices are reported by the National Association of Securities Dealers on its NASDAQ system or any successor system. If there is no reported closing selling price for the Common Stock on the date in question, then the closing selling price on the last preceding date for which such quotation exists shall be determinative of the fair market value.
- (b) If the Common Stock is at the time traded on the American Stock Exchange or the New York Stock Exchange, then the fair market value shall be the closing selling price per share of Common Stock on the date in question on the securities exchange serving as the primary market for the Common Stock, as such price is officially quoted in the composite tape of transactions on such exchange. If there is no reported sale of Common Stock on such exchange on the date in question, then the fair market value shall be the closing selling price on such exchange on the last preceding date for which such quotation exists.
- (c) If the Common Stock is at the time neither listed on any securities exchange nor traded on the NASDAQ National Market, the fair market value shall be determined by the Corporation's Board of Directors after taking into account such factors as such Board shall deem appropriate.

5. Representation of the Borrower.

(a) The Borrower has applied all proceeds evidenced by this Amended and Restated Note towards the purchase of a personal residence.





(a) If the Borrower voluntarily terminates his employment with the Company for any reason, the Company shall have the right to accelerate all or part of the amounts outstanding under this Amended and Restated Note. If the Borrower is terminated for cause, all principal and interest outstanding under this Amended and Restated Note will automatically become due and payable sixty (60) calendar days after the termination of the Borrower's service with the Company.

(b) The Company will have the right to accelerate the principal and interest due under this Amended and Restated Note upon the occurrence of the following events: (i) there is default under, or a breach of, any covenant, representation or warranty of the Borrower under this Amended and Restated Note or the Amended and Restated Pledge Documents, (ii) the Borrower applies for or consents to the appointment of a receiver, trustee, custodian or liquidator of any of his property, admits in writing his inability to pay his debts as they mature, makes a general assignment as a bankrupt or insolvent or is the subject of an order for relief under Chapter 13 of the United States Bankruptcy Code or files a voluntary petition in bankruptcy or a petition or answer seeking an arrangement with creditors or to take advantage of any bankruptcy, insolvency, readjustment or debt or liquidation law or statute, or an answer admitting the material allegations of a petition filed against him in any proceeding under any such law or (iii) an order, judgment or decree is entered by any court of competent jurisdiction, without the application, approval or consent of the Borrower, approving a petition appointing a receiver, trustee, custodian or liquidator of all or a substantial part of the assets of the Borrower and such order, judgment or decree continues unstayed and in effect for a period of thirty (30) days; provided that if an event specified in (ii) or (iii) above shall occur, all principal and interest outstanding under this Amended and Restated Note shall become automatically due and payable.

7. Loan Forgiveness. Notwithstanding any other provision of this Amended and Restated Note the principal balance and accrued but unpaid interest on this Amended and Restated Note shall be forgiven as follows: (a) If the Company terminates the Borrower's employment without cause or (b) there is a Change in Control. For purposes hereof a Change in Control shall be deemed to have occurred as follows:

(i) an acquisition in one transaction or a series of related transactions (other than directly from the Company or pursuant to options granted under a Company stock option plan or other similar awards granted by the Company) of any voting securities by any person, immediately after which such person has beneficial ownership of fifty percent (50%) or more of the combined voting power of the Company's then outstanding voting securities; provided, however, in determining whether a Change in Control has occurred, voting securities which are acquired in a Non-Control Acquisition shall not constitute an acquisition that would cause a Change in Control;

(ii) the individuals who, immediately prior to the date hereof, are members of the Board (the "Incumbent Board"), cease for any reason to constitute at least a majority of the members of the Board; provided, however, that if the

election, or nomination for election, by the Company's common stockholders, of any new director was approved by a vote of at least a majority of the Incumbent Board, such new director shall, for purposes of the Plan, be considered as a member of the Incumbent Board; provided further, however, that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened "Election Contest" (as described in Rule 14a-11 promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board (a "Proxy Contest") including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest; or

(iii) the consummation of:

(A) a merger, consolidation or reorganization involving the Company unless:

(1) the stockholders of the Company, immediately before such merger, consolidation or reorganization, own, directly or indirectly, immediately following such merger, consolidation or reorganization, more than fifty percent (50%) of the combined voting power of the outstanding voting securities of the corporation resulting from such merger or consolidation or reorganization (the "Surviving Corporation") in substantially the same proportion as their ownership of the voting securities immediately before such merger, consolidation or reorganization,

(2) the individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization constitute at least a majority of the members of the board of directors of the Surviving Corporation, or a corporation beneficially owning, directly or indirectly, a majority of the voting securities of the Surviving Corporation, and

(3) no person, other than (i) the Company, (ii) any Related Entity (as defined below), (iii) any employee benefit plan (or any trust forming a part thereof) that, immediately prior to such merger, consolidation or reorganization, was maintained by the Company, the Surviving Corporation, or any Related Entity or (iv) any person who, together with its Affiliates, immediately prior to such merger, consolidation or reorganization had beneficial ownership of fifty percent (50%) or more of the then outstanding voting securities, owns, together with its Affiliates, beneficial ownership of fifty percent (50%) or more of the combined voting power of the Surviving Corporation's then outstanding voting securities

(a transaction described in clauses (1) through (3) above is referred to herein as a "Non-Control Transaction");

(B) a complete liquidation or dissolution of the Company other than through bankruptcy; or

(C) an agreement for the sale or other disposition of all or substantially all of the assets or business of the Company to any person (other than a transfer to a Related Entity or the distribution to the Company's stockholders of the stock of a Related Entity or any other assets).

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any person (the "Subject Person") acquired beneficial ownership of fifty percent (50%) or more of the combined voting power of the then outstanding voting securities as a result of the acquisition of voting securities by the Company which, by reducing the number of voting securities then outstanding, increases the proportional number of shares beneficially owned by the Subject Persons, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of voting securities by the Company, and (1) before such share acquisition by the Company the Subject Person becomes the beneficial owner of any new or additional voting securities in a related transaction or (2) after such share acquisition by the Company the Subject Person becomes the beneficial owner of any new or additional voting securities which in either case increases the percentage of the then outstanding voting securities beneficially owned by the Subject Person, then a Change in Control shall be deemed to occur. For purposes hereof, (x) "Affiliate" shall mean, with respect to any Person, any other Person that, directly or indirectly, controls, is controlled by, or is under common control with, such Person; (y) any "Relative" (for this purpose, "Relative" means a spouse, child, parent, parent of spouse, sibling or grandchild) of an individual shall be deemed to be an Affiliate of such individual for this purpose; and (z) neither the Company nor any Person controlled by the Company shall be deemed to be an Affiliate of any holder of Common Stock. A Non-Control Acquisition shall mean an acquisition by (i) an employee benefit plan (or a trust forming a part thereof) maintained by (A) the Company or (B) any corporation or other person of which a majority of its voting power or its voting equity securities or equity interest is owned, directly or indirectly, by the Company (a "Related Entity"), (ii) the Company or any Related Entity, (iii) any of Thomas Russell, The AER Trust 1997, Robert Louis-Dreyfus, Gallium Enterprises, Inc. and Reuben Richards or (iv) any Person in connection with a Non-Control Transaction.

8. Notices. All notices and other communications required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given if delivered personally or sent by certified mail, return receipt requested, first-class postage prepaid to the below listed parties at the following addresses:

If to the Company, to:

EMCORE Corporation  
145 Belmont Drive  
Somerset, NJ 08873  
Attention: CFO

If to the Borrower, at the address set forth at the end of this Amended and Restated Note,

or to such other address as either party shall have last designated by notice to the other party. All such notices and communications shall be deemed to have been received on the earlier of the date of receipt and the third business day after the date of mailing thereof.

9. Amendments. No amendment of this Amended and Restated Note shall be effective unless in writing and signed by the Borrower and the Company. Upon execution of this Amended and Restated Note by the Company and the Borrower, the Note dated February 22, 2001 shall be cancelled and returned to the Borrower.

10. Waiver. The Borrower, for himself and his legal representatives and successors, hereby expressly waives presentment, demand, notice, protest, and all other demands or notices in connection with the delivery, acceptance, endorsement, performance, default, or enforcement of this Amended and Restated Note.

11. No Set-Off. This Amended and Restated Note is not subject to set-off by the Borrower for any amounts for any reason.

12. Effect of Delay or Omission. No delay or omission of the Company in exercising any right or remedy hereunder shall constitute a waiver of any such right or remedy.

13. Costs of Collection. The Borrower will pay all costs and expenses of collection, including reasonable attorneys' fees, incurred or paid by the Company in enforcing this Amended and Restated Note or the obligations hereby evidenced, to the extent permitted by law.

14. Governing Law. This Amended and Restated Note shall be construed and enforced in accordance with the laws of the State of New Jersey, without regard to any conflict of laws rules.

15. Headings. The section and paragraph headings hereof are for convenience of reference only and shall not be deemed to construe or affect the meaning of any of the provisions hereof.

IN WITNESS WHEREOF, the Borrower has executed this Amended and Restated Note as of the date first above written, and by such execution acknowledges each of the provisions of this Amended and Restated Note.

/s Reuben F. Richards, Jr.  
Reuben F. Richards, Jr.

Address:  
c/o EMCORE CORPORATION  
145 Belmont Drive  
Somerset, NJ 08873

## EMCORE CORPORATION

## AMENDED AND RESTATED STOCK PLEDGE AGREEMENT

Agreement made as of this 23RD day of May, 2002, by and between EMCORE Corporation, a New Jersey Corporation (the "Corporation") and Reuben F. Richards, Jr. (the "Pledgor").

## RECITALS

WHEREAS, on February 22, 2001 the Pledgor and the Corporation entered into a Pledge Agreement (the "Pledge Agreement") to secure a Promissory Note in the amount of \$3,000,000 (the "Note");

WHEREAS, the Board of Directors has deemed it in the best interests of the Corporation to approve certain changes to terms of the Note and Pledge Agreement as approved by the Board on May 21, 2002;

WHEREAS, the parties intend to amend and restate both the Note (herein referred to as the "Amended and Restated Note") and Pledge Agreement to reflect the changed terms and conditions; and

WHEREAS, it is the intention of the parties that the indebtedness evidenced by the Amended and Restated Note continue to be secured only by a pledge of shares of the Corporation's common stock ("Common Stock").

NOW, THEREFORE, it is hereby agreed as follows:

1. Grant of Security Interest. As security for all present and future liabilities, obligations, covenants, duties and debts owing by the Pledgor to the Corporation arising under or pursuant to the Amended and Restated Note, this Agreement or any related agreement, instrument or document (the "Obligations"), the Pledgor hereby grants to the Corporation a first priority security interest in, and assigns, transfers and pledges to the Corporation the following securities (collectively, the "Collateral"):

- (i) the 91,000 shares of Common Stock (the "Pledged Shares") delivered to the Corporation simultaneously with the execution and delivery of this Agreement.
- (ii) any and all new, additional or different securities or other property subsequently distributed with respect to the Pledged Shares which

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are to be delivered to and deposited with the Corporation pursuant to the requirements of Paragraph 3(a) of this Agreement; and

- (iii) the proceeds of any sale, exchange or disposition of the property and securities described in subparagraphs (i) and (ii) above.

2. Warranties. The Pledgor hereby warrants that the Pledgor is the owner of the Collateral and has the right to pledge the Collateral and that the Collateral is free from all liens, adverse claims and other security interests (other than those created hereby).

3. Duty to Deliver. Any new, additional or different securities or other property which may now or hereafter become distributable with respect to the Collateral by reason of (i) any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the Common Stock as a class without the Corporation's receipt of consideration or (ii) any merger, consolidation or other reorganization affecting the capital structure of the Corporation shall, upon receipt by the Pledgor be promptly delivered to and deposited with the Corporation as part of the Collateral hereunder. Any such securities shall be accompanied by one or more properly endorsed stock power assignments.

4. Payment of Taxes and Other Charges. The Pledgor shall pay, prior to the delinquency date, all taxes, liens, assessments and other charges against the Collateral, and in the event of the Pledgor's failure to do so, the Corporation may, at its option, pay any or all of such taxes or other charges without contesting the legality or validity thereof. The payments so made shall become part of the indebtedness secured hereunder and until paid, shall bear interest at the minimum per annum rate, compounded semi-annually, required to avoid imputation of interest income to the Corporation and compensation income to the Pledgor under the Federal tax laws.

5. Shareholder Rights. So long as there exists no event of default under Paragraph 11 of this Agreement, the Pledgor may exercise all shareholder voting rights and be entitled to receive any and all regular cash dividends paid on the Collateral and all proxy statements and other shareholder materials pertaining to the Corporation.

6. Rights and Powers of the Corporation. The Corporation may, without obligation to do so, exercise at any time and from time to time, one or more of the following rights and power with respect to any or all of the Collateral:

- (i) subject to the applicable limitations of Paragraphs 9 and 10, accept other property of the Pledgor in exchange for all or part of the Collateral and release Collateral to the Pledgor to the extent necessary to effect such exchange, and in such event, the other



property received in the exchange shall become part of the Collateral hereunder;

- (ii) subject to the applicable limitations of Paragraph 5, perform such acts as are necessary to preserve and protect the Collateral and the rights, powers and remedies granted with respect to the Collateral by this Agreement; and
- (iii) transfer record ownership of the Collateral to the Corporation or its nominee and receive, endorse and give receipt for, or collect by legal proceedings or otherwise, dividends made or paid with respect to the Collateral; provided and only if, there exists at the time an outstanding event of default under Paragraph 11 of this Agreement. Any cash sums which the Corporation may so receive shall be applied to the payment of the Amended and Restated Note and any other Obligations secured hereunder, in such order of application as the Corporation deems appropriate.

Expenses reasonably incurred in connection with any action by the Corporation pursuant to this Paragraph 6 shall form part of the indebtedness secured hereunder as provided in Paragraph 13.

7. Care of Collateral. The Corporation shall exercise reasonable care in the custody and preservation of the Collateral. However, the Corporation shall have no obligation to (i) preserve the rights of the Pledgor against adverse claims or protect the Collateral against the possibility of decline in market value or (ii) take any action with respect to the Collateral requested by the Pledgor unless the request is made in writing and the Corporation determines that the requested action will not unreasonably jeopardize the value of the Collateral as security for the Amended and Restated Note and the other Obligations secured hereunder.

Subject to the limitations of Paragraphs 9 and 10, the Corporation may at any time release and deliver all or part of the Collateral to the Pledgor, and the receipt thereof by the Pledgor shall constitute a complete and full acquittance for the Collateral so released and delivered. The Corporation shall accordingly be discharged from any further liability or responsibility for such released Collateral, and such released Collateral shall no longer be subject to the provisions of this Agreement.

8. Transfer of Collateral. In connection with the transfer or assignment of the Amended and Restated Note (whether by negotiation, discount or otherwise), the Corporation may, upon ten (10) days prior written notice, transfer all or any part of the Collateral, and the transferee shall thereupon succeed to the rights, powers and remedies granted the Corporation hereunder with respect to the Collateral so transferred. Upon such transfer, the Corporation shall be fully discharged from all liability and responsibility for the transferred Collateral.

9. Release of Collateral. Provided all Obligations secured hereunder (other than payments not yet due and payable under the Amended and Restated Note) shall at the time have been paid in full and there does not at the time otherwise exist any event of default under Paragraph 11, the Pledged Shares together with any additional Collateral which may hereafter be pledged and deposited hereunder, shall be released from pledge and returned to the Pledgor in accordance with the following provisions:

- (i) Upon payment or prepayment of principal under the Amended and Restated Note together with payment of all accrued interest to date, one or more of the Pledged Shares held as Collateral hereunder shall (subject to the applicable limitations of Paragraphs 9(iii) and 9(v) below) be released at the time of such payment or prepayment. The number of shares to be so released shall be equal to the number obtained by multiplying (i) the total number of Pledged Shares held under this Agreement at the time of such payment or prepayment by (ii) a fraction, the numerator of which shall be the amount of the principal paid or prepaid and the denominator of which shall be the unpaid principal balance of the Amended and Restated Note immediately prior to such payment or prepayment. In no event, however, shall any fractional shares be released.
- (ii) Under no circumstances, however, shall any Pledged Shares or other Collateral be released if previously applied to the payment of any indebtedness hereunder. In addition, in no event shall any Pledged Shares or other Collateral be released pursuant to the provisions of Paragraphs 9(i) or 9(ii) if, and to the extent that, the fair market value and the Common Stock and all other Collateral which would otherwise remain in pledge hereunder after such release were effected would be less than the unpaid principal and accumulated interest under the Amended and Restated Note.
- (iii) For all valuation purposes under this Agreement, the fair market value per share of Common Stock on any date shall be determined in accordance with the following provisions:
  - (A) If the Common Stock is at the time traded on the NASDAQ National Market, the fair market value shall be the closing selling price per share of Common Stock on the date in question, as such prices are reported by the National Association of Securities Dealers on its NASDAQ system or any successor system. If there is no reported closing selling price for the Common Stock on the date in question, then the closing selling price on the last preceding date for which such quotation exists shall be determinative of the fair market value.

- (B) If the Common Stock is at the time traded on the American Stock Exchange or the New York Stock Exchange, then the fair market value shall be the closing selling price per share of Common Stock on the date in question on the securities exchange serving as the primary market for the Common Stock, as such price is officially quoted in the composite tape of transactions on such exchange. If there is no reported sale of Common Stock on such exchange on the date in question, then the fair market value shall be the closing selling price on such exchange on the last preceding date for which such quotation exists.
- (C) If the Common Stock is at the time neither listed on any securities exchange nor traded on the NASDAQ National Market, the fair market value shall be determined by the Corporation's Board of Directors after taking into account such factors as such Board shall deem appropriate.

- (iv) The Borrower shall at all times comply with Regulation U of the Federal Reserve Board to the extent applicable.

10. Substitution of Collateral. The Pledgor may, from time to time, substitute, with the Corporation's prior written consent (which shall not be unreasonably withheld), any of the Collateral with additional or different securities delivered to and deposited with the Corporation as part of the Collateral hereunder; provided, that, such securities are freely tradable securities listed on a national securities exchange or the NASDAQ National Market with an aggregate fair market value (as determined pursuant to Paragraph 9) equal to or greater than the Collateral being substituted for hereunder.

11. Events of Default. The occurrence of one or more of the following events shall constitute an event of default under this Agreement:

- (i) the failure of the Pledgor to pay, when due under the Amended and Restated Note, any installment of principal or accrued interest; or
- (ii) the occurrence of any other acceleration event specified in the Amended and Restated Note; or
- (iii) the failure of the Pledgor to perform any obligation imposed upon the Pledgor by reason of this Agreement; or
- (iv) the breach of any warranty of the Pledgor contained in this Agreement.

Upon the occurrence of any such event of default, the Corporation shall provide the Pledgor with written notice of such event of default, and in the event that such event of default remains uncured five (5) days after delivery of such notice, the Corporation may, at its option, declare the Amended and Restated Note and all other indebtedness secured hereunder to be immediately due and payable and may exercise any or all of the rights and remedies granted to a secured party under the provisions of the New Jersey Uniform Commercial Code (as now or hereafter in effect), including (without limitation) the power to dispose of the Collateral by public or private sale or to accept the Collateral in full payment of the Amended and Restated Note and all other indebtedness hereunder.

Any proceeds realized from the disposition of the Collateral pursuant to the foregoing power of sale shall be applied first to the payment of expenses incurred by the Corporation in connection with the disposition, then to the payment of the Amended and Restated Note and finally to any other indebtedness secured hereby. Any surplus proceeds shall be paid over to the Pledgor. However, in the event such proceeds prove insufficient to satisfy all obligations of the Pledgor under the Amended and Restated Note, then the Pledgor shall remain personally liable for the resulting deficiency.

12. Other Remedies. The rights, powers and remedies granted to the Corporation pursuant to the provisions of this Agreement shall be in addition to all rights, powers and remedies granted to the Corporation under any statute or rule of law. Any forbearance, failure or delay by the Corporation in exercising any right, power or remedy under this Agreement shall not be deemed to be a waiver of such right, power or remedy. Any single or partial exercise of any right, power or remedy under this Agreement shall not preclude the further exercise thereof, and every right, power and remedy of the Corporation under this Agreement shall continue in full force and effect unless such right, power or remedy is specifically waived in an instrument executed by the Corporation.

13. Costs and Expenses. All costs and expenses (including reasonable attorneys fees) incurred by the Corporation in the exercise or enforcement of any right, power or remedy granted it under this Agreement shall become part of the indebtedness secured hereunder and shall be payable immediately upon demand and bear interest at the minimum per annum rate, compounded semi-annually, required to avoid imputation of interest income to the Corporation and compensation income to the Pledgor under the Federal tax laws.

14. Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New Jersey without resort to that State's conflict-of-laws rules.

15. Successors. This Agreement shall be binding on the Corporation and its successors and assigns and upon the Pledgor and the executors, heirs and legatees of the Pledgor's estate.

16. Severability. If any provision of this Agreement is held to be invalid under applicable law, then such provision shall be ineffective only to the extent of such invalidity, and neither the remainder of such provision nor any other provision of this agreement shall be affected thereby.

IN WITNESS WHEREOF, this Agreement has been duly executed by the Pledgor  
and the Corporation as of the date first above written.

EMCORE CORPORATION

/s Reuben F. Richards, Jr.  
Reuben F. Richards, Jr., as Pledgor

By: /s Thomas G. Werthan  
Name: Thomas G. Werthan  
Title: CFO

STATEMENT REQUIRED BY 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 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 quarter ended June 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Reuben F. Richards, Jr., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 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.

/s/ Reuben F. Richards, Jr.

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Reuben F. Richards, Jr.  
August 14, 2002

STATEMENT REQUIRED BY 18 U.S.C. SECTION 1350, AS ADOPTED  
PURSUANT TO SECTION 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 quarter ended June 30, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas G. Werthan, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 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.

/s/ Thomas G. Werthan

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Thomas G. Werthan  
August 14, 2002