

# FORM 10-Q

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

For the quarterly period ended December 31, 2016

or

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

For the transition period from \_\_\_ to \_\_\_

**Commission File Number 001-36632**



**EMCORE Corporation**

(Exact name of registrant as specified in its charter)

**New Jersey**

(State or other jurisdiction of incorporation or organization)

**22-2746503**

(I.R.S. Employer Identification No.)

**2015 W. Chestnut Street, Alhambra, California, 91803**

(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

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

As of February 1, 2017, the number of shares outstanding of our no par value common stock totaled 26,584,521.

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**CAUTIONARY STATEMENT  
REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on our current expectations and projections about future events and financial trends affecting the financial condition of our business. Such forward-looking statements include, in particular, projections about our future results included in our Exchange Act reports and statements about our plans, strategies, business prospects, changes and trends in our business and the markets in which we operate. These forward-looking statements may be identified by the use of terms and phrases such as "anticipates," "believes," "can," "could," "estimates," "expects," "forecasts," "intends," "may," "plans," "projects," "should," "targets," "will," "would," and similar expressions or variations of these terms and similar phrases. Additionally, statements concerning future matters such as our expected liquidity, development of new products, enhancements or technologies, sales levels, expense levels, expectations regarding the outcome of legal proceedings and other statements regarding matters that are not historical are forward-looking statements. Management cautions that these forward-looking statements relate to future events or our future financial performance and are subject to business, economic, and other risks and uncertainties, both known and unknown, that may cause actual results, levels of activity, performance, or achievements of our business or our industry to be materially different from those expressed or implied by any forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include without limitation the following: (a) the rapidly evolving markets for the Company's products and uncertainty regarding the development of these markets; (b) the Company's historical dependence on sales to a limited number of customers and fluctuations in the mix of products and customers in any period; (c) delays and other difficulties in commercializing new products; (d) the failure of new products: (i) to perform as expected without material defects, (ii) to be manufactured at acceptable volumes, yields, and cost, (iii) to be qualified and accepted by our customers, and (iv) to successfully compete with products offered by our competitors; (e) uncertainties concerning the availability and cost of commodity materials and specialized product components that we do not make internally; (f) actions by competitors; and (g) other risks and uncertainties discussed in Part I, Item 1A, Risk Factors in our Annual Report on Form 10-K for the fiscal year ended September 30, 2016, as updated by our subsequent periodic reports. These cautionary statements apply to all forward-looking statements wherever they appear in this Quarterly Report.

Forward-looking statements are based on certain assumptions and analysis made in light of our experience and perception of historical trends, current conditions and expected future developments as well as other factors that we believe are appropriate under the circumstances. While these statements represent our judgment on what the future may hold, and we believe these judgments are reasonable, these statements are not guarantees of any events or financial results. All forward-looking statements in this Quarterly Report are made as of the date hereof, based on information available to us as of the date hereof, and subsequent facts or circumstances may contradict, obviate, undermine, or otherwise fail to support or substantiate such statements. We caution you not to rely on these statements without also considering the risks and uncertainties associated with these statements and our business that are addressed in this Quarterly Report and our Annual Report on Form 10-K for the fiscal year ended September 30, 2016. Certain information included in this Quarterly Report may supersede or supplement forward-looking statements in our other reports filed with the Securities and Exchange Commission. We assume no obligation to update any forward-looking statement to conform such statements to actual results or to changes in our expectations, except as required by applicable law or regulation.

**EMCORE Corporation**  
**FORM 10-Q**  
**For The Quarterly Period Ended December 31, 2016**

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**PART I. Financial Information**  
**ITEM 1. Financial Statements**

**EMCORE CORPORATION**  
**Condensed Consolidated Statements of Operations and Comprehensive Income**  
**For the Three Months Ended December 31, 2016 and 2015**  
(in thousands, except net income (loss) per share)  
(Unaudited)

	For the three months ended December 31,	
	2016	2015
Revenue	\$ 30,176	\$ 22,490
Cost of revenue	20,133	15,089
Gross profit	10,043	7,401
Operating expense:		
Selling, general, and administrative	5,578	4,821
Research and development	2,199	2,560
Total operating expense	7,777	7,381
Operating income	2,266	20
Other income (expense):		
Interest income (expense), net	23	(17)
Foreign exchange loss	(403)	(135)
Total other expense	(380)	(152)
Income (loss) from continuing operations before income tax expense	1,886	(132)
Income tax expense	(120)	(2)
Income (loss) from continuing operations	1,766	(134)
(Loss) income from discontinued operations, net of tax	(9)	1,121
Net income	\$ 1,757	\$ 987
Foreign exchange translation adjustment	(260)	(88)
Comprehensive income	\$ 1,497	\$ 899
<b>Per share data:</b>		
Net income (loss) per basic share:		
Continuing operations	\$ 0.07	\$ (0.00)
Discontinued operations	(0.00)	0.04
Net income per basic share	\$ 0.07	\$ 0.04
Net income (loss) per diluted share:		
Continuing operations	\$ 0.07	\$ (0.00)
Discontinued operations	(0.00)	0.04
Net income per diluted share	\$ 0.07	\$ 0.04
Weighted-average number of basic shares outstanding	26,279	25,697
Weighted-average number of diluted shares outstanding	27,039	25,697

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

**EMCORE CORPORATION**  
**Condensed Consolidated Balance Sheets**  
**As of December 31, 2016 and September 30, 2016**  
**(in thousands, except per share data)**  
**(unaudited)**

	As of December 31, 2016	As of September 30, 2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 62,181	\$ 63,905
Restricted cash	562	965
Accounts receivable, net of allowance of \$33 and \$36, respectively	21,029	18,432
Inventory	28,198	24,150
Prepaid expenses and other current assets	3,564	3,764
Total current assets	115,534	111,216
Property, plant, and equipment, net	14,043	12,213
Non-current inventory	3,565	3,531
Other non-current assets, net of allowance of \$0	257	251
Total assets	\$ 133,399	\$ 127,211
<b>LIABILITIES and SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 14,806	\$ 10,575
Accrued expenses and other current liabilities	7,331	7,684
Total current liabilities	22,137	18,259
Asset retirement obligations	1,590	1,573
Other long-term liabilities	60	62
Total liabilities	23,787	19,894
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred stock, \$0.0001 par value, 5,882 shares authorized; none issued or outstanding	—	—
Common stock, no par value, 50,000 shares authorized; 33,185 shares issued and 26,275 shares outstanding as of December 31, 2016; 33,154 shares issued and 26,244 shares outstanding as of September 30, 2016	726,678	725,880
Treasury stock at cost; 6,910 shares	(47,721)	(47,721)
Accumulated other comprehensive income	319	579
Accumulated deficit	(569,664)	(571,421)
Total shareholders' equity	109,612	107,317
Total liabilities and shareholders' equity	\$ 133,399	\$ 127,211

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

**EMCORE CORPORATION**  
**Condensed Consolidated Statements of Cash Flows**  
**For the three months ended December 31, 2016 and 2015**  
(in thousands)  
(unaudited)

	For the three months ended December 31,	
	2016	2015
<b>Cash flows from operating activities:</b>		
Net income	\$ 1,757	\$ 987
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion expense	758	506
Stock-based compensation expense	772	387
Provision adjustments related to doubtful accounts	—	4
Provision adjustments related to product warranty	88	146
Gain on settlement of solar power assets and obligations	—	(689)
Gain on settlement of Newark lease	—	(310)
Total non-cash adjustments	1,618	44
Changes in operating assets and liabilities:		
Accounts receivable	(2,645)	2,877
Inventory	(4,549)	2,115
Other assets	149	1,439
Accounts payable	4,824	(43)
Accrued expenses and other current liabilities	(495)	(1,686)
Total change in operating assets and liabilities	(2,716)	4,702
Net cash provided by operating activities	659	5,733
<b>Cash flows from investing activities:</b>		
Purchase of equipment	(3,242)	(1,677)
Net cash used in investing activities	(3,242)	(1,677)
<b>Cash flows from financing activities:</b>		
Proceeds from stock plans	104	186
Decrease (increase) in restricted cash	403	(728)
Net cash provided by (used in) financing activities	507	(542)
Effect of exchange rate changes on foreign currency	352	121
Net (decrease) increase in cash and cash equivalents	(1,724)	3,635
Cash and cash equivalents at beginning of period	63,905	111,885
Cash and cash equivalents at end of period	\$ 62,181	\$ 115,520
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the period for interest	\$ 20	\$ 23
Cash paid during the period for income taxes	\$ 2	\$ 108
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Changes in accounts payable related to purchases of equipment	\$ (455)	\$ (206)

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

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**EMCORE Corporation**  
**Notes to our Condensed Consolidated Financial Statements**  
**For the three months ended December 31, 2016**  
**(unaudited)**

**NOTE 1. Description of Business**

Business Overview

EMCORE Corporation together with its subsidiaries (referred to herein as the “Company”, “we”, “our”, or “EMCORE”), was established in 1984 as a New Jersey corporation, designs and manufactures Indium Phosphide (InP) optical chips, components, subsystems and systems for the broadband and specialty fiber optics market. EMCORE is a provider of optical components, as well as complete end-to-end solutions for high-speed communications network infrastructures enabling systems and service providers to meet growing demand for bandwidth and connectivity. EMCORE's advanced optical technologies are designed for cable television (CATV), fiber-to-the-premises (FTTP) networks, telecommunications and data centers, satellite communications, aerospace and defense, wireless networks, and broadcast and professional audio/video systems. With its InP semiconductor wafer fabrication facility, EMCORE has fully vertically-integrated manufacturing capability and also provides contract design, foundry and component packaging services.

We currently have one reporting segment: Fiber Optics. In addition to organic growth and development of our existing Fiber Optics market, we intend to pursue other strategies to enhance shareholder value, which may include acquisitions, investments in joint ventures, partnerships, and other strategic alternatives, such as dispositions, reorganizations, recapitalizations or other similar transactions, the repurchase of shares of our outstanding common stock or payment of dividends to our shareholders, and we may engage financial and other advisers to assist in these efforts. Accordingly, the Strategy and Alternatives Committee of the Board of Directors and our management may from time to time be engaged in evaluating potential strategic opportunities and may enter into definitive agreements with respect to such transactions or other strategic alternatives.

Sale of Photovoltaics and Digital Products Businesses

In the fiscal year ended September 30, 2015 EMCORE completed the sale of the company's Photovoltaics Business to SolAero Technologies Corporation (“SolAero”) pursuant to the Asset Purchase Agreement (the “Photovoltaics Agreement”) under which SolAero acquired substantially all of the assets, and assumed substantially all of the liabilities, primarily related to or used in connection with the Company's photovoltaics business, including EMCORE's subsidiaries EMCORE Solar Power, Inc. and EMCORE IRB Company, LLC (collectively, the “Photovoltaics Business” and, the sale of the Photovoltaics Business, the “Photovoltaics Asset Sale”) for \$149.9 million in cash.

In the fiscal year ended September 30, 2015 EMCORE completed the sale of the company's telecommunications business (the “Digital Products Business”) to NeoPhotonics Corporation, a Delaware corporation (“NeoPhotonics”) pursuant to the Asset Purchase Agreement (the “Digital Products Agreement”), under which NeoPhotonics acquired certain assets, and certain liabilities, related to the Company's Digital Products Business for an aggregate purchase price of \$17.5 million.

No Photovoltaics Business or Digital Products Business assets or liabilities that were sold remain on the consolidated balance sheet as of December 31, 2016 or September 30, 2016. The financial results of the Photovoltaics Business and the Digital Products Business are presented as “discontinued operations” on the condensed consolidated statements of operations and comprehensive income for the three months ended December 31, 2016 and 2015. See [Note 3 - Discontinued Operations](#) for additional information. The notes to our condensed consolidated financial statements relate to our continuing operations only, unless otherwise indicated.

## Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim information, and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and notes required by U.S. GAAP for annual financial statements. In our opinion, the interim financial statements reflect all normal adjustments that are necessary to provide a fair presentation of the financial results for the interim periods presented. Operating results for interim periods are not necessarily indicative of results that may be expected for an entire fiscal year. The condensed consolidated balance sheet as of September 30, 2016 has been derived from the audited consolidated financial statements as of such date as adjusted for discontinued operations. See [Note 3 - Discontinued Operations](#) for additional information. For a more complete understanding of our business, financial position, operating results, cash flows, risk factors and other matters, please refer to our Annual Report on Form 10-K for the fiscal year ended September 30, 2016.

### **NOTE 2. Recent Accounting Pronouncements**

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

- In November 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (ASU 2016-18)*, which provides amendments to current guidance to address the classification and presentation of changes in restricted cash or restricted cash equivalents. Specifically, there is no guidance to address how to classify and present changes in restricted cash or restricted cash equivalents that occur when there are transfers between cash, cash equivalents and restricted cash or restricted cash equivalents and when there are direct cash receipts into restricted cash or restricted cash equivalents. The new guidance is effective for annual periods beginning after December 15, 2017 and interim periods within those annual periods. The new standard will be effective for our fiscal year beginning October 1, 2018 and early adoption is permitted. We are currently evaluating the impact of this accounting standard update on our Consolidated Financial Statements.
- In March 2016, the FASB issued ASU 2016-09, *Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 introduces targeted amendments intended to simplify the accounting for stock compensation. Specifically, the ASU requires all excess tax benefits and tax deficiencies (including tax benefits of dividends on share-based payment awards) to be recognized as income tax expense or benefit in the consolidated statement of operations and comprehensive income. The new guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The new standard will be effective for our fiscal year beginning October 1, 2017 and early adoption is permitted. We are currently evaluating the impact of this accounting standard update on our Consolidated Financial Statements.
- In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 introduces a lessee model that requires recognition of assets and liabilities arising from qualified leases on the consolidated balance sheets and disclosure of qualitative and quantitative information about lease transactions. This guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those years. The new standard will be effective for our fiscal year beginning October 1, 2019 and early adoption is permitted. We are currently evaluating the impact of this accounting standard update on our Consolidated Financial Statements.
- In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. This guidance is effective for fiscal years beginning after December 15, 2017. The new standard will be effective for our fiscal year beginning October 1, 2018 and earlier adoption is permitted. We are currently evaluating the impact of this accounting standard update on our Consolidated Financial Statements.
- In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. This standard requires inventory to be measured at the lower of cost and net realizable value. The guidance clarifies that net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This guidance is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. The new standard will be effective for our fiscal year beginning October



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1, 2017 and early adoption is permitted. We are currently evaluating the impact of this accounting standard update on our Consolidated Financial Statements.

- In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* which will supersede most current U.S. GAAP guidance on this topic. In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* to clarify two aspects of the guidance within ASU No. 2014-09 on identifying performance obligations and the licensing implementation guidance. Under the new standards, recognition of revenue occurs when the seller satisfies a performance obligation by transferring to the customer promised goods or services in an amount that reflects the consideration the entity expects to receive for those goods or services. The new standard, as amended in August 2015, will be effective for our fiscal year beginning October 1, 2018 and early adoption is permitted as of October 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. The Company has not yet adopted a transition method nor has it determined the effect of the standard on our ongoing financial reporting.

**NOTE 3. Discontinued Operations**

Sale of Photovoltaics Business

In the fiscal year ended September 30, 2015 EMCORE completed the sale of the company's Photovoltaics Business to SolAero pursuant to the Photovoltaics Agreement under which SolAero acquired substantially all of the assets, and assumed substantially all of the liabilities, primarily related to or used in connection with the Company's Photovoltaics Business for \$149.9 million in cash.

On December 22, 2015, we settled all of the outstanding rights and obligations of a solar power venture in Spain, including outstanding non-current receivables, for a payment of \$0.7 million. The outstanding non-current receivables had a net book value of \$0 at the time of settlement as they were fully allowed for previously. The resulting gain was recorded in the discontinued operations of the Photovoltaics Business for the three months ended December 31, 2015.

The following table presents the statements of operations for the discontinued operations of the Photovoltaics Business:

<i>(in thousands)</i>	<b>For the three months ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Revenue	\$ —	\$ —
Cost of revenue	—	—
Gross profit	—	—
Operating expense (income)	3	(787)
(Loss) income from discontinued operations before income tax expense	(3)	787
Income tax expense	—	(9)
(Loss) income from discontinued operations, net of tax	\$ (3)	\$ 778

Included in discontinued operations of the Photovoltaics Business during the three months ended December 31, 2015 were \$0.1 million of New Mexico incentive tax credits received. There were no incentive tax credits received during the three months ended December 31, 2016.

Sale of Digital Products Business

In the fiscal year ended September 30, 2015 EMCORE completed the sale of the company's Digital Products Business to NeoPhotonics pursuant to the Digital Products Agreement, under which NeoPhotonics acquired certain assets, and certain liabilities, related to the Company's Digital Products Business for an aggregate purchase price of \$17.5 million.

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In December 2015, we entered into an agreement to terminate our lease and related obligations associated with a facility in Newark, California which we abandoned effective February 2016 following the sale of the Digital Products Business. As a result of this agreement, we paid \$0.2 million and recorded a gain of \$0.3 million on the lease termination in the discontinued operations of the Digital Products Business during the three months ended December 31, 2015. See [Note 8 - Accrued Expenses and Other Current Liabilities](#).

The following table presents the statements of operations for the discontinued operations of the Digital Products Business:

<i>(in thousands)</i>	<b>For the three months ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Revenue	\$ —	\$ —
Cost of revenue	1	(49)
Gross (loss) profit	(1)	49
Operating expense (income)	5	(298)
(Loss) income from discontinued operations before income tax expense	(6)	347
Income tax expense	—	(4)
(Loss) income from discontinued operations, net of tax	\$ (6)	\$ 343

There were no incentive tax credits received from the Digital Products Business during the three months ended December 31, 2016 and 2015.

**NOTE 4. Fair Value Accounting**

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

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

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

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

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

The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, other current assets, and accounts payable approximate fair value because of the short maturity of these instruments.

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**NOTE 5. Accounts Receivable**

The components of accounts receivable consisted of the following:

<i>(in thousands)</i>	<b>As of December 31, 2016</b>	<b>As of September 30, 2016</b>
Accounts receivable, gross	\$ 21,062	\$ 18,468
Allowance for doubtful accounts	(33)	(36)
Accounts receivable, net	<u>\$ 21,029</u>	<u>\$ 18,432</u>

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

The following table summarizes changes in the allowance for doubtful accounts for the three months ended December 31, 2016 and 2015.

<b>Allowance for Doubtful Accounts</b> <i>(in thousands)</i>	<b>For the Three Months Ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Balance at beginning of period	\$ 36	\$ 462
Provision adjustment - expense, net of recoveries	—	4
Write-offs and other adjustments - additions (deductions) to receivable balances	(3)	(141)
Balance at end of period	<u>\$ 33</u>	<u>\$ 325</u>

**NOTE 6. Inventory**

The components of inventory consisted of the following:

<i>(in thousands)</i>	<b>As of December 31, 2016</b>	<b>As of September 30, 2016</b>
Raw materials	\$ 16,515	\$ 16,095
Work in-process	6,996	5,687
Finished goods	8,252	5,899
Inventory balance at end of period	<u>\$ 31,763</u>	<u>\$ 27,681</u>
Current portion	\$ 28,198	\$ 24,150
Non-Current portion	3,565	3,531
Inventory balance at end of period	<u>\$ 31,763</u>	<u>\$ 27,681</u>

The non-current inventory balance of \$3.6 million and \$3.5 million as of December 31, 2016 and September 30, 2016, respectively, is comprised entirely of raw materials which we acquired as part of a last time purchase as a result of the vendor announcing they would cease manufacturing a part.

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

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

<i>(in thousands)</i>	As of December 31, 2016	As of September 30, 2016
Equipment	\$ 29,908	\$ 28,247
Furniture and fixtures	1,109	1,109
Computer hardware and software	2,856	2,860
Leasehold improvements	1,870	1,896
Construction in progress	2,622	1,779
Property, plant, and equipment, gross	38,365	35,891
Accumulated depreciation	(24,322)	(23,678)
Property, plant, and equipment, net	<u>\$ 14,043</u>	<u>\$ 12,213</u>

**NOTE 8. Accrued Expenses and Other Current Liabilities**

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

<i>(in thousands)</i>	As of December 31, 2016	As of September 30, 2016
Compensation	\$ 2,858	\$ 3,628
Warranty	791	871
Professional fees	984	761
Customer deposits	39	38
Income and other taxes	1,083	944
Severance and restructuring accruals	710	642
Other	866	800
Accrued expenses and other current liabilities	<u>\$ 7,331</u>	<u>\$ 7,684</u>

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

Income and other taxes: For the three months ended December 31, 2016, the Company recorded approximately \$120,000 of income tax expense from continuing operations and \$0 of income tax benefit within income from discontinued operations. For the three months ended December 31, 2015, the Company reported \$2,000 of income tax expense from continuing operations losses and \$13,000 of income tax expense within income from discontinued operations. The income tax expense within discontinued operations includes estimated alternative minimum tax and other adjustments prescribed by ASC 740 in allocating expected annual income tax expense (benefit) between continuing operations and discontinued operations.

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**Severance and restructuring accruals:** In connection with the abandonment of our Newark, California facility following the closing of the sale of the Digital Products Business, we accrued for the remaining lease costs through the lease termination in May 2016. In December 2015, we entered into an agreement to terminate this lease and related obligations, including AROs (defined below), as of February 2016 for a payment of \$0.2 million. As a result of the agreement, we recorded a gain of \$0.3 million on the lease termination. The resulting gain was recorded in the discontinued operations of the Digital Products Business for the three months ended December 31, 2015. See [Note 3 - Discontinued Operations](#).

On June 7, 2016, the Company's former Chief Financial Officer (the "CFO") notified the Company that he would resign as the Company's CFO, effective as of June 20, 2016 (the "Separation Date"). The Company and the former CFO entered into a separation agreement and general release, dated June 7, 2016 (the "Separation Agreement"), which includes mutual releases by the former CFO and the Company of all claims related to his employment and service relationship with, and termination of employment and service from, the Company. The Separation Agreement provides for, among other things, the continuation of his base salary for 64 weeks, benefits for 16 months, outplacement services for a period of not more than 1 year and with a value not in excess of \$15,000 and immediate vesting of all his outstanding non-vested equity awards, other than his most recent equity award. These payments are not contingent upon any future service by the former CFO. The Company recorded a charge of approximately \$0.4 million in the fiscal year ended September 30, 2016 related to this Separation Agreement.

In an effort to better align our current and future business operations, in May 2016 the Company announced a reduction in its workforce by approximately 30 individuals and recorded a charge for severance for the affected employees in the amount of \$0.3 million in the fiscal year ended September 30, 2016. In November 2016, the Company announced an additional reduction in the workforce of approximately 5 individuals and recorded a charge of \$0.2 million in the three months ended December 31, 2016 related to the outsourcing of our satellite communications assembly operations.

Our severance and restructuring-related accruals specifically relate to the separation agreements and reduction in force discussed above and non-cancelable obligations associated with an abandoned leased facility. Expense related to severance and restructuring accruals is included in selling, general, and administrative expense on our statement of operations and comprehensive income. The following table summarizes the changes in the severance accrual account:

<i>(in thousands)</i>	<b>Severance-related accruals</b>	
Balance as of September 30, 2016	\$	642
Expense - charged to accrual		172
Payments and accrual adjustments		(104)
Balance as of December 31, 2016	\$	710

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

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

<b>Product Warranty Accruals</b> <i>(in thousands)</i>	<b>For the three months ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
Balance at beginning of period	\$ 871	\$ 1,664
Provision for product warranty - expense	88	146
Adjustments and utilization of warranty accrual	(168)	(246)
Balance at end of period	\$ 791	\$ 1,564

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**NOTE 9. Credit Facilities**

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

On November 10, 2015, we entered into a Seventh Amendment of the Credit Facility, which extended the maturity date of the facility to November 2018 and adjusted the interest rate to LIBOR plus 2.5%. The Credit Facility currently provides us with a revolving credit line of up to \$15.0 million that can be used for working capital requirements, letters of credit, and other general corporate purposes.

As of December 31, 2016, there were no amounts outstanding under this Credit Facility and the Company was in compliance with all financial covenants. Also, as of December 31, 2016, the Credit Facility had approximately \$0.5 million reserved for one stand-by letter of credit and \$9.8 million available for borrowing. As of February 1, 2017, there was no outstanding balance under this Credit Facility.

**NOTE 10. Income and other Taxes**

During the three months ended December 31, 2016 and 2015, the Company recorded income tax expense from continuing operations of approximately \$0.1 million and \$2,000, respectively. For the three months ended December 31, 2016 and 2015, the Company recorded income tax expense from discontinued operations of approximately \$0 and \$13,000, respectively, within income from discontinued operations. Income tax expense is comprised of estimated alternative minimum tax allocated between continuing operations and discontinued operations as prescribed by ASC 740 and foreign tax expense included within continuing operations.

For the three months ended December 31, 2016 and 2015, the effective tax rate on continuing operations was 6.4% and 1.5%, respectively. The higher tax rate for the three months ended December 31, 2016 was primarily due to permanent differences, state tax benefits, foreign tax rate differentials and changes in the Company's estimated results in the current year as compared to the prior year. The lower tax rate for the three months ended December 31, 2015 was primarily due to permanent differences, state tax benefits and foreign tax rate differentials. The Company uses estimates to forecast the results from continuing operations for the current fiscal year as well as permanent differences between book and tax accounting.

We have not provided for U.S. federal and state income taxes on non-U.S. subsidiaries' undistributed earnings as of December 31, 2016 because we plan to indefinitely reinvest the unremitted earnings of our non-U.S. subsidiaries.

All deferred tax assets have a full valuation allowance at December 31, 2016. However, on a quarterly basis, the Company will evaluate the positive and negative evidence to assess whether the more likely than not criteria, mandated by ASC 740, has been satisfied in determining whether there will be further adjustments to the valuation allowance.

During the three months ended December 31, 2016 and 2015, there were no material increases or decreases in unrecognized tax benefits. As of December 31, 2016 and September 30, 2016, we had approximately \$0.3 million of interest and penalties accrued as tax liabilities on our condensed consolidated balance sheet.

The Company's Board of Directors has adopted a Tax Benefits Preservation Plan (the "Rights Plan") to help preserve the value of our net operating losses and tax credit carryforwards by reducing the risk of limitation of these deferred tax assets. The Rights Plan was approved by the Company's shareholders on March 10, 2015. The Rights Plan is intended to reduce the likelihood that the Company will experience an ownership change for purposes of Internal Revenue Code Section 382 by discouraging any person or group from becoming a "5% shareholder" or increasing their ownership of the Company's common stock if they are already a "5% shareholder."

**NOTE 11. Commitments and Contingencies**

**Operating Lease Obligations:** We lease certain facilities and equipment under non-cancelable operating leases. Operating lease amounts exclude renewal option periods, property taxes, insurance, and maintenance expenses on leased properties. Our facility leases typically provide for rental adjustments for increases in base rent (up to specific limits), property taxes, insurance, and general property maintenance that would be recorded as rent expense. Rent expense was approximately \$0.3 million for the three months ended December 31, 2016 and 2015. There are no off-balance sheet arrangements other than our operating leases.

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**Asset Retirement Obligation:** We have known conditional AROs, such as certain asset decommissioning and restoration of rented facilities to be performed in the future. Our ARO includes assumptions related to renewal option periods for those facilities where we expect to extend lease terms. The Company recognizes its estimate of the fair value of its ARO in the period incurred in long-term liabilities. The fair value of the ARO is also capitalized as property, plant and equipment.

In future periods, the ARO is accreted for the change in its present value and capitalized costs are depreciated over the useful life of the related assets. If the fair value of the estimated ARO changes, an adjustment will be recorded to both the ARO and the asset retirement capitalized cost. Revisions in estimated liabilities can result from revisions of estimated inflation rates, changes in estimated retirement costs, and changes in the estimated timing of settling the ARO. The fair value of our ARO was estimated by discounting projected cash flows over the estimated life of the related assets using credit adjusted risk-free rates which ranged from 1.20% to 4.20%. There was no ARO settled during the three months ended December 31, 2016. See discussion below regarding ARO settlements during the three months ended December 31, 2015. Accretion expense of \$17,000 and \$15,000 was recorded during the three months ended December 31, 2016 and 2015, respectively.

EMCORE leases its primary facility in Alhambra, California covering six buildings where manufacturing, research and development, and general and administrative work is performed. Several leases related to these facilities expired in 2011, and were being maintained on a month-to-month basis. In November 2014, a new lease for four of the six buildings was signed, which was retroactively effective on October 1, 2014. The new lease extended the terms of the lease for three years plus a three year option to extend the lease and clarified the obligations and restoration work necessary to restore the buildings back to the requirements in the lease.

The Company's ARO consists of legal requirements to return the existing leased facilities to their original state and certain environmental work to be performed due to the presence of a manufacturing fabrication operation and significant changes to the facilities over the past thirty years.

During the three months ended December 31, 2015, the Company entered into an agreement to terminate the lease and related obligations, including ARO, in Newark, California for a one-time settlement payment of \$0.2 million. As a result of this agreement and payment, the Company reduced its ARO associated with the Newark facility by \$0.3 million.

**Indemnifications:** We have agreed to indemnify certain customers against claims of infringement of intellectual property rights of others in our sales contracts with these customers. Historically, we have not paid any claims under these indemnification obligations. In March 2012, we entered into a Master Purchase Agreement with SEI, pursuant to which we agreed to sell certain assets and transfer certain obligations. Under the terms of the Master Purchase Agreement, we agreed to indemnify SEI for up to \$3.4 million of potential claims and expenses for the two-year period following the sale and we recorded this amount as a deferred gain on our balance sheet as a result of these contingencies.

On September 23, 2014, SEI filed for arbitration against EMCORE, in accordance with the terms of the Master Purchase Agreement between the parties. SEI was seeking \$47.5 million from EMCORE, relating to numerous claims. On April 12, 2016, the International Court of Arbitration tribunal rejected SEI's claims. The panel ruled that EMCORE owed SEI none of the amounts SEI sought in the arbitration and that the Company was entitled to collect the \$1.9 million held in escrow, which was received in June 2016. The Company was also entitled to recover \$2.6 million in fees and costs from SEI, which was received in June 2016. During the fiscal year ended September 30, 2016, we recognized a gain associated with the release of \$3.4 million of previously recorded gain associated with the sale of assets and reversal of other liabilities of \$0.4 million, resulting in a credit of \$3.8 million to recognition of previously deferred gain on sale of assets within discontinued operations of the Digital Products Business. During the fiscal year ended September 30, 2016, we recognized the \$2.6 million recovery of previously incurred litigation fees and costs incurred by EMCORE within operating income as such represented the recovery of previously incurred legal expenses. See [Note 3 - Discontinued Operations](#).

**Legal Proceedings:** We are subject to various legal proceedings, claims, and litigation, either asserted or unasserted, that arise in the ordinary course of business. While the outcome of these matters is currently not determinable, we do not expect the resolution of these matters to have a material adverse effect on our business, financial position, results of operations, or cash flows. However, the results of these matters cannot be predicted with certainty. Professional legal fees are expensed when incurred. We accrue for contingent losses when such losses are probable and reasonably estimable. In the event that estimates or assumptions prove to differ from actual results, adjustments are made in subsequent periods to reflect more current information. Should we fail to prevail in any legal matter or should several legal matters be resolved against the Company in the same reporting period, then the financial results of that particular reporting period could be materially affected.

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### a) Intellectual Property Lawsuits

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

### b) Mirasol Class Action

On December 15, 2015, Plaintiff Christina Mirasol (“Mirasol”), on her own behalf and on behalf of a putative class of similarly situated individuals composed of current and former non-exempt employees of the Company working in California since December 15, 2011, filed a complaint against the Company in the Superior Court of California, Los Angeles County. The complaint alleged seven causes of action related to: (1) failure to pay overtime; (2) failure to provide meal periods; (3) failure to pay minimum wages; (4) failure to timely pay wages upon termination; (5) failure to provide compliant wage statements; (6) unfair competition under the California Business and Professions Code § 17200 et seq.; and (7) penalties under the Private Attorneys General Act. The claims were premised primarily on the allegation that Mirasol and the putative class members were not provided with their legally required meal periods. Mirasol sought recovery on her own behalf and on behalf of the putative class in an unspecified amount for compensatory and liquidated damages as well as for declaratory relief, injunctive relief, statutory penalties, pre-judgment interest, costs and attorneys’ fees.

In exchange for a one-time cash payment offered by the Company, certain current and former employees previously agreed to release the Company from all potential claims related to the matters alleged in the Mirasol lawsuit. The Company had recorded an accrual for these amounts at September 30, 2016 that was not material to the Company’s results of operations, financial condition or cash flows, which had been recorded within Operating Expenses for the fiscal year ended September 30, 2016. On January 6, 2017, the Company and Mirasol agreed to a settlement of \$0.3 million with regards to all claims outstanding. During the three months ended December 31, 2016, the Company recorded an accrual of \$0.2 million within Operating Expenses related to the settlement.

### c) Mirasol Wrongful Termination Lawsuit

In August 2016, EMCORE was served with a second lawsuit by former employee Mirsaol, in the Superior Court of Los Angeles alleging that the Company violated California’s employment laws in terminating her employment in November 2015. By her unverified Complaint, Mirasol asserted five causes of action: (1) wrongful termination in violation of public policy; (2) discrimination on the basis of disability and/or medical condition; (3) failure to accommodate; (4) failure to engage in the interactive process; and (5) intentional infliction of emotional distress. On September 26, 2016, Mirasol dismissed the fifth cause of action for intentional infliction of emotional distress. Mirasol alleged that EMCORE wrongfully terminated her at the conclusion of a Family and Medical Act leave, without engaging in the interactive process of offering to provide her with reasonable accommodations. The plaintiff sought general, special, and punitive damages. On January 6, 2017, the Company and Mirasol agreed to a settlement of \$50,000 with regards to all outstanding claims. This amount was accrued as of December 31, 2016.

## **NOTE 12. Equity**

### Equity Plans

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

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

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

### Stock Options

Most of our stock options vest and become exercisable over a four to five year period and have a contractual life of 10 years. Certain stock options awarded are intended to qualify as incentive stock options pursuant to Section 422A of the Internal Revenue Code.



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The following table summarizes stock option activity under the Equity Plans for the three months ended December 31, 2016:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (*) (in thousands)
Outstanding as of September 30, 2016	750,338	\$16.84		
Granted	—	—		
Exercised	(26,151)	\$3.99		\$ 120
Forfeited	(1,300)	\$4.11		
Expired	(124,915)	\$19.91		
Outstanding as of December 31, 2016	597,972	\$16.79	2.44	\$ 1,101
Exercisable as of December 31, 2016	531,911	\$18.30	1.67	\$ 832
Vested and expected to vest as of December 31, 2016	586,261	\$17.03	2.31	\$ 1,054

(\*) Intrinsic value for stock options represents the “in-the-money” portion or the positive variance between a stock option's exercise price and the underlying stock price. For the three months ended December 31, 2015, the intrinsic value of options exercised was \$80,000.

As of December 31, 2016, there was approximately \$0.2 million of unrecognized stock-based compensation expense, net of estimated forfeitures, related to non-vested stock options granted under the Equity Plans which is expected to be recognized over an estimated weighted average life of 3.4 years.

Valuation Assumptions

There were no stock option grants for the three months ended December 31, 2016. The fair value of each stock option grant for the three months ended December 31, 2015, excluding the adjustment for the special dividend, was estimated on the date of grant using the Black-Scholes option valuation model, adhering to the straight-line attribution approach using the following weighted-average assumptions, of which the expected term and stock price volatility rate are highly subjective:

	For the three months ended December 31, 2015
<b>Black-Scholes weighted average assumptions:</b>	
Expected dividend rate	—%
Expected stock price volatility rate	61.6%
Risk-free interest rate	1.8%
Expected term (in years)	6.0
<b>Weighted average grant date fair value per share of stock options granted:</b>	\$ 4.18

*Expected Dividend Yield:* The Black-Scholes valuation model calls for a single expected dividend rate as an input. Although we paid a special dividend in July 2016, no dividend rate was assumed in the valuation.

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

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

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*Expected Term:* Expected term represents the period that our stock-based awards are expected to be outstanding and was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior as influenced by changes to the terms of stock-based awards.

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

### Restricted Stock

Restricted stock units (RSUs) granted to employees under the 2010 Plan and 2012 Plan typically vest over 3 to 4 years and are subject to forfeiture if employment terminates prior to the lapse of the restrictions. RSUs are not considered issued or outstanding common stock until they vest.

The following table summarizes the activity related to RSUs for the three months ended December 31, 2016:

Restricted Stock Activity	Restricted Stock Units	
	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested as of September 30, 2016	878,416	\$4.25
Granted	145,919	\$7.29
Vested	(5,206)	\$6.01
Forfeited	(933)	\$4.74
Non-vested as of December 31, 2016	1,018,196	\$4.67

As of December 31, 2016, there was approximately \$3.1 million of remaining unamortized stock-based compensation expense, net of estimated forfeitures, associated with RSUs, which will be expensed over a weighted average remaining service period of approximately 2.4 years. The 1.0 million outstanding non-vested RSUs have an aggregate intrinsic value of approximately \$8.9 million and a weighted average remaining contractual term of 1.4 years. For the three months ended December 31, 2016 and 2015, the intrinsic value of RSUs vested was approximately \$32,000 and \$1,800, respectively. Of the 1.0 million outstanding non-vested RSUs at December 31, 2016, approximately 1.0 million are expected to vest and have an aggregate intrinsic value of approximately \$8.4 million and a weighted average remaining contractual term of 1.3 years. For the three months ended December 31, 2015, the weighted average grant date fair value of RSUs granted was \$7.82.

On October 18, 2016, the Company granted 70,000 RSUs with a grant date fair value of \$0.4 million to its CEO, Jeffrey Rittichier, that will vest in 4 equal annual installments beginning on October 18, 2017.

### Performance Stock

Performance based restricted stock units (PSUs) granted to employees under the 2012 Plan typically vest over 1 to 3 years and are subject to forfeiture if employment terminates prior to the lapse of the restrictions. PSUs are not considered issued or outstanding common stock until they vest. PSUs that are granted to our executive officers and key employees are provided as long-term incentive compensation that is based on relative total shareholder return, which measures our performance against that of our competitors.

On October 18, 2016, the Company granted our CEO, Mr. Rittichier, 100,000 target PSUs with a grant date fair value of \$0.7 million and our CFO, Jikun Kim, 195,180 target PSUs with a grant date fair value of \$1.4 million.

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The PSUs issued will be based on a combination of the relative total shareholder return of EMCORE'S stock compared to the Russell Microcap Index and the executive's continued employment. The total number of shares to be issued to each individual ranges from zero (0) to 200% of the target PSUs granted. Between zero (0) and 200% of one third of the target PSUs will vest, if at all, on each of October 17, 2017, 2018 and 2019.

On December 14, 2016, the Company granted 71,669 target PSUs with a grant date fair value of \$1.0 million to certain employees. The PSUs issued will vest based on a combination of the relative total shareholder return of EMCORE's stock compared to the Russell Microcap Index and the employee's continued employment. The total number of shares to be issued to each individual may range from zero (0) to 200% of the target PSUs granted. Between zero (0) and 200% of the target PSUs will vest, if at all, on December 14, 2019.

The following table summarizes the activity related to PSUs for the three months ended December 31, 2016:

Performance Stock Activity	Performance Stock Units	
	Number of Shares (at Target)	Weighted Average Grant Date Fair Value
Non-vested as of September 30, 2016	—	\$0.00
Granted	366,849	\$8.34
Vested	—	\$0.00
Forfeited	—	\$0.00
Non-vested as of December 31, 2016	366,849	\$8.34

As of December 31, 2016, there was approximately \$2.5 million of remaining unamortized stock-based compensation expense, net of estimated forfeitures, associated with PSUs, which will be expensed over a weighted average remaining service period of approximately 2.0 years. The 0.4 million outstanding non-vested PSUs have an aggregate intrinsic value of approximately \$3.2 million and a weighted average remaining contractual term of 2.0 years. For the three months ended December 31, 2016 and 2015, there were no PSUs vested. Of the 0.4 million outstanding non-vested PSUs at December 31, 2016, approximately 0.3 million are expected to vest and have an aggregate intrinsic value of approximately \$3.0 million and a weighted average remaining contractual term of 2.0 years. There were no PSUs granted during the three months ended December 31, 2015.

Stock-based compensation

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

Stock-based Compensation Expense - by award type <i>(in thousands)</i>	For the three months ended December 31,	
	2016	2015
Employee stock options	\$ 11	\$ 6
Restricted stock awards and units	354	266
Performance stock units	268	—
Employee stock purchase plan	52	55
Outside director fees in common stock	78	36
Total stock-based compensation expense	\$ 763	\$ 363

Stock-based Compensation Expense - by expense type <i>(in thousands)</i>	For the three months ended December 31,	
	2016	2015
Cost of revenue	\$ 93	\$ 69
Selling, general, and administrative	570	188
Research and development	100	106
Total stock-based compensation expense	<u>\$ 763</u>	<u>\$ 363</u>

The stock-based compensation expense above relates to continuing operations. Stock-based compensation within selling, general and administrative expense was higher for three months ended December 31, 2016 due to stock-based compensation expense associated with the grants of PSUs. Included within discontinued operations is \$9,000 and \$24,000 of stock based compensation expense for the three months ended December 31, 2016 and 2015, respectively.

401(k) Plan

We have a savings plan that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under this savings plan, participating employees may defer a portion of their pretax earnings, up to the Internal Revenue Service annual contribution limit. Since June 2015, all employer contributions are made in cash. Our matching contribution in cash for the three months ended December 31, 2016 and 2015 was approximately \$0.1 million.

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Income (Loss) Per Share

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

<b>Basic and Diluted Net Income (Loss) Per Share</b> <i>(in thousands, except per share)</i>	<b>For the three months ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>Numerator:</b>		
Income (loss) from continuing operations	\$ 1,766	\$ (134)
(Loss) income from discontinued operations	(9)	1,121
Undistributed earnings allocated to common shareholders for basic and diluted net income per share	1,757	987
<b>Denominator:</b>		
Denominator for basic net income per share - weighted average shares outstanding	26,279	25,697
Dilutive options outstanding, unvested stock units and ESPP	760	—
Denominator for diluted net income per share - adjusted weighted average shares outstanding	27,039	25,697
<b>Net income per basic share:</b>		
Continuing operations	\$ 0.07	\$ 0.00
Discontinued operations	0.00	0.04
Net income per basic share	\$ 0.07	\$ 0.04
<b>Net income (loss) per diluted share:</b>		
Continuing operations	\$ 0.07	\$ 0.00
Discontinued operations	0.00	\$ 0.04
Net income per diluted share	\$ 0.07	\$ 0.04
Weighted average antidilutive options, unvested restricted stock units and awards, unvested performance stock units and ESPP shares excluded from the computation	529	858
Average market price of common stock	\$ 6.88	\$ 6.93

For diluted income (loss) per share, the denominator includes all outstanding common shares and all potential dilutive common shares to be issued. For the three months ended December 31, 2016, we excluded 0.5 million of weighted average outstanding stock options, RSUs and PSUs from the calculation of diluted net income per share because their effect would have been anti-dilutive. The anti-dilutive stock options and unvested stock were excluded from the computation of diluted net income (loss) per share for the three months ended December 31, 2015 due to the Company incurring a net loss for that period.

Employee Stock Purchase Plan

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

Future Issuances

As of December 31, 2016, we had common stock reserved for the following future issuances:

<b>Future Issuances</b>	<b>Number of Common Stock Shares Available for Future Issuances</b>
Exercise of outstanding stock options	597,972
Unvested restricted stock units	1,018,196
Unvested performance stock units	366,849
Purchases under the employee stock purchase plan	1,044,678
Issuance of stock-based awards under the Equity Plans	416,358
Purchases under the officer and director share purchase plan	88,741
Issuance of deferred stock-based awards under the Directors' Stock Award Plan, as amended	28,840
Total reserved	<u>3,561,634</u>

**NOTE 13. Geographical Information**

We evaluate our reportable segment pursuant to ASC 280, *Segment Reporting*. The Company's Chief Executive Officer is the chief operating decision maker and he assesses the performance of the operating segment and allocates resources to the segment based on its business prospects, competitive factors, net revenue, operating results, and other non-GAAP financial ratios. Based on this evaluation, the Company operates as a single reportable segment.

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

<b>Revenue by Geographic Region</b> <i>(in thousands)</i>	<b>For the three months ended December 31,</b>	
	<b>2016</b>	<b>2015</b>
United States	\$ 24,754	\$ 13,813
Asia	3,719	6,339
Europe	1,630	2,163
Other	73	175
Total revenue	<u>\$ 30,176</u>	<u>\$ 22,490</u>

Significant Customers: Significant customers are defined as customers representing greater than 10% of our consolidated revenue. Revenue from three of our significant customers represented 74% and 61% of our consolidated revenue for the three months ended December 31, 2016 and 2015, respectively.

Long-lived Assets: Long-lived assets consist of property, plant, and equipment. As of December 31, 2016 and September 30, 2016, approximately 37% and 38%, respectively, of our long-lived assets were located in the United States. The remaining long-lived assets are primarily located in China.

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

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

### **Business Overview**

EMCORE Corporation together with its subsidiaries (referred to herein as the “Company,” “we,” “our,” or “EMCORE”) designs and manufactures Indium Phosphide (InP) optical chips, components, subsystems and systems for the broadband and specialty fiber optics market. EMCORE was the pioneer in linear fiber optic transmission technology, and today is a leading provider of optical components, as well as a provider of complete end-to-end solutions for high-speed communications network infrastructures, enabling systems and service providers to meet growing demand for bandwidth and connectivity. EMCORE’s advanced optical technologies are designed for cable television (CATV) and fiber-to-the-premise (FTTP) networks, telecommunications and data centers, satellite communications, aerospace and defense, wireless networks, and broadcast and professional audio/video systems. With its world-class InP semiconductor wafer fabrication facility, EMCORE has fully vertically-integrated manufacturing capability and also provides contract design, foundry and component packaging services.

### **Sumitomo Electric Industries Ltd. (“SEI”)**

In March 2012, we entered into a Master Purchase Agreement with SEI, pursuant to which we agreed to sell certain assets and transfer certain obligations. Under the terms of the Master Purchase Agreement, we agreed to indemnify SEI for up to \$3.4 million of potential claims and expenses for the two-year period following the sale and we recorded this amount as a deferred gain on our balance sheet as a result of these contingencies.

On September 23, 2014, SEI filed for arbitration against EMCORE, as required under the Master Purchase Agreement between the parties. SEI was seeking \$47.5 million from EMCORE, relating to numerous claims. On April 12, 2016, the International Court of Arbitration tribunal rejected SEI’s claims. The panel ruled that EMCORE owed SEI none of the amounts SEI sought in the arbitration and that the Company was entitled to collect the \$1.9 million held in escrow, which was received in June 2016 and was included in cash at June 30, 2016. The Company was also entitled to recover \$2.6 million in fees and costs from SEI, which was received in June 2016. During the fiscal year ended September 30, 2016, we recognized a gain associated with the release of \$3.4 million of previously deferred gain associated with the sale of assets and reversal of other liabilities of \$0.4 million, resulting in a credit of \$3.8 million to recognition of previously deferred gain on sale of assets within discontinued operations of the Digital Products Business. During the fiscal year ended September 30, 2016, we recognized the \$2.6 million recovery of fees and costs incurred by EMCORE within operating income as such represented the recovery of previously incurred legal expenses. See [Note 3 - Discontinued Operations](#) in the notes to the consolidated financial statements for more information.

### **Sale of Photovoltaics and Digital Products Businesses**

On September 17, 2014, EMCORE entered into an Asset Purchase Agreement (the “Photovoltaics Agreement”) with SolAero Technologies Corporation (“SolAero”) (formerly known as Photon Acquisition Corporation) under which SolAero acquired substantially all of the assets, and assumed substantially all of the liabilities, primarily related to or used in connection with the Company’s photovoltaics business, including EMCORE’s subsidiaries EMCORE Solar Power, Inc. and EMCORE IRB Company, LLC (collectively, the “Photovoltaics Business” and, the sale of the Photovoltaics Business, the “Photovoltaics Asset Sale”) for \$149.9 million in cash, prior to a \$0.1 million working capital adjustment pursuant to the Photovoltaics Agreement finalized and paid by EMCORE during the fiscal year ended September 30, 2015. On December 10, 2014, EMCORE completed the Photovoltaics Asset Sale.

On October 22, 2014, EMCORE entered into an Asset Purchase Agreement (the “Digital Products Agreement”) with NeoPhotonics Corporation, a Delaware corporation (“NeoPhotonics”), under which the Company sold certain assets, and transferred certain liabilities, of the Company’s telecommunications business (the “Digital Products Business”) to NeoPhotonics for an aggregate purchase price of \$17.5 million, subject to certain adjustments.

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On January 2, 2015, EMCORE completed the sale of the Digital Products Business for \$1.5 million in cash and an adjusted Promissory Note balance of \$15.5 million. On April 17, 2015, NeoPhotonics paid in full the outstanding balance of the Promissory Note of \$15.5 million, plus accrued interest of \$0.2 million.

The Photovoltaics Asset Sale and Digital Products Asset Sale are reported as discontinued operations. See [Note 3 - Discontinued Operations](#) in the notes to the consolidated financial statements for additional disclosures.

### **Strategic Plan**

In addition to organic growth and development of our existing fiber optics business, we intend to pursue other strategies to enhance shareholder value. The Strategy and Alternatives Committee of the Company's Board of Directors (the "Strategy and Alternatives Committee"), which was established in December 2013, is charged with overseeing the Company's strategic plan and evaluating strategic opportunities and alternatives available to the Company, including potential mergers, acquisitions, divestitures and other key strategic transactions outside the ordinary course of the Company's business. Accordingly, the Strategy and Alternatives Committee may from time to time consider strategic opportunities to enhance shareholder value, which may include acquisitions, investments in joint ventures, partnerships, and other strategic alternatives such as dispositions, reorganizations, recapitalizations or other similar transactions, the repurchase of shares of our outstanding common stock or payment of dividends to our shareholders, and may engage financial and other advisers to assist it in these efforts. Accordingly, the Strategy and Alternatives Committee of the Board of Directors and our management may from time to time be engaged in evaluating potential strategic opportunities and we may enter into definitive agreements with respect to such transactions or other strategic alternatives. However, there is no assurance that the Strategy and Alternatives Committee will identify further strategic opportunities that the Company will determine to pursue, or that the consideration of any such opportunity would result in the completion of a strategic transaction.

### **Results of Operations**

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

	For the three months ended December 31,	
	2016	2015
Revenue	100.0 %	100.0 %
Cost of revenue	66.7	67.1
Gross profit	33.3	32.9
Operating expense:		
Selling, general, and administrative	18.5	21.4
Research and development	7.3	11.4
Total operating expense	25.8	32.8
Operating income (loss)	7.5	0.1
Other income (expense):		
Interest income (expense), net	0.1	(0.1)
Foreign exchange loss	(1.3)	(0.6)
Total other expense	(1.2)	(0.7)
Income (loss) from continuing operations before income tax (expense) benefit	6.3	(0.6)
Income tax expense	(0.4)	—
Income (loss) from continuing operations	5.9	(0.6)
Income from discontinued operations, net of tax	—	5.0
Net income	5.9 %	4.4 %



**Comparison of Financial Results for the Three Months Ended December 31, 2016 and 2015**

(in thousands, except percentages)

	For the three months ended December 31,			
	2016	2015	\$ Change	% Change
Revenue	\$ 30,176	\$ 22,490	\$ 7,686	34.2%
Cost of revenue	20,133	15,089	5,044	33.4%
Gross profit	10,043	7,401	2,642	35.7%
Operating expense (income):				
Selling, general, and administrative	5,578	4,821	757	15.7%
Research and development	2,199	2,560	(361)	(14.1)%
Total operating expense	7,777	7,381	396	5.4%
Operating income	2,266	20	2,246	11,230.0%
Other income (expense):				
Interest income (expense), net	23	(17)	40	235.3%
Foreign exchange loss	(403)	(135)	(268)	(198.5)%
Total other expense	(380)	(152)	(228)	150.0%
Income (loss) from continuing operations before income tax (expense) benefit	1,886	(132)	2,018	1,528.8%
Income tax expense	(120)	(2)	(118)	5,900.0%
Income (loss) from continuing operations	1,766	(134)	1,900	1,417.9%
(Loss) income from discontinued operations, net of tax	(9)	1,121	(1,130)	(100.8)%
Net income	\$ 1,757	\$ 987	\$ 770	78.0%

**Revenue**

For the three months ended December 31, 2016, revenue increased 34.2% compared to the prior year driven by significantly higher sales of our CATV products primarily to U.S. customers.

**Gross Profit**

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

Consolidated gross margins were 33.3% and 32.9% for the three months ended December 31, 2016 and 2015, respectively.

Stock-based compensation expense within cost of revenue totaled approximately \$0.1 million during the three months ended December 31, 2016 and 2015.

For the three months ended December 31, 2016, gross margins increased when compared to the same period in the prior year. The increase in gross margins for the three months ended December 31, 2016 was primarily due to product mix and higher utilization of the manufacturing facility, as we significantly increased production output, resulting in higher levels of absorption.

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

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

Stock-based compensation expense within SG&A totaled approximately \$0.6 million and \$0.2 million during the three months ended December 31, 2016 and 2015, respectively. The increase in stock based compensation within SG&A during the three months ended December 31, 2016 when compared to the same period in the prior year is primarily due to the value of Performance Stock Units granted during the three months ended December 31, 2016.

SG&A expense for the three months ended December 31, 2016 was higher than the amount reported in the same period during the prior year primarily due to higher compensation costs and stock-based compensation.

As a percentage of revenue, SG&A expenses were 18.5% and 21.4% for the three months ended December 31, 2016 and 2015, respectively. The decrease in SG&A expense as a percentage of revenue in the three months ended December 31, 2016 compared to the same period in 2015 is due to the increase in revenues in the three months December 31, 2016.

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

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

Stock-based compensation expense within R&D totaled approximately \$0.1 million during the three months ended December 31, 2016 and 2015.

R&D expense for the three months ended December 31, 2016 was lower than the amounts reported in the same period during the prior year primarily due to lower project spending.

As a percentage of revenue, R&D expenses were 7.3% and 11.4% for the three months ended December 31, 2016 and 2015, respectively. The decrease in R&D expense as a percentage of revenue in the three months ended December 31, 2016 compared to the same period in 2015 is due to the increase in revenues and lower R&D expense in the three months ended December 31, 2016.

### **Operating Income**

Operating income represents revenue less the cost of revenue and direct operating expenses incurred. Operating income is a measure of profit and loss that executive management uses to assess performance and make decisions. As a percentage of revenue, our operating income was 7.5% and 0.1% for the three months ended December 31, 2016 and 2015, respectively. The increase in operating income as a percentage of revenue in the three months ended December 31, 2016 compared to the same period in 2015 is due to the increase in revenues and operating income in the three months ended December 31, 2016.

### **Other Income (Expense)**

#### Interest Income (expense), net

Interest income for the three months ended December 31, 2016 was higher than the amount reported in the same period in the prior year due to higher interest income earned on cash and cash equivalents balances.

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### Foreign Exchange

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

### **Income Tax (Expense) Benefit**

For the three months ended December 31, 2016, the Company recorded income tax expense from continuing operations of approximately \$120,000, and \$0 within income from discontinued operations.

For the three months ended December 31, 2015, the Company recorded income tax expense from continuing operations of approximately \$2,000 from continuing operations and \$13,000 within income from discontinued operations.

Our Board of Directors has adopted a Tax Benefits Preservation Plan (the "Rights Plan") to help preserve the value of our net operating losses and other favorable tax attribute carryovers by reducing the risk of limitation of these deferred tax assets. The Rights Plan was approved by our shareholders on March 10, 2015. The Rights Plan is intended to reduce the likelihood that we will experience an ownership change for purposes of Internal Revenue Code Section 382 by discouraging any person or group from becoming a "5% shareholder" or increasing their ownership of our common stock if they are already a "5% shareholder." Although the Rights Plan is intended to reduce the likelihood of an "ownership change" that could adversely affect us, there is no assurance that the Rights Plan will prevent all transfers of our common stock that could result in such an "ownership change."

### **Income from Discontinued Operations, Net of Tax**

	For the three months ended December 31,			
	2016	2015	\$ Change	% Change
<i>(in thousands, except percentages)</i>				
Revenue	\$ —	\$ —	\$ —	N/A
Cost of revenue	1	(49)	50	102.0%
Gross profit	(1)	49	(50)	(102.0)%
Operating (income) expense	8	(1,085)	(1,093)	(100.7)%
Income from discontinued operations before income tax expense	(9)	1,134	(1,143)	(100.8)%
Income tax expense	—	(13)	13	100.0%
Income from discontinued operations, net of tax	\$ (9)	\$ 1,121	\$ (1,130)	(100.8)%

During the three months ended December 31, 2015, we recorded income from discontinued operations from the Photovoltaics Business and Digital Products Business of \$0.8 million and \$0.3 million, respectively, net of tax.

### **Order Backlog**

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

### **Liquidity and Capital Resources**

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

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As of December 31, 2016, cash and cash equivalents totaled \$62.2 million and net working capital totaled approximately \$93.4 million. Net working capital, calculated as current assets minus current liabilities, is a financial metric we use which represents available operating liquidity. For the three months ended December 31, 2016, we earned net income of \$1.8 million. With respect to measures related to liquidity:

- **Sale of Photovoltaics Business:** On December 10, 2014, we completed the sale of our Photovoltaics Business for \$150.0 million in cash, prior to working capital adjustments of \$0.1 million.
- **Sale of Digital Products Business:** On January 2, 2015, we completed the sale of our Digital Products Business for \$1.5 million in cash and an adjusted Promissory Note balance of \$15.5 million. On April 17, 2015, NeoPhotonics paid in full the outstanding balance of the Promissory Note of \$15.5 million plus accrued interest of \$0.2 million.
- **Tender Offer:** On June 15, 2015, we completed the modified “Dutch auction” tender offer (the “Tender Offer”) and purchased 6.9 million shares of our common stock at a purchase price of \$6.55 per share, for an aggregate cost of \$45.0 million excluding fees and expenses. Repurchased common stock was recorded to treasury stock. We incurred costs of \$0.7 million in connection with the Tender Offer, which were recorded to treasury stock.
- **Dividend Payment:** On July 5, 2016, the Company declared a special cash dividend of \$1.50 per share, or a total of \$39.2 million. The dividend was paid on July 29, 2016 to shareholders of record as of July 18, 2016. See [Note 12 - Equity](#) for additional information.
- **Resolution of Outstanding Litigation:** In June 2016 we collected \$2.6 million in fees and costs from Sumitomo Electric Industries, Ltd. (“SEI”) and \$1.9 million held in escrow as the result of the favorable ruling from the SEI arbitration. See [Note 11 - Commitments and Contingencies](#).
- **Mirasol Settlements:** In January 2017, we entered into an agreement to settle all outstanding claims of the Mirasol class action lawsuit for \$0.3 million and the wrongful termination lawsuit for \$50,000 and recorded a charge during the three months ended December 31, 2016 of \$0.2 million. See [Note 11 - Commitments and Contingencies](#).
- **Credit Facility:** On November 11, 2010, we entered into a Credit and Security Agreement (Credit Facility) with Wells Fargo Bank, N.A. (“Wells Fargo”). The Credit Facility, as it has been amended through its seventh amendment on November 10, 2015, currently provides us with a revolving credit of up to \$15.0 million through November 2018 that can be used for working capital requirements, letters of credit, and other general corporate purposes. The Credit Facility is secured by the Company's assets and is subject to a borrowing base formula based on the Company's eligible accounts receivable, inventory, and machinery and equipment accounts. See [Note 9 - Credit Facilities](#) in the notes to the consolidated financial statements for additional disclosures. As of February 1, 2017, there was no outstanding balance under this credit facility.

We believe that our existing balances of cash and cash equivalents, cash flows from operations and amounts expected to be available under our Credit Facility will provide us with sufficient financial resources to meet our cash requirements for operations, working capital, and capital expenditures for at least the next twelve months, and thereafter for the foreseeable future. At the discretion of our Board, we may use our existing balances of cash and cash equivalents to provide liquidity to our shareholders through one or more additional special dividends or the repurchase of additional shares of our outstanding common stock, make investments in our other businesses, pursue other strategic opportunities or a combination thereof. In addition, should we require more capital than what is generated by our operations, for example to fund significant discretionary activities, such as business acquisitions, we could elect to raise capital in the U.S. through debt or equity issuances. These alternatives could result in higher effective tax rates, increased interest expense, and/or dilution of our earnings. We have borrowed funds in the past and continue to believe we have the ability to do so at reasonable interest rates.

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**Cash Flow**

The Consolidated Statements of Cash Flows for the three months ended December 31, 2016 and 2015, respectively, reflect cash flows from both the continuing and discontinued operations of the Company.

Net Cash Provided By Operating Activities

<i>Operating Activities</i> (in thousands, except percentages)	For the Three Months Ended December 31,			
	<u>2016</u>	<u>2015</u>	<u>\$ Change</u>	<u>% Change</u>
Net cash provided by operating activities	\$ 659	\$ 5,733	\$ (5,074)	88.5%

Fiscal 2017:

For the three months ended December 31, 2016, our operating activities provided cash of \$0.7 million primarily due to our net income of \$1.8 million, depreciation, amortization and accretion expense of \$0.8 million, stock-based compensation expense of \$0.8 million and warranty provision of \$0.1 million partially offset by decreases in our operating assets and liabilities (or working capital components, which includes non-current inventory) of \$2.7 million. The change in our operating assets and liabilities was primarily the result of an increase in accounts receivable of \$2.6 million and inventory of \$4.5 million, and a decrease in accrued expenses and other liabilities of \$0.5 million partially offset by a decrease in other assets of \$0.1 million and an increase in accounts payable of approximately \$4.8 million.

Fiscal 2016:

For the three months ended December 31, 2015, our operating activities provided cash of \$5.7 million primarily due to changes in our current assets and liabilities (or working capital components) of \$4.7 million, depreciation, amortization and accretion expense of \$0.5 million, stock-based compensation expense of \$0.4 million, and warranty provision of \$0.1 million, and our net income of \$1.0 million, partially offset by the gain on transfer of solar power assets of \$0.7 million and the payment and gain on settlement of Newark restructuring lease of \$0.3 million. The change in our current assets and liabilities was primarily the result of a decrease in accounts receivable of \$2.9 million, inventory of \$2.1 million and other assets of \$1.4 million, partially offset by a decrease in accrued expenses and other liabilities of \$1.7 million and accounts payable of approximately \$43,000.

Working Capital Components:

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

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

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

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

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Net Cash Used In Investing Activities

<i>Investing Activities</i> (in thousands, except percentages)	For the Three Months Ended December 31,			
	2016	2015	\$ Change	% Change
Net cash used in investing activities	\$ (3,242)	\$ (1,677)	\$ (1,565)	93.3%

Fiscal 2017:

For the three months ended December 31, 2016, our investing activities used \$3.2 million of cash for capital expenditures.

Fiscal 2016:

Our investing activities used \$1.7 million of cash for capital expenditures,

Net Cash Provided By (Used In) Financing Activities

<i>Financing Activities</i> (in thousands, except percentages)	For the Three Months Ended December 31,			
	2016	2015	\$ Change	% Change
Net cash provided by (used in) financing activities	\$ 507	\$ (542)	\$ 1,049	193.5%

Fiscal 2017:

For the three months ended December 31, 2016, our financing activities provided cash of \$0.5 million from proceeds from stock transactions of \$0.1 million and a decrease in restricted cash of \$0.4 million.

Fiscal 2016:

Our financing activities used cash of \$0.5 million from the increase in restricted cash of \$0.7 million partially offset from proceeds from stock plan transactions of \$0.2 million.

**Contractual Obligations and Commitments**

Our contractual obligations and commitments for the remainder of fiscal 2017 and over the next five fiscal years are summarized in the table below:

(in thousands)

	Total	2017	2018 to 2019	2020 to 2021	2022 and later
Purchase obligations	\$ 17,973	\$ 17,599	\$ 374	\$ —	\$ —
Asset retirement obligations	1,824	45	—	1,720	59
Operating lease obligations	1,452	565	595	292	—
Total contractual obligations and commitments	\$ 21,249	\$ 18,209	\$ 969	\$ 2,012	\$ 59

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

The contractual obligations and commitments table above also excludes unrecognized tax benefits because we are unable to reasonably estimate the period during which this obligation may be incurred, if at all. As of December 31, 2016, we had unrecognized tax benefits of \$0.3 million.

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### Purchase Obligations

Our purchase obligations represent agreements to purchase goods or services that are enforceable and legally binding, that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transactions.

### Asset Retirement Obligations (“ARO”)

We have known conditional ARO conditions, such as certain asset decommissioning and restoration of rented facilities to be performed in the future. Our ARO includes assumptions related to renewal option periods where we expect to extend facility lease terms. Revisions in estimated liabilities can result from revisions of estimated inflation rates, escalating retirement costs, and changes in the estimated timing of settling the ARO. See [Note 11 - Commitments and Contingencies](#) in the notes to the consolidated financial statements for additional information related to our ARO's.

### Operating Leases

Operating leases include non-cancelable terms and exclude renewal option periods, property taxes, insurance and maintenance expenses on leased properties. See [Note 11 - Commitments and Contingencies](#) in the notes to the consolidated financial statements for additional information related to our operating lease obligations.

### **Off-Balance Sheet Arrangements**

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

### **Critical Accounting Policies and Estimates**

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as of the date of the financial statements, and the reported amounts of revenue and expenses during the reported period. If these estimates differ significantly from actual results, the impact to the condensed consolidated financial statements may be material. There have been no material changes in our critical accounting policies and estimates from those disclosed in our Annual Report on Form 10-K for the year ended September 30, 2016. Please refer to Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended September 30, 2016 for a discussion of our critical accounting policies and estimates.

### **Geographical Information**

See [Note 13- Geographical Information](#) in the notes to the condensed consolidated financial statements for disclosures related to geographic revenue and significant customers.

### **Recent Accounting Pronouncements**

See [Note 2 - Recent Accounting Pronouncements](#) in the notes to the condensed consolidated financial statements for disclosures related to recent accounting pronouncements.

### **Restructuring Accruals**

See [Note 8 - Accrued Expenses and Other Current Liabilities](#) in the notes to the condensed consolidated financial statements for disclosures related to our severance and restructuring-related accrual accounts.

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

For Quantitative and qualitative disclosures about market risk affecting the Company, see Item 7A - Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for the fiscal year ended September 30, 2016. We do not believe the Company's exposure to market risk has changed materially since September 30, 2016.

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

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

Our management, with the participation of its Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer and Accounting Officer), evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities

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Exchange Act of 1934, as amended) as of December 31, 2016. Based upon this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

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

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) and 15(d)-15(f) promulgated under the Securities Exchange Act of 1934, as amended) during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



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**PART II. Other Information**

**ITEM 1. Legal Proceedings**

See the disclosures under the caption “Legal Proceedings” in [Note 11- Commitments and Contingencies](#) in the notes to our condensed consolidated financial statements for disclosures related to our legal proceedings, which disclosures are incorporated herein by reference.

**ITEM 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended September 30, 2016, which could materially affect our business, financial condition or future results. We do not believe the Company's risks have changed materially since we filed our Annual Report on Form 10-K on December 7, 2016. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem immaterial also may materially adversely affect our business, financial condition and/or operating results.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Not Applicable.

**ITEM 3. Defaults Upon Senior Securities**

Not Applicable.

**ITEM 4. Mine Safety Disclosures**

Not Applicable.

**ITEM 5. Other Information**

Not Applicable.

**ITEM 6. Exhibits**

10.1†	EMCORE Corporation Fiscal 2017 Bonus Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 16, 2016)
31.1**	Certificate of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2**	Certificate of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1***	Certificate of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2***	Certificate of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS**	XBRL Instance Document.
101.SCH**	XBRL Taxonomy Extension Schema Document.
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document.

† Management contract or compensatory plan

\*\* Filed herewith

\*\*\* Furnished herewith



**SIGNATURES**

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

**EMCORE CORPORATION**

Date: **February 7, 2017**

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

Date: **February 7, 2017**

By: **/s/ Jikun Kim**  
Jikun Kim  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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

I, Jeffrey Rittichier certify that:

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

Date: **February 7, 2017**

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

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

I, Jikun Kim, certify that:

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

Date: **February 7, 2017**

By: **/s/ Jikun Kim**  
Jikun Kim  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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

In connection with the Quarterly Report on Form 10-Q of EMCORE Corporation (the "Company") for the quarterly period ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey Rittichier, Chief Executive Officer (Principal Executive Officer) of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: **February 7, 2017**

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

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

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

In connection with the Quarterly Report on Form 10-Q of EMCORE Corporation (the "Company") for the quarterly period ended December 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jikun Kim, Chief Financial Officer (Principal Financial and Accounting Officer) of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: **February 7, 2017**

By: **/s/ Jikun Kim**

Jikun Kim

Chief Financial Officer

(Principal Financial and Accounting Officer)

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