

EMCORE CORP  
Form 10-Q/A  
May 25, 2006

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

FORM 10-Q/A  
Amendment No. 1

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

For the quarterly period ended: March 31, 2006

Commission File Number: 0-22175

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

New Jersey  
(State or other jurisdiction of incorporation or organization)

22-2746503  
(IRS Employer Identification No.)

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

(732) 271-9090  
(Registrant's telephone number)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (check one):  Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The number of shares outstanding of the registrant's no par value common stock as of May 5, 2006 was 50,397,418.

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**FORM 10-Q/A  
Amendment No. 1**

**EXPLANATORY NOTE**

This Amendment No. 1 on Form 10-Q/A (the "Amendment") is being filed to revise Part I, Item 1 (Financial Statements) of the Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 that was filed on May 10, 2006 (the "Report") to correct the inadvertent omission from the Condensed Consolidated Statements of Cash Flows of the line item entitled "Cash proceeds from disposition of discontinued operations" under the subsection entitled "Cash flows from investing activities." The subtotals and totals of the Condensed Consolidated Statements of Cash Flows remain unchanged. Only the missing line item was added in this Amendment. In accordance with the rules of the Securities and Exchange Commission, this Amendment sets forth the complete text of Item 1 as amended to correct the inadvertently omitted line item.

This Amendment to the Report does not alter any part of the content of the Report, except for the changes and additional information noted herein. This Amendment continues to speak as of the date of the Report. We have not updated the disclosures contained in this Amendment to reflect any events that occurred at a date subsequent to the filing of the Report. The filing of this Amendment is not a representation that any statements contained in the Report or this Amendment are true or complete as of any date subsequent to the date of the Report. This Amendment does not affect the information originally set forth in the Report, the remaining portions of which have not been amended.

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**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS.**

**EMCORE CORPORATION**  
**Condensed Consolidated Statements of Operations**  
**For the three and six months ended March 31, 2006 and 2005**  
**(in thousands, except per share data)**  
**(unaudited)**

	Three Months Ended March 31,		Six Months Ended March 31,	
	2006	2005	2006	2005
Revenue	\$ 41,162	\$ 30,430	\$ 81,053	\$ 57,394
Cost of revenue	32,473	24,901	65,528	49,790
Gross profit	8,689	5,529	15,525	7,604
Operating expenses:				
Selling, general and administrative	11,001	5,127	18,264	10,687
Research and development	4,964	4,069	9,398	9,128
Total operating expenses	15,965	9,196	27,662	19,815
Operating loss	(7,276)	(3,667)	(12,137)	(12,211)
Other (income) expenses:				
Interest income	(246)	(249)	(576)	(482)
Interest expense	1,359	1,202	2,656	2,404
Loss from convertible subordinated notes exchange offer	-	-	1,078	-
Equity in net loss of Velox investment	150	-	332	-
Equity in net loss (income) of GELcore investment	397	297	(150)	(75)
Total other expenses	1,660	1,250	3,340	1,847
Loss from continuing operations	(8,936)	(4,917)	(15,477)	(14,058)
Discontinued operations:				
Gain on disposal of discontinued operations	2,012	12,476	2,012	12,476
Income from discontinued operations	2,012	12,476	2,012	12,476
Net (loss) income	\$ (6,924)	\$ 7,559	\$ (13,465)	\$ (1,582)
<b>Per share data:</b>				
Basic and diluted per share data:				
Loss from continuing operations	\$ (0.18)	\$ (0.10)	\$ (0.32)	\$ (0.30)
Income from discontinued operations	0.04	0.26	0.04	0.27
Net (loss) income	\$ (0.14)	\$ 0.16	\$ (0.28)	\$ (0.03)
	49,410	47,265	48,789	47,128

Weighted average number of shares  
outstanding  
used in basic and diluted per share  
calculations

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

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**EMCORE CORPORATION**  
**Condensed Consolidated Balance Sheets**  
**As of March 31, 2006 and September 30, 2005**  
(in thousands)  
(unaudited)

	As of March 31, 2006	As of September 30, 2005
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 23,048	\$ 19,525
Restricted cash	698	547
Marketable securities	10,150	20,650
Accounts receivable, net	24,707	22,633
Receivables, related parties	276	4,197
Inventory, net	22,166	18,348
Prepaid expenses and other current assets	3,145	3,638
Total current assets	84,190	89,538
Property, plant and equipment, net	57,378	56,957
Goodwill	40,424	34,643
Intangible assets, net	7,741	5,347
Investments in unconsolidated affiliates	12,517	12,698
Receivables, related parties	169	169
Other assets, net	5,364	6,935
Total assets	\$ 207,783	\$ 206,287
<b>LIABILITIES and SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 16,492	\$ 15,587
Accrued expenses and other current liabilities	17,333	19,078
Notes payable, current portion	407	-
Convertible subordinated notes, current portion	1,350	1,350
Total current liabilities	35,582	36,015
Notes payable, long-term	394	-
Convertible subordinated notes, long-term	95,846	94,709
Total liabilities	131,822	130,724
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$0.0001 par, 5,882 shares authorized, no shares outstanding	-	-
Common stock, no par value, 100,000 shares authorized, 50,453 shares issued and 50,294 shares outstanding at March 31, 2006; 48,023 shares issued and 48,003 shares outstanding at September 30, 2005	407,480	392,466
Accumulated deficit	(329,436)	(315,971)

Treasury stock, at cost		
159 shares at March 31, 2006; 20 shares at September 30, 2005	(2,083)	(932)
Total shareholders' equity	75,961	75,563
Total liabilities and shareholders' equity	\$ 207,783	\$ 206,287

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

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**EMCORE CORPORATION**  
**Condensed Consolidated Statements of Cash Flows**  
**For the six months ended March 31, 2006 and 2005**  
(in thousands)  
(unaudited)

	<b>Six Months Ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (13,465)	\$ (1,582)
Adjustments to reconcile net loss to net cash used for operating activities:		
Gain on disposal of discontinued operations	(2,012)	(12,476)
Stock-based compensation expense	2,063	-
Depreciation and amortization expense	6,810	7,275
Accretion of loss from convertible subordinated notes exchange offer	67	-
Loss on convertible subordinated notes exchange offer	1,078	-
Provision for doubtful accounts	3	(170)
Equity in net loss (income) of equity method investments	182	(75)
Compensatory stock issuances	369	361
Forgiveness of shareholders' notes receivable	2,613	34
Reduction of note receivable due for services received	260	260
Total non-cash adjustments	11,433	(4,791)
Changes in operating assets and liabilities:		
Accounts receivable	(1,401)	(3,961)
Receivables, related parties	157	(67)
Inventory	(3,157)	(1,560)
Prepaid expenses and other current assets	532	135
Other assets	(461)	(204)
Accounts payable	(210)	(2,406)
Accrued expenses and other current liabilities	(4,177)	(1,711)
Total change in operating assets and liabilities	(8,717)	(9,774)
Net cash used for operating activities	(10,749)	(16,147)
<b>Cash flows from investing activities:</b>		
Purchase of plant and equipment	(2,755)	(2,442)
Cash proceeds from disposition of discontinued operations	-	13,197
Proceeds from (investment in) K2 Optronics	500	(1,000)
Cash purchase of businesses, net of cash acquired	610	(1,283)
Purchase of marketable securities	(350)	(8,325)
Funding of restricted cash	(98)	-
Sale of marketable securities	10,850	20,025
Net cash provided by investing activities	8,757	20,172
<b>Cash flows from financing activities:</b>		
Payments on debt obligations	(82)	(25)
Proceeds from exercise of stock options	5,385	133
Proceeds from employee stock purchase plan	326	494
Convertible debt/equity issuance costs	(114)	-



Net cash provided by financing activities	5,515	602
Net increase in cash and cash equivalents	3,523	4,627
Cash and cash equivalents, beginning of period	19,525	19,422
Cash and cash equivalents, end of period	\$ 23,048	\$ 24,049

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Cash paid during the period for interest	\$ 2,580	\$ 2,404
Issuance of common stock in conjunction with acquisitions	\$ 6,460	\$ -

**NON-CASH INVESTING AND FINANCING ACTIVITIES**

Acquisition of property and equipment under capital leases	\$ 126	\$ -
Manufacturing equipment received in lieu of earn-out proceeds from disposition of discontinued operations	\$ 2,012	\$ -

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

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**EMCORE Corporation**  
**Notes to Condensed Consolidated Financial Statements**  
**As of March 31, 2006 and September 30, 2005 and**  
**For the three and six months ended March 31, 2006 and 2005**  
**(unaudited)**

**NOTE 1. Basis of Presentation.**

The accompanying unaudited condensed consolidated financial statements include the accounts of EMCORE Corporation and its subsidiaries (EMCORE). All intercompany accounts and transactions have been eliminated. Certain amounts in prior period financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on previously reported shareholders' equity.

These statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US 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 footnotes required by US GAAP for annual financial statements. In the opinion of management, all information considered necessary for a fair presentation of the financial statements have been included. 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, 2005 has been derived from the audited financial statements as of such date. For a more complete understanding of EMCORE's financial position, operating results, risk factors and other matters, please refer to EMCORE's Annual Report on Form 10-K for the fiscal year ended September 30, 2005.

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Management bases estimates on historical experience and on various assumptions about the future that are believed to be reasonable based on available information. EMCORE's 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.

**NOTE 2. Recent Accounting Pronouncements.**

SFAS No. 123(R) - Effective October 1, 2005, EMCORE adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment (Revised 2004)*, on a modified prospective basis. As a result, EMCORE included stock-based compensation expense in its results of operations for all periods presented in fiscal 2006, as more fully described in Note 3 to EMCORE's condensed consolidated financial statements.

SFAS No. 151 - Effective October 1, 2005, EMCORE adopted SFAS No. 151, *Inventory Costs, an amendment of ARB No. 43, Chapter 4*. SFAS 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). SFAS 151 requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal". In addition, it requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The adoption of this pronouncement did not have a material impact on EMCORE's financial statements.

SFAS No. 154 - Effective October 1, 2005, EMCORE adopted SFAS No. 154, *Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20, Accounting Changes*, and Financial Accounting Standards Board

(FASB) Statement No. 3, *Reporting Accounting Changes in Interim Financial Statements*. The Statement applies to all voluntary changes in accounting principle, and changes the requirements for accounting for and reporting of a change in accounting principle. SFAS 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. SFAS 154 requires that a change in method of depreciation, amortization, or depletion for long-lived, non-financial assets be accounted for as a change in accounting estimate that is affected by a change in accounting principle. Opinion 20 previously required that such a change be reported as a change in accounting principle. The adoption of this pronouncement did not have a material impact on EMCORE's financial statements.

Interpretation No. 47 - Effective October 1, 2005, EMCORE adopted FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations, an Interpretation of FASB Statement No. 143*. This interpretation clarifies the timing of liability recognition for legal obligations associated with the retirement of tangible long-lived assets when the timing and/or method of settlement of the obligations are conditional on a future event and where an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation. The adoption of this pronouncement did not have a material impact on EMCORE's financial statements.

FSP 115-1 - In November 2005, FASB issued Staff Position (FSP) 115-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, which provides guidance on determining when investments in certain debt and equity securities are considered impaired, whether that impairment is other-than-temporary, and on measuring such impairment loss. FSP 115-1 also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosure about unrealized losses that have not been recognized as other-than-temporary impairments. FSP 115-1 is effective for annual reporting periods beginning after December 15, 2005. EMCORE does not believe the adoption of FSP 115-1 on October 1, 2006 will have a material impact on its financial statements.

### **NOTE 3. Stock-based Compensation.**

#### Stock Options

EMCORE has stock option plans to provide incentives to eligible employees, officers, and directors in the form of stock options. Most of the stock options vest and become exercisable over three to five years and have ten-year terms. EMCORE maintains two incentive stock option plans: the 2000 Stock Option Plan (2000 Plan), and the 1995 Incentive and Non-Statutory Stock Option Plan (1995 Plan and, together with the 2000 Plan, the Option Plans). The 1995 Plan authorizes the grant of options to purchase up to 2,744,118 shares of EMCORE's common stock. As of March 31, 2006, no options were available for issuance under the 1995 Plan. The 2000 Plan, which was recently amended, authorizes the grant of options to purchase up to 9,350,000 shares of EMCORE's common stock. The amendment that occurred in February 2006 increased the number of shares of common stock available for issuance by 2,500,000 from the previous amount of 6,850,000 shares. As of March 31, 2006, 1,536,239 options were available for issuance under the 2000 Plan. Certain options under the Option Plans are intended to qualify as incentive stock options pursuant to Section 422A of the Internal Revenue Code.

During the three months ended March 31, 2006, 1,249,450 options were granted pursuant to the 2000 Plan. These options were issued at the closing market price on the date of grant, which ranged from \$7.22 to \$10.49 per share. These options are subject to a five-year vesting period for new-hire grants and a four-year vesting period for retention grants, and have a contractual life of ten years. The weighted average grant date fair value for the options issued during the three months ended March 31, 2006 was \$6.43. No executive officers received any stock grants during the three months ended March 31, 2006. As of March 31, 2006, 2,198,568 options were exercisable. EMCORE issues new shares of common stock upon exercise of stock options.

The following table summarizes the activity under the Option Plans:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding as of September 30, 2005	6,166,226	\$ 4.16		
Granted	1,528,957	7.68		
Exercised	(1,319,597)	4.08		
Cancelled	(113,024)	3.20		
Outstanding as of March 31, 2006	6,262,562	\$ 5.05	7.58	\$ 34,921
Exercisable as of March 31, 2006	2,198,568	\$ 5.80	5.09	\$ 12,371
Non-vested as of March 31, 2006	4,063,994	\$ 4.65	8.92	\$ 22,550

As of March 31, 2006 there was \$5.8 million of total unrecognized compensation expense related to non-vested share-based compensation arrangements granted under the Option Plans. This expense is expected to be recognized over a weighted average life of 3.27 years. The total intrinsic value of options exercised during the three months ended March 31, 2006 was \$5.2 million. The total fair value of shares vested during the three months ended March 31, 2006 was \$1.1 million. EMCORE received \$4.9 million in cash from the exercise of stock options during the three months ended March 31, 2006.

At March 31, 2006, stock options outstanding were as follows:

Exercise Price	Options Outstanding	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price
<\$1	1,920	1.68	\$ 0.23
>\$1 to <\$5	3,827,889	7.60	2.69
>\$5 to <\$10	2,204,413	7.92	7.41
>\$10	228,340	4.09	21.97
	6,262,562	7.58	\$ 5.05

At March 31, 2006, stock options exercisable were as follows:

Exercise Price	Options Exercisable	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price

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<\$1	1,920	1.68	\$	0.23
>\$1 to <\$5	1,246,815	5.95		2.16
>\$5 to <\$10	723,493	3.95		6.98
>\$10	226,340	4.04		22.07
	2,198,568	5.09	\$	5.80

Employee Stock Purchase Plan

EMCORE adopted an Employee Stock Purchase Plan (ESPP) in fiscal 2000. In February 2006, this plan was amended to increase the number of shares of common stock available for issuance under the ESPP by 1,000,000, to a total of 2,000,000 shares. The ESPP is a 6-month duration plan, with new participation periods beginning the first business day of January and July of each year. The ESPP provides employees of EMCORE with an opportunity to purchase common stock through payroll deductions. The purchase price is set at 85% of the market price for EMCORE's common stock on either the first or last day of the participation period, whichever is lower. Contributions are limited to 10% of an employee's compensation. The remaining amount of shares reserved for the ESPP is as follows:

	<b>Number of Shares</b>
Amount of shares reserved for the ESPP	2,000,000
Number of shares issued in December 2000 for calendar year 2000	(16,534)
Number of shares issued in December 2001 for calendar year 2001	(48,279)
Number of shares issued in December 2002 for calendar year 2002	(89,180)
Number of shares issued in December 2003 for calendar year 2003	(244,166)
Number of shares issued in June 2004 for first half of calendar year 2004	(166,507)
Number of shares issued in December 2004 for second half of calendar year 2004	(167,546)
Number of shares issued in June 2005 for first half of calendar year 2005	(174,169)
Number of shares issued in December 2005 for second half of calendar year 2005	(93,619)
Remaining shares reserved for the ESPP as of March 31, 2006	1,000,000

Future Issuances

As of March 31, 2006, EMCORE has reserved a total of 21,170,772 shares of its common stock for future issuances as follows:

	<b>Number of Shares</b>
For exercise of outstanding warrants to purchase common stock	31,535
For exercise of outstanding common stock options	6,262,562
For conversion of subordinated notes	12,340,436
For future issuances to employees under the ESPP plan	1,000,000
For future common stock option awards	1,536,239
Total reserved	21,170,772

Valuation of Stock-Based Compensation

Effective October 1, 2005, EMCORE adopted SFAS 123(R), using the modified prospective application transition method, which establishes accounting for stock-based awards exchanged for employee services. Accordingly, stock-based compensation expense is measured at grant date, based on the fair value of the award, over the requisite service period. EMCORE previously applied Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation*.

Periods prior to the adoption of SFAS 123(R) - Prior to the adoption of SFAS 123(R), EMCORE provided the disclosures required under SFAS No. 123 as amended by SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosures*. EMCORE did not recognize stock-based compensation expense in its statement of operations for periods prior to the adoption of SFAS 123(R) since options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net loss and net loss per share as if EMCORE had applied the fair value recognition provisions of SFAS 123(R) to options granted under EMCORE's stock-based compensation plans prior to the adoption. For purposes of this pro forma disclosure, the value of the options was estimated using a Black-Scholes option pricing formula and amortized on a straight-line basis over the respective vesting periods of the awards. Disclosures for the three months and six months ended March 31, 2006 are not presented because stock-based compensation was accounted for under SFAS 123(R)'s fair-value method during this period.

	<b>Three Months Ended March 31, 2005</b>	<b>Six Months Ended March 31, 2005</b>
<i>(in thousands, except per share amounts)</i>		
Reported net income (loss)	\$ 7,559	\$ (1,582)
Less:		
Pro forma stock-based compensation expense determined under the fair value based method, net of tax	(721)	(1,344)
Pro forma net income (loss)	\$ 6,838	\$ (2,926)
Reported net income (loss) per basic and diluted share	\$ 0.16	\$ (0.03)
Pro forma net income (loss) loss per basic and diluted share	\$ 0.14	\$ (0.06)

Adoption of SFAS 123(R) - During the three months ended March 31, 2006, EMCORE recorded stock-based compensation expense totaling \$0.9 million. This incremental stock-based compensation expense caused net income to decrease by \$0.9 million and basic and diluted loss per share to decrease by \$0.02 per share. As required by SFAS 123(R), management has made an estimate of expected forfeitures and is recognizing compensation expense only for those equity awards expected to vest. The effect of recording stock-based compensation expense for the three and six months ended March 31, 2006 was as follows:

	<b>Three Months</b>	<b>Six Months Ended</b>
<i>(in thousands, except per share amounts)</i>		

	<b>Ended March 31, 2006</b>	<b>March 31, 2006</b>
Stock-based compensation expense by award type:		
Employee stock options	\$ (645)	\$ (1,653)
Employee stock purchase plan	(288)	(410)
Total stock-based compensation expense	\$ (933)	\$ (2,063)
Net effect on net loss per basic and diluted share	\$ (0.02)	\$ (0.04)

The stock-based compensation expense for the three and six months ended March 31, 2006 was distributed as follows:

#### **Stock-Based Compensation Expense by Segment**

##### **For the three months ended March 31, 2006**

<i>(in thousands)</i>	<b>COGS</b>	<b>SG&amp;A</b>	<b>R&amp;D</b>	<b>Total</b>
Fiber Optics	\$ 86	\$ 431	\$ 177	\$ 694
Photovoltaics	9	167	17	193
Electronic Materials and Devices	(24)	54	16	46
Total stock-based compensation expense	\$ 71	\$ 652	\$ 210	\$ 933

#### **Stock-Based Compensation Expense by Segment**

##### **For the six months ended March 31, 2006**

<i>(in thousands)</i>	<b>COGS</b>	<b>SG&amp;A</b>	<b>R&amp;D</b>	<b>Total</b>
Fiber Optics	\$ 292	\$ 757	\$ 422	\$ 1,471
Photovoltaics	73	292	45	410
Electronic Materials and Devices	51	87	44	182
Total stock-based compensation expense	\$ 416	\$ 1,136	\$ 511	\$ 2,063

#### Valuation Assumptions

EMCORE estimated the fair value of stock options using a Black-Scholes model. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option valuation model and the straight-line attribution approach using the following weighted-average assumptions:

<b>Stock Option Plans</b>	<b>Three Months Ended March 31,</b>		<b>Six Months Ended March 31,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Expected dividend yield	0%	0%	0%	0%
Expected stock price volatility	97-98%	107%	97-99%	107%
Risk-free interest rate	4.74%	3.89%	4.67%	3.69%

Expected term (in years)	5	5	5	5
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*Expected Dividend Yield:* The Black-Scholes valuation model calls for a single expected dividend yield as an input. EMCORE has not issued any dividends.

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

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

*Expected Term:* EMCORE's expected term represents the period that EMCORE's 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 its stock-based awards.

*Estimated Pre-vesting Forfeitures:* When estimating forfeitures, EMCORE considers voluntary termination behavior as well as future workforce reduction programs.

#### **NOTE 4. Investments.**

In January 1999, General Electric Lighting and EMCORE formed GELcore, a joint venture to address the solid-state lighting market with high-brightness light-emitting diode-based (HB-LED) lighting systems. General Electric Lighting and EMCORE have agreed that this joint venture will be the exclusive vehicle for each party's participation in solid-state lighting. EMCORE has a 49% non-controlling interest in the GELcore venture, and accounts for this investment using the equity method of accounting. As of March 31, 2006, EMCORE's net investment in this joint venture amounted to approximately \$11.5 million.

In April 2005, EMCORE divested product technology focused on gallium nitride (GaN)-based power electronic devices for the power device industry. The new company, Velox Semiconductor Corporation (Velox), raised \$6.0 million from various venture capital partnerships. Five EMCORE employees transferred to Velox as full-time personnel and EMCORE contributed intellectual property and equipment receiving a 19.2% stake in Velox. During fiscal 2006, EMCORE reduced its voting percentage, relinquished its Velox Board seat, and its right to a Velox Board seat. As a result of these changes, in EMCORE's next quarterly report on Form 10-Q, EMCORE will report its investment in Velox under the cost method of accounting rather than the equity method of accounting. Due to a three-month lag in the availability of financial statements for Velox, EMCORE reports Velox's performance on a three-month lag basis. Therefore, in this quarterly report, EMCORE recorded an investment loss for the three months ended March 31, 2006 that was based on the operating results of Velox for the three months ended December 31, 2005. For the three and six months ended March 31, 2006, EMCORE recognized a loss of \$0.2 million and \$0.3 million related to Velox, which was recorded as a component of other income and expenses. As of March 31, 2006, EMCORE's net investment in Velox amounted to approximately \$1.0 million. Under the cost method of accounting, the Velox investment will be carried at cost and adjusted only for other-than-temporary declines in fair value, distribution of earnings and additional investments.

#### **NOTE 5. Acquisition.**



On January 12, 2006, EMCORE entered into an Agreement and Plan of Merger (Merger Agreement) with K2 Optronics, Inc. (K2), a privately held company located in Sunnyvale, CA and EMCORE Optoelectronics Acquisition Corporation, a wholly owned subsidiary of EMCORE (Merger Sub). Pursuant to the Merger Agreement, EMCORE acquired K2 in a transaction in which Merger Sub merged with and into K2, with K2 becoming a wholly owned subsidiary of EMCORE. EMCORE, an investor in K2, paid approximately \$4.1 million in EMCORE common stock, and paid approximately \$0.7 million in transaction-related expenses, to acquire the remaining part of K2 that EMCORE did not already own. Prior to the transaction EMCORE owned a 13.6% equity interest in K2 as a result of a \$1.0 million investment that EMCORE made in K2 in October 2004. In addition, K2 was a supplier to EMCORE of analog external cavity lasers for CATV applications. In connection with the merger, EMCORE issued a total of 548,688 shares of EMCORE common stock, no par value, (based on a 20-trading day weighted average price), to K2's shareholders. EMCORE has agreed to file a shelf registration statement with respect to the resale of the EMCORE shares by no later than June 8, 2006. Including EMCORE's initial \$1.0 million investment in K2, the purchase price, on a preliminary basis, was allocated as follows: \$1.1 million in cash, \$0.1 million in other current assets, \$0.8 million in fixed assets, \$1.5 million in intellectual property, \$2.4 million in accounts payable and accrued liabilities, \$0.8 million in debt and \$4.8 million in residual goodwill.

Furthermore, in connection with this K2 acquisition, EMCORE and JDS Uniphase (JDSU) amended their May 2005 Purchase Agreement relating to EMCORE's acquisition of JDSU's analog CATV and RF over fiber specialty businesses. As a result, JDSU retained its K2 investment (on a pre-merger basis), and repaid \$0.5 million to EMCORE.

This transaction was accounted for as a purchase in accordance with SFAS No. 141, *Business Combinations*; therefore, the tangible assets acquired were recorded at fair value on the acquisition date. This acquisition was not significant on a pro-forma basis, and therefore, pro-forma financial statements were not and are not provided. The operating results of the business acquired are included in the accompanying consolidated statement of operations from the date of acquisition. The primary areas of the purchase price allocations that are not yet finalized relate to the valuation of accrued liabilities, intellectual property, and residual goodwill. The acquired business is part of EMCORE's Fiber Optics operating segment.

**NOTE 6. Discontinued Operations.**

In November 2003, EMCORE sold its TurboDisc capital equipment business in an asset sale to a subsidiary of Veeco Instruments Inc. (Veeco). The selling price was \$60.0 million in cash at closing, with a potential additional earn-out up to \$20.0 million over the next two years, calculated based on the net sales of TurboDisc products. In March 2005, EMCORE received \$13.2 million of earn-out payment from Veeco in connection with its first year of net sales of TurboDisc products. After offsetting this receipt against expenses related to the discontinued operation, EMCORE recorded a net gain from the disposal of discontinued operations of \$12.5 million. In March 2006, EMCORE earned \$2.0 million as a final earn-out payment from Veeco in connection with Veeco's second year of net sales of TurboDisc products. The cumulative additional earn-out totaled \$15.2 million or 76% of the maximum available payout of \$20.0 million.

**NOTE 7. Receivables.**

Accounts receivable consisted of the following:

	As of March 31, 2006	As of September 30, 2005
<b>Accounts Receivable, net</b> <i>(in thousands)</i>		

Accounts receivable	\$	23,003	\$	21,721
Accounts receivable - unbilled		2,042		1,240
Subtotal		25,045		22,961
Allowance for doubtful accounts		(338)		(328)
Total	\$	24,707	\$	22,633

In September 2005, EMCORE entered into a non-recourse receivables purchase agreement (AR Agreement) with Silicon Valley Bank (SVBank). Under the terms of the AR Agreement, EMCORE from time to time may sell, without recourse, certain accounts receivables to SVBank up to a maximum aggregate outstanding amount of \$20.0 million. The AR Agreement expires on December 31, 2006, unless the term is extended by mutual agreement by all parties. In March 2006 and September 2005, EMCORE sold approximately \$6.2 million and \$2.2 million of accounts receivable to SVBank, respectively.

Receivables from related parties consisted of the following:

<b>Receivables, Related Parties</b> <i>(in thousands)</i>	<b>As of March 31, 2006</b>	<b>As of September 30, 2005</b>
Current assets:		
GELcore-related	\$ 190	\$ 185
Velox-related	86	249
Employee loans	-	3,000
Employee loans - interest portion	-	763
Subtotal	276	4,197
Long-term assets:		
Employee loans	169	169
Total	\$ 445	\$ 4,366

### Employee Loans

From time to time, prior to July 2002, EMCORE loaned money to certain of its executive officers and directors. Pursuant to due authorization from EMCORE's Board of Directors, EMCORE loaned \$3.0 million to Mr. Reuben Richards, the Chief Executive Officer in February 2001 (Note). The Note matured on February 22, 2006 and with interest (compounded annually) at a rate of (a) 5.18% per annum through May 23, 2002 and (b) 4.99% from May 24, 2002 through maturity. All interest was payable at maturity. On February 13, 2006, Mr. Richards tendered 139,485 shares of EMCORE common stock in partial payment of the Note. Principal plus accrued interest on the Note totaled approximately \$3.83 million. The Compensation Committee of EMCORE's Board of Directors specifically approved the tender of shares, as permitted by the Note, at the price of \$8.25 per share, which was the closing price of EMCORE common stock on February 13, 2006. On February 28, 2006, the Compensation Committee resolved to forgive the remaining balance of the Note (approximately \$2.7 million), effective as of March 10, 2006. Mr. Richards' tender of common stock on February 13, 2006 was accepted as full payment and satisfaction of the Note, including principal and accrued interest. Additionally, the Compensation Committee resolved to accelerate and vest the final

tranche of each of the incentive stock option grants made in fiscal 2004 and 2005 to Mr. Richards, which constitute a combined accelerated vesting of 111,250 shares. In considering this matter, the Compensation Committee carefully considered Mr. Richards' past performance, including the recent appreciation in the stock price and EMCORE's improved financial performance, the facts and circumstances surrounding the loan, Mr. Richards' current compensation, Mr. Richards' willingness to repay a portion of the Note and all resulting taxes, and the desire to retain Mr. Richards' continued service to EMCORE. EMCORE recorded a one-time, non-cash charge of approximately \$2.7 million in March 2006 for the partial forgiveness of the Note, plus a non-cash charge of approximately \$0.3 million in stock-based compensation expense under SFAS 123(R) relating to the accelerated ISO grants.

In addition, pursuant to due authorization of EMCORE's Board of Directors, EMCORE also loaned \$82,000 to the Chief Financial Officer (CFO) of EMCORE in December 1995. This loan does not bear interest and provides for offset of the loan via bonuses payable to the CFO over a period of up to 25 years. The remaining related party receivable balance of \$87,260 relates to multiple loans from EMCORE to an officer (who is not an executive officer) that were made during 1997 through 2000 and are payable on demand.

During fiscal 2005, pursuant to due authorization of EMCORE's Compensation Committee, EMCORE wrote-off \$34,000 of notes receivable that were issued in 1994 to certain EMCORE employees.

#### NOTE 8. Inventory, net.

Inventory is stated at the lower of cost or market, with cost being determined using the standard cost method that includes material, labor and manufacturing overhead costs. Inventory consisted of the following:

<b>Inventory, net</b> <i>(in thousands)</i>	<b>As of March 31, 2006</b>	<b>As of September 30, 2005</b>
Raw materials	\$ 16,732	\$ 15,482
Work-in-process	4,069	5,101
Finished goods	7,928	5,911
Subtotal	28,729	26,494
Less: reserves	(6,563)	(8,146)
Total	\$ 22,166	\$ 18,348

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

Property, plant and equipment consisted of the following:

<b>Property, Plant and Equipment, net</b> <i>(in thousands)</i>	<b>As of March 31, 2006</b>	<b>As of September 30, 2005</b>
Land	\$ 1,502	\$ 1,502
Building and improvements	39,977	37,944
Equipment	70,153	71,854

Furniture and fixtures	5,481	5,002
Leasehold improvements	2,756	2,935
Construction in progress	7,745	3,390
Property and equipment under capital lease	932	466
Subtotal	128,546	123,093
Less: accumulated depreciation and amortization	(71,168)	(66,136)
Total	\$ 57,378	\$ 56,957

**NOTE 10. Goodwill and Intangible Assets, net.**

The following table sets forth changes in the carrying value of goodwill by reportable segment:

<i>(in thousands)</i>	<b>Fiber Optics</b>	<b>Photovoltaics</b>	<b>Total</b>
Balance as of September 30, 2005	\$ 14,259	\$ 20,384	\$ 34,643
Acquisition - Force Inc.	800	-	800
Acquisition - K2 Optronics	4,750	-	4,750
Acquisition - Earn out payments	231	-	231
Balance as of March 31, 2006	\$ 20,040	\$ 20,384	\$ 40,424

The following table sets forth changes in the carrying value of intangible assets by reportable segment:

<i>(in thousands)</i>	<b>As of March 31, 2006</b>			<b>As of September 30, 2005</b>		
	<b>Gross Assets</b>	<b>Accumulated Amortization</b>	<b>Net Assets</b>	<b>Gross Assets</b>	<b>Accumulated Amortization</b>	<b>Net Assets</b>
<b>Fiber Optics:</b>						
Patents	\$ 456	\$ (168)	\$ 288	\$ 368	\$ (136)	\$ 232
Ortel acquired IP	3,274	(2,070)	1,204	3,274	(1,746)	1,528
JDSU acquired IP	1,650	(275)	1,375	1,650	(110)	1,540
Alvesta acquired IP	193	(129)	64	193	(107)	86
Molex acquired IP	558	(279)	279	558	(223)	335
Corona acquired IP	1000	(367)	633	1,000	(267)	733
Phasebridge acquired IP	700	(65)	635	-	-	-
Force acquired IP	1,200	(86)	1,114	-	-	-
K2 Optronics acquired IP	1,500	(66)	1,434	-	-	-
Subtotal	10,531	(3,505)	7,026	7,043	(2,589)	4,454
<b>Photovoltaics:</b>						
Patents	326	(127)	199	271	(101)	170
Tecstar acquired IP	1,900	(1,566)	334	1,900	(1,350)	550
Subtotal	2,226	(1,693)	533	2,171	(1,451)	720

**Electronic Materials  
& Devices:**

Patents	424	(242)	182	390	(217)	173
<b>Total</b>	<b>\$ 13,181</b>	<b>\$ (5,440)</b>	<b>\$ 7,741</b>	<b>\$ 9,604</b>	<b>\$ (4,257)</b>	<b>\$ 5,347</b>

Based on the carrying amount of the intangible assets, the estimated future amortization expense is as follows:

**Amortization Expense***(in thousands)*

Period ending:

6-month period ended September 30, 2006	\$ 1,343
Year ended September 30, 2007	2,288
Year ended September 30, 2008	1,620
Year ended September 30, 2009	1,219
Year ended September 30, 2010	1,010
Thereafter	261
Total future amortization expense	\$ 7,741

**NOTE 11. Accrued Expenses and Other Current Liabilities.**

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

<b>Accrued Expenses and Other Current Liabilities</b> <i>(in thousands)</i>	<b>As of March 31, 2006</b>	<b>As of September 30, 2005</b>
Compensation-related	\$ 5,490	\$ 4,974
Interest	1,865	1,814
Warranty	1,441	1,268
Deferred revenue and customer deposits	2,286	1,539
Professional fees	616	1,082
Royalty	408	551
Acquisition-related	3,465	5,006
Self insurance	825	646
Other	937	2,198
<b>Total</b>	<b>\$ 17,333</b>	<b>\$ 19,078</b>

**Product Warranty Reserves.** EMCORE provides its customers with limited rights of return for non-conforming shipments and warranty claims for certain products. In accordance with FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, EMCORE makes estimates using historical experience rates as a percentage of revenue and accrues estimated warranty expense as a cost of revenue. We estimate the costs of our warranty obligations based on our historical experience of known product failure rates, use of materials to repair or replace defective products and service delivery costs incurred in correcting product failures. In addition, from time to time, specific warranty accruals may be made if unforeseen technical problems arise. Should our actual experience relative to these factors differ from our estimates, we may be required to record additional warranty reserves. Alternatively, if we provide more reserves than we need,

we may reverse a portion of such provisions in future periods. The following table sets forth changes in the product warranty accrual account:

**Warranty Reserve**

(in thousands)

Balance as of October 1, 2005	\$	1,268
Accruals for warranty expense		369
Reversals due to use or expiration of liability		(196)
Balance as of March 31, 2006	\$	1,441

**NOTE 12. Commitments and Contingencies.**

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

EMCORE guarantees 49% of any amounts borrowed under GELcore's revolving credit line. As of March 31, 2006, GELcore's outstanding borrowings were \$8.1 million. The maximum borrowing currently permitted under the credit line is approximately \$10.0 million.

As of March 31, 2006, EMCORE had three standby letters of credit totaling \$0.7 million.

**NOTE 13. Segment Data and Related Information.**

EMCORE has three operating segments: Fiber Optics, Photovoltaics, and Electronic Materials and Devices:

- EMCORE's Fiber Optics revenues are derived primarily from sales of optical components and subsystems for cable television (CATV), fiber to the premise (FTTP), enterprise routers and switches, telecom grooming switches, core routers, high performance servers, supercomputers, and satellite communications data links.
- EMCORE's Photovoltaics revenues are derived primarily from the sales of solar power conversion products, including solar cells, covered interconnect solar cells, and solar panels.
- EMCORE's Electronic Materials and Devices revenues are derived primarily from sales of wireless components, such as radio frequency (RF) materials including hetero-junction bipolar transistors and enhancement-mode pseudomorphic high electron mobility transistors, GaN materials for wireless base stations, and process development technology.

EMCORE evaluates its reportable segments in accordance with SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*. EMCORE's Chief Executive Officer is EMCORE's Chief Operating Decision Maker pursuant to SFAS 131, and he allocates resources to segments based on their business prospects, competitive factors, net revenue, operating results and other non-GAAP financial ratios.

The following tables set forth the revenues and percentage of total revenues attributable to each of EMCORE's operating segments for the three and six months ended March 31, 2006 and 2005.

<b>Revenues by Segment</b> (in thousands)	<b>Three months ended</b> <b>March 31, 2006</b>	<b>Three months ended</b> <b>March 31, 2005</b>
--	--	--

	Revenue	% of Revenue	Revenue	% of Revenue
Fiber Optics	\$ 25,852	62.8%	\$ 19,030	62.6%
Photovoltaics	10,263	24.9	7,829	25.7
Electronic Materials and Devices	5,047	12.3	3,571	11.7
Total revenues	\$ 41,162	100.0%	\$ 30,430	100.0%

**Revenues by Segment**  
(in thousands)

	Six months ended March 31, 2006		Six months ended March 31, 2005	
	Revenue	% of Revenue	Revenue	% of Revenue
Fiber Optics	\$ 50,858	62.7%	\$ 36,719	64.0%
Photovoltaics	20,987	25.9	15,277	26.6
Electronic Materials and Devices	9,208	11.4	5,398	9.4
Total revenues	\$ 81,053	100.0%	\$ 57,394	100.0%

The following tables set forth EMCORE's consolidated revenues by geographic region. Revenue was assigned to geographic regions based on the customers' or contract manufacturers' shipment locations.

**Geographic Revenues**  
(in thousands)

	Three months ended March 31, 2006		Three months ended March 31, 2005	
	Revenue	% of Revenue	Revenue	% of Revenue
North America	\$ 34,133	82.9%	\$ 25,013	82.2%
South America and Asia	5,570	13.5	3,696	12.1
Europe	1,459	3.6	1,721	5.7
Total revenues	\$ 41,162	100.0%	\$ 30,430	100.0%

**Geographic Revenues**  
(in thousands)

	Six months ended March 31, 2006		Six months ended March 31, 2005	
	Revenue	% of Revenue	Revenue	% of Revenue
North America	\$ 68,071	84.0%	\$ 45,712	79.6%
South America and Asia	10,938	13.5	8,022	14.0
Europe	2,044	2.5	3,660	6.4
Total revenues	\$ 81,053	100.0%	\$ 57,394	100.0%

For the three months ended March 31, 2006 and 2005, Cisco Systems, Inc. (Cisco) accounted for 17% and 20% of our total revenue, respectively. For the six months ended March 31, 2006 and 2005, Cisco accounted for 17% and 22% of our total revenue, respectively.

The following table sets forth operating losses attributable to each EMCORE operating segment.

<b>Operating Loss by Segment</b> <i>(in thousands)</i>	<b>Three Months Ended</b> <b>March 31,</b>		<b>Six Months Ended</b> <b>March 31,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Operating loss (income) by segment:				
Fiber Optics	\$ 4,728	\$ 3,282	\$ 7,434	\$ 8,518
Photovoltaics	1,837	(6)	3,448	1,052
Electronic Materials and Devices	711	391	1,255	2,641
Operating loss	7,276	3,667	12,137	12,211
Other (income) expenses:				
Interest expense	1,113	953	2,080	1,922
Loss from convertible subordinated notes				
exchange offer	-	-	1,078	-
Equity in net loss of Velox investment	150	-	332	-
Equity in net loss (income) of GELcore investment	397	297	(150)	(75)
Total other expenses	1,660	1,250	3,340	1,847
Loss from continuing operations	\$ 8,936	\$ 4,917	\$ 15,477	\$ 14,058

On October 1, 2005, EMCORE adopted SFAS No. 123(R) and incurred stock-based compensation expense as more fully described in Note 3 to EMCORE's condensed consolidated financial statements. For the three and six months ended March 31, 2006, operating loss includes the effect of \$0.9 million and \$2.1 million, respectively, of stock-based compensation expense related to employee stock options and employee stock purchases under SFAS 123(R). There was no stock-based compensation expense in fiscal 2005.

Operating loss also includes a \$2.7 million charge related to a related party loan forgiveness. This charge was allocated to each segment based upon fiscal 2006 forecasted annual revenues.

Long-lived assets (consisting of property, plant and equipment, goodwill and intangible assets) for each operating segment are as follows:

<b>Long-Lived Assets</b> <i>(in thousands)</i>	<b>As of</b> <b>March 31,</b> <b>2006</b>	<b>As of</b> <b>September</b> <b>30,</b> <b>2005</b>
Fiber Optics	\$ 62,525	\$ 56,261
Photovoltaics	39,001	37,861
Electronic Materials and Devices	4,017	2,825
Total	\$ 105,543	\$ 96,947



**PART II. OTHER INFORMATION**

**ITEM 6. EXHIBITS.**

<b><u>Exhibit No.</u></b>	<b><u>Description</u></b>
<u>31.1</u>	Certification by Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
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\* *Filed herewith*

**SIGNATURES**

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

**EMCORE CORPORATION**

Date: May 24, 2006

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

Reuben F. Richards, Jr.  
President & Chief Executive Officer  
(Principal Executive Officer)

Date: May 24, 2006

By: /s/ Thomas G. Werthan

Thomas G. Werthan  
Executive Vice President & Chief Financial  
Officer  
(Principal Accounting and Financial  
Officer)

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**EXHIBIT INDEX**

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