EMCORE CORP
Form 10-Q
August 11, 2008

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

FORM 10-Q

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

For the quarterly period ended: June 30, 2008

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.)

10420 Research Road SE, Albuquerque, NM 87123
(Address of principal executive offices) (Zip Code)

(505) 332-5000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] 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 definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):
[ ] Large accelerated filer [X] 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 Exchange Act). Yes [ ] No [X]

The number of shares outstanding of the registrant's no par value common stock as of August 4, 2008 was 77,682,709.

EMCORE Corporation
FORM 10-Q
For the Quarterly Period Ended June 30, 2008
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

EMCORE CORPORATION
Condensed Consolidated Statements of Operations
For the three and nine months ended June 30, 2008 and 2007
(in thousands, except per share data)
(unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2007	2008	2007
Product revenue	$ 71,934	$ 39,565	$ 164,695	$ 108,907
Service revenue	3,568	4,863	13,973	13,715
Total revenue	75,502	44,428	178,668	122,622
Cost of product revenue	61,767	32,181	139,212	91,292
Cost of service revenue	89	2,542	9,059	9,160
Total cost of revenue	61,856	34,723	148,271	100,452
Gross profit	13,646	9,705	30,397	22,170
Operating expenses:				
Selling, general, and administrative	13,906	15,516	36,032	41,198
Research and development	11,382	7,668	28,132	21,807
Total operating expenses	25,288	23,184	64,164	63,005
Operating loss	(11,642)	(13,479)	(33,767)	(40,835)
Other (income) expense:				
Interest income	(124)	(723)	(778)	(3,543)
Interest expense	-	1,254	1,580	3,776
Loss from conversion of subordinated notes	-	-	4,658	-
Loss from early redemption of convertible subordinated notes	-	561	-	561
Stock–based compensation expense from tolled options	-	-	4,316	-
Gain from insurance proceeds	-	-	-	(357)
Gain from sale of WWAT investment	(3,692)		(3,692)	
Loss on disposal of equipment	-	-	86	-
Foreign exchange gain	(104)	(12)	(302)	(12)
	(3,920)	1,080	5,868	425

Total other (income) expense				
Net loss	$ (7,722)	$ (14,559)	$ (39,635)	$ (41,260)
Per share data:				
Basic and diluted per share data:				
Net loss	$ (0.10)	$ (0.29)	$ (0.62)	$ (0.81)
Weighted-average number of basic and diluted shares outstanding	76,582	51,043	64,155	50,974

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

EMCORE CORPORATION
Condensed Consolidated Balance Sheets
As of June 30, 2008 and September 30, 2007
(In thousands)
(unaudited)

	As of June 30, 2008	As of September 30, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 18,183	$ 12,151
Restricted cash	1,869	1,538
Available-for-sale securities	-	29,075
Accounts receivable, net of allowance of $490 and $802, respectively	68,157	38,151
Receivables, related party	287	332
Income tax receivable	130	-
Inventory, net	50,066	29,205
Prepaid expenses and other current assets	6,032	4,350
Total current assets	144,724	114,802
Property, plant, and equipment, net	84,938	57,257
Goodwill	76,850	40,990
Other intangible assets, net	28,570	5,275
Investments in unconsolidated affiliates	12,069	14,872
Available-for-sale securities	1,458	-
Long-term investments and restricted cash	3,472	-
Other non-current assets, net	654	1,540
Total assets	$ 352,735	$ 234,736
LIABILITIES and SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 36,751	$ 22,685
Accrued expenses and other current liabilities	24,670	28,776
Income tax payable	594	137
Total current liabilities	62,015	51,598
Convertible senior subordinated notes	-	84,981
Total liabilities	62,015	136,579
Commitments and contingencies (Note 12)		

Shareholders’ equity:		
Preferred stock, $0.0001 par, 5,882 shares authorized, no shares outstanding	-	-
Common stock, no par value, 200,000 shares authorized, 77,672 shares issued and 77,513 outstanding at June 30, 2008; 51,208 shares issued and 51,049 shares outstanding at September 30, 2007	676,354	443,835
Accumulated deficit	(383,539)	(343,578)
Accumulated other comprehensive loss	(12)	(17)
Treasury stock, at cost; 159 shares	(2,083)	(2,083)
Total shareholders’ equity	290,720	98,157
Total liabilities and shareholders’ equity	$ 352,735	$ 234,736

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

EMCORE CORPORATION
Condensed Consolidated Statements of Cash Flows
For the nine months ended June 30, 2008 and 2007
(in thousands)
(unaudited)

	Nine Months Ended June 30,	
Cash flows from operating activities:	2008	2007
Net loss	$ (39,635)	$ (41,260)
Adjustments to reconcile net loss to net cash used for operating activities:		
Stock-based compensation expense	8,705	4,800
Depreciation and amortization expense	9,509	6,903
Accretion of loss from convertible subordinated notes	41	167
Provision for doubtful accounts	204	309
Compensatory stock issuances	1,648	640
Loss from disposal of property, plant, and equipment	86	16
Loss from early redemption of convertible subordinated notes	-	561
Loss from conversion of convertible subordinated notes	1,169	-
Gain from sale of WWAT investment	(3,692)	-
Forgiveness of shareholders' note receivable	-	82
Reduction of note receivable due for services received	390	391
Total non-cash adjustments	18,061	13,869
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable	(30,172)	(13,556)
Inventory	10,559	(4,559)
Prepaid expenses and other current assets	(1,674)	3,527
Other assets	(1,059)	(3,540)
Accounts payable	14,066	840
Accrued expenses and other current liabilities	(6,004)	318
Total change in operating assets and liabilities	(14,284)	(16,970)
Net cash used for operating activities	(35,859)	(44,361)
Cash flows from investing activities:		
Purchase of plant and equipment	(15,028)	(4,810)
Proceeds from insurance recovery	1,189	362
Investment in unconsolidated affiliates	(1,503)	(13,892)
Proceeds from employee notes receivable	-	121
Proceeds from notes receivable	-	2,250
Purchase of businesses, net of cash acquired	(75,779)	(3,885)
Funding of restricted cash	(874)	(420)

Purchase of available-for-sale securities	(7,000)	(22,900)
Sale of available-for-sale securities	32,805	91,300
Proceeds from sale of WWAT investment	6,540	-
Net cash (used for) provided by investing activities	$ (59,651)	$ 48,126

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

EMCORE CORPORATION
Condensed Consolidated Statements of Cash Flows (continued)
For the nine months ended June 30, 2008 and 2007
(in thousands)
(unaudited)

	Nine Months Ended June 30, 2008	2007
Cash flows from financing activities:		
Payments on capital lease obligations	$ (11)	$ (44)
Proceeds from exercise of stock options	6,960	274
Proceeds from employee stock purchase plan	723	202
Principal payment on convertible debt obligation	-	(11,428)
Proceeds from private placement of common stock and warrants	93,692	-
Net cash provided by (used for) financing activities	101,364	(10,996)
Effect of foreign currency	176	-
Net increase in cash and cash equivalents	6,032	7,231
Cash and cash equivalents, beginning of period	12,151	22,592
Cash and cash equivalents, end of period	$ 18,183	$ 15,361
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest	$ 3,314	$ 4,836
Cash paid for income taxes	$ -	$ 2,351
NON-CASH DISCLOSURE		
Issuance of common stock for purchase of Intel's Optical Platform Division	$ 36,085	$ -
Issuance of common stock for conversion of convertible senior subordinated notes	$ 85,428	$ -

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

EMCORE Corporation
Notes to Condensed Consolidated Financial Statements
(unaudited)

NOTE 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of EMCORE Corporation and its subsidiaries (the "Company" or "EMCORE"). All intercompany accounts and transactions have been eliminated in consolidation.

These 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 footnotes required by U.S. GAAP for annual financial statements. In the opinion of management, all information considered necessary for a fair presentation of the financial statements has 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, 2007 has been derived from the audited consolidated financial statements as of such date. For a more complete understanding of the Company's financial position, operating results, risk factors and other matters, please refer to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2007.

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management of the Company 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 develops estimates based on historical experience and on various assumptions about the future that are believed to be reasonable based on the best information available. The Company'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.

Earnings Per Share

For the three and nine months ended June 30, 2008, stock options representing 3,800,327 and 5,134,376 shares, respectively, of common stock were excluded from the diluted earnings per share calculations. For the three and nine months ended June 30, 2007, stock options representing 2,901,002 and 2,860,692 shares, respectively, of common stock were excluded from the diluted earnings per share calculations. These stock options, and the shares underlying the Company's convertible senior subordinated notes for the three and nine months ended June 30, 2007, were not included in the computation of diluted earnings per share since the Company incurred a net loss for the periods presented and any effect would have been anti-dilutive.

NOTE 2. Recent Accounting Pronouncements

SFAS 141(R) - In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") 141(R), Business Combinations. This statement replaces SFAS 141, Business Combinations, and requires an acquirer to recognize the assets acquired, the liabilities assumed, including those arising from contractual contingencies, any contingent consideration, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the statement. SFAS 141(R) also requires the acquirer in a business combination achieved in stages (sometimes referred to as a step acquisition) to recognize the identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, at the full amounts of their fair values (or other amounts determined in accordance with SFAS 141(R)). In addition, SFAS 141(R)'s requirement to measure the noncontrolling interest in the acquiree at fair value will result in recognizing the goodwill attributable to the noncontrolling interest in addition to that attributable to the acquirer. SFAS 141(R) amends SFAS No. 109, Accounting for Income Taxes, to require the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. It also amends SFAS 142, Goodwill and Other Intangible Assets, to, among other things, provide guidance on the impairment testing of acquired research and development intangible assets and assets that the acquirer intends not to use. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Management is currently assessing the potential impact that the adoption of SFAS 141(R) could have on the Company's financial statements.

SFAS 157 - In September 2006, the FASB issued SFAS 157, Fair Value Measurements, which defines fair value, providing a framework for measuring fair value, and expands the disclosures required for fair value measurements. SFAS 157 applies to other accounting pronouncements that require fair value measurements; it does not require any new fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. However, in December 2007, the FASB issued FASB Staff Position FAS 157-b, which deferred the effective date of SFAS No. 157 for one year, as it relates to nonfinancial assets and liabilities. Management is currently assessing the potential impact that the adoption of SFAS 157 could have on the Company's financial statements.

SFAS 159 - In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115. The fair value option permits entities to choose to measure eligible financial instruments at fair value at specified election dates. The entity will report unrealized gains and losses on the items on which it has elected the fair value option in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007 and is required to be adopted by the Company on October 1, 2008. Management is currently assessing the potential impact that the adoption of SFAS 159 could have on the Company's financial statements.

SFAS 160 - In December 2007, the FASB issued SFAS 160, Noncontrolling Interests in Consolidated Financial Statements. SFAS 160 amends Accounting Research Bulletin 51, Consolidated Financial Statements, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 also changes the way the consolidated income statement is presented by requiring consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. SFAS 160 requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated and requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent owners and the interests of the noncontrolling owners of a subsidiary. SFAS 160 is effective for fiscal periods, and interim periods within those fiscal years, beginning on or after December 15, 2008. Management is currently assessing the potential impact that the adoption of SFAS 160 could have on our financial statements.

SFAS 161 - In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133. SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedge items are accounted for under Statement 133, Accounting for Derivative Instruments and Hedging Activities, and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is intended to enhance the current disclosure framework in SFAS 133 and requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk related contingent features in derivative agreements. The provisions of SFAS 161 are effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. Management is currently assessing the potential impact that the adoption of SFAS 161 could have on our financial statements.

NOTE 3. Equity

Stock Options

The Company has stock option plans to provide long-term incentives to eligible employees and officers in the form of stock options. Most of the stock options vest and become exercisable over four to five years and have ten-year terms. The Company 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 stock options to purchase up to 2,744,118 shares of the Company's common stock. On March 31, 2008, the 2000 Plan was amended to authorize an additional grant of 3,500,000 stock options for a total of 12,850,000 shares of the Company's common stock. As of June 30, 2008, no stock options were available for issuance under the 1995 Plan and 790,620 stock 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.

The following table summarizes the activity under the Option Plans for the nine months ended June 30, 2008:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)
Outstanding as of October 1, 2007	5,697,766	$ 5.46	
Granted	3,983,250	7.79	
Exercised	(1,615,123)	4.29	
Tolled	658,989	5.19	
Cancelled and expired	(255,446)	7.96	
Outstanding as of June 30, 2008	8,469,436	$ 6.68	8.28
Vested and expected to vest as of June 30, 2008	5,568,060	$ 6.33	7.83
Exercisable as of June 30, 2008	2,643,123	$ 5.01	6.17

The weighted-average grant date fair value of stock options granted during the nine months ended June 30, 2008 and 2007 was $5.35 and $4.00, respectively. The total intrinsic value of stock options exercised during the nine months ended June 30, 2008 and 2007 was $11.5 million and $0.2 million, respectively. The aggregate intrinsic value of fully vested and expected to vest stock options as of June 30, 2008 was $6.4 million. The aggregate intrinsic value of exercisable stock options as of June 30, 2008 was $5.6 million.

As of June 30, 2008, there was $15.4 million of total unrecognized compensation expense related to non-vested stock-based compensation arrangements granted under the Option Plans. This expense is expected to be recognized over an estimated weighted-average life of 3.46 years.

Stock-based compensation expense is measured at grant date, based on the fair value of the award, over the requisite service period. As required by SFAS 123(R), Share-Based Payment (revised 2004), 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 during the three and nine months ended June 30, 2008 and 2007 was as follows:

(in thousands, except per share data)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2007	2008	2007
Stock-based compensation expense by award type:				
Employee stock options	$ 1,555	$ 1,130	$ 4,035	$ 4,800
Employee stock purchase plan	186	-	354	-
Former employee stock options tolled	-	-	4,316	-
Total stock-based compensation expense	$ 1,741	$ 1,130	$ 8,705	$ 4,800

Net effect on net loss per basic and diluted share	$	(0.02)	$	(0.02)	$	(0.14)	$	(0.09)

Former Employee Stock Options Tolled

Under the terms of stock option agreements issued under the 2000 Plan, terminated employees who have vested and exercisable stock options have 90 days after the date of termination to exercise stock options. In November 2006, the Company announced suspension of reliance on previously issued financial statements, which in turn caused the Company's Form S-8 registration statements for shares of common stock issuable under the Option Plans not to be available. Therefore, terminated employees were precluded from exercising their stock options during the remaining contractual term (the "Blackout Period"). To address this issue, the Company's Board of Directors agreed in April 2007 to approve a stock option grant "modification" for these individuals by extending the normal 90-day exercise period after the termination date to a date after which the Company became compliant with its SEC filings and the registration of the stock option shares was once again effective. The Company communicated the terms of the tolling agreement with its terminated employees in November 2007. The Company's Board of Directors approved an extension of the stock option expiration date equal to the number of calendar days during the Blackout Period before such stock option would have otherwise expired (the "Tolling Period"). Former employees were able to exercise their vested stock options beginning on the first day after the lifting of the Blackout Period for a period equal to the Tolling Period. The Company accounted for the modification of stock options issued to terminated employees as additional compensation expense in accordance with SFAS 123(R) in the first quarter of fiscal 2008 and adjusted the stock options to market value in the first quarter of 2008 and recognized income on expired options in the quarters ended December 31, 2007 and March 31, 2008. All tolled options were either exercised or expired by January 29, 2008.

Valuation Assumptions

The Company estimated the fair value of stock options using a Black-Scholes model. The fair value of each stock 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.

Black-Scholes Weighted-Average Assumptions:	For the Nine Months Ended June 30, 2008
Expected dividend yield	0%
Expected stock price volatility	80.8%
Risk-free interest rate	2.94%
Expected term (in years)	5.56
Estimated pre-vesting forfeitures	23.3%

Expected Dividend Yield: The Black-Scholes valuation model calls for a single expected dividend yield as an input. The Company 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 the Company's historical stock prices.

Risk-Free Interest Rate: The Company 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 the Company's stock-based awards do not correspond with the terms for which interest rates are quoted, the Company performed a straight-line interpolation to determine the rate from the available maturities.

Expected Term: The Company's expected term represents the period that the Company'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, the Company considers voluntary termination behavior as well as future workforce reduction programs, if any.

Preferred Stock

The Company’s Restated Certificate of Incorporation authorizes the Board of Directors to issue up to 5,882,352 shares of preferred stock of the Company upon such terms and conditions having such rights, privileges and preferences as the Board of Directors may determine. As of June 30, 2008 and September 30, 2007, no shares of preferred stock were issued or outstanding.

Warrants

As of June 30, 2008, the Company had 1,400,003 warrants outstanding and exercisable. No warrants were outstanding as of September 30, 2007.

Employee Stock Purchase Plan

In fiscal 2000, the Company adopted an Employee Stock Purchase Plan (the “ESPP”). The ESPP provides employees of the Company an opportunity to purchase common stock through payroll deductions. 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 purchase price is set at 85% of the average high and low market price for the Company's 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 a fair value up to $25,000. In November 2006, the Company suspended the ESPP due to its review of historical stock option granting practices. The Company reinstated the ESPP on January 1, 2008. The number of shares of common stock available for issuance under the ESPP is 2,000,000 shares.

The amounts of shares issued for the ESPP are as follows:

	Number of Common Stock Shares Issued		Purchase Price per Common Stock Share
Amount of shares reserved for the ESPP	2,000,000		
Number of shares issued in calendar years 2000 through 2003	(398,159)	$	1.87 - $40.93
Number of shares issued in June 2004 for first half of calendar year 2004	(166,507)	$	2.73
Number of shares issued in December 2004 for second half of calendar year 2004	(167,546)	$	2.95
Number of shares issued in June 2005 for first half of calendar year 2005	(174,169)	$	2.93
Number of shares issued in December 2005 for second half of calendar year 2005	(93,619)	$	3.48
Number of shares issued in June 2006 for first half of calendar year 2006	(123,857)	$	6.32
Number of shares issued in June 2008 for the first half of calendar year 2008	(124,906)	$	5.62
Remaining shares reserved for the ESPP as of June 30, 2008	751,237		

Future Issuances

As of June 30, 2008, the Company had reserved a total of 12,711,296 shares of its common stock for future issuances as follows:

	Number of Common Stock Shares Available
For exercise of outstanding common stock options	8,469,436
For future issuances to employees under the ESPP plan	751,237
For future common stock option awards	790,620
For future exercise of warrants	1,400,003
For future issuance in relation to the acquisition of Intel's Optical Platform Division	1,300,000
Total reserved	12,711,296

Private Placement of Common Stock and Warrants

On February 20, 2008, the Company consummated the sale of $100 million of restricted common stock and warrants. In this transaction, investors purchased 8 million shares of our common stock, no par value, and warrants to purchase an additional 1.4 million shares of our common stock. The purchase price was $12.50 per share, priced at the 20-day volume-weighted average price. The warrants grant the holder the right to purchase one share of our common stock at a price of $15.06 per share, representing a 20.48% premium over the purchase price. The warrants are immediately exercisable and remain exercisable until February 20, 2013. In addition, the Company entered into a registration rights agreement with the investors to register for resale the shares of common stock issued in this transaction and the shares of common stock to be issued upon exercise of the warrants. Beginning two years after their issuance, the warrants may be called by the Company for a price of $0.01 per underlying share if the closing price of its common stock has exceeded 150% of the exercise price for at least 20 trading days within a period of any 30 consecutive trading days and other conditions are met. Total agent fees incurred were 5.75% of the gross proceeds, or $5.8 million. The Company used a substantial portion of the net proceeds to acquire the telecom assets of Intel's Optical Platform Division and is using the remainder for working capital requirements.

In the registration rights agreement, the Company agreed to pay liquidated damages in the event it did not file with the SEC a registration statement with respect to the registrable securities, or if the registration statement was not declared effective, within certain deadlines. The Company filed the registration statement, and it was declared effective within the deadlines specified in the registration rights agreement. The Company further agreed to pay liquidated damages if sales of the registrable securities included in the registration statement are unable to be made, or if, after a period of six months following the closing, the Company does not file with the SEC the reports required to be filed pursuant to Rule 144(c)(1) under the Securities Act and, as a result, holders are unable to sell their registrable securities. In such events, the Company agreed to pay as liquidated damages to each holder of registrable securities relating an amount in cash equal to one (1) percent (1%) of the aggregate purchase price of such holder's registrable securities included in such registration statement on the day that such a failure first occurs and on every thirtieth day thereafter until such failure is cured. Liquidated damages shall be paid on the earlier of (i) the last day of the calendar month during which such damages are incurred and (ii) the third business day after the event or failure giving rise to the damages is cured. In the event the Company fails to make such payments in a timely manner, such liquidated damages shall bear simple interest at the rate of four (4) percent (4%) per month until paid in full. In no event shall the aggregate amount of liquidated damages exceed, in the aggregate, ten (10) percent (10%) of the aggregate purchase price of the common stock sold in the private placement.

The Company accounted for the various components of the private placement transaction using the provisions of EITF Issue No. 00-19, Accounting for Derivative Financial instruments Indexed to, and Potentially Settled in a Company's Own Stock; and FASB Staff Position EITF 00-19-2, Accounting for Registration Payment Arrangements. Warrants issued to the investors were accounted for as an equity transaction with a value of $9.8 million recorded to common stock. The potential future payments to the investors are considered a contingent liability in accordance with SFAS No. 5 Accounting for Contingencies. As of June 30, 2008, the Company did not record any contingent liability associated with the liquidated damages clause.

The costs associated with this offering were $6.3 million which was recorded as an offset to common stock.

Share Dilution

The following table summarizes the Company's equity transactions and effect on share dilution for the nine months ended June 30, 2008:

	Number of Common Stock Shares Outstanding
Common stock shares outstanding – as of October 1, 2007	51,048,481
Conversion of convertible subordinated notes to equity (see Note 11 - Debt)	12,186,656
Private placement transaction	8,000,000
Acquisition of Intel's Optical Platform Division (see Note 4 – Acquisitions)	4,422,688
Stock option exercises and other compensatory stock issuances	1,855,403
Common stock shares outstanding – as of June 30, 2008	77,513,228

On March 31, 2008, the Board of Directors authorized an additional 100 million shares of common stock available for issuance for a total of 200 million shares authorized.

NOTE 4. Acquisitions

Intel's Optical Platform Division

On February 22, 2008, the Company acquired assets of the telecom portion of Intel Corporation's Optical Platform Division ("OPD"). The telecom assets acquired include inventory, fixed assets, intellectual property, and technology comprised of tunable lasers, tunable transponders, 300-pin transponders, and integrated tunable laser assemblies. The purchase price was $75 million in cash and $10 million in the Company's common stock, priced at a volume-weighted average price of $13.84 per share. Under the terms of the asset purchase agreement, the purchase price of $85 million is subject to adjustment based on an inventory true-up, plus specifically assumed liabilities. Direct transaction costs totaled $0.5 million. This acquisition was financed through proceeds received from the $100 million private placement of common stock and warrants (see Note 3).

On April 20, 2008, the Company acquired the enterprise and storage assets of Intel Corporation's OPD business, as well as Intel's Connects Cables business. The assets acquired include inventory, fixed assets, intellectual property, and technology relating to optical transceivers for enterprise and storage customers, as well as optical cable interconnects for high-performance computing clusters. As consideration for the purchase of assets, the Company issued 3.7 million restricted shares of the Company's common stock to Intel. In addition, the Company may be required to make an additional payment to Intel based on the Company's stock price twelve months after the closing of the transaction. In the event that the Company is required to make an additional payment, it has the option to make that payment in cash, common stock or both (but not to exceed the equivalent value of 1.3 million shares).

The purchase price allocation for the entire business acquired has been prepared on a preliminary basis and is subject to change as new facts and circumstances emerge. The Company is currently completing the purchase price allocation and valuation of the acquired assets. The Company will adjust the preliminary purchase price allocation to reflect changes in the final valuation report, which is expected to be completed by September 2008. Amortization expense totaled $0.9 million and $1.0 million for the three and nine months ended June 30, 2008, respectively. Of the total goodwill recognized, approximately $35.0 million is expected to be deductible for tax purposes over a 15 year life.

The preliminary purchase price was allocated as follows:

(in thousands)
Intel's Optical Platform Division

Net purchase price	$	111,864
Net assets acquired		(76,834)
Excess purchase price allocated to goodwill	$	35,030

Net assets acquired in the acquisition were as follows:

Inventory	$ 31,420
Fixed assets	20,010
Intangible assets	25,404
Net assets acquired	$ 76,834

In connection with this acquisition, Intel and the Company entered into a Transition Services Agreement (the "TSA"), which allows Intel to carve-out the business and deliver those assets to the Company. Pursuant to the terms of the TSA, Intel intends to manufacture, assemble, test, and supply products that are sold by the business. Intel will also provide certain transition services to the Company, including financial services, supply chain support, data extraction, conversion services, facilities and site computing support, and office space services. Operating expenses associated with the TSA are being expensed as incurred. For the three and nine months ended June 30, 2008, the Company incurred $3.2 million and $4.1 million, respectively of TSA-related fees in operating expenses. The TSA is expected to continue through September 2008 or until such time when the Company can arrange its own resources to operate the acquired business.

The following unaudited condensed consolidated pro forma financial data has been prepared to give effect to the Company's acquisition of certain assets and liabilities of OPD. The pro forma financial information has been developed by the application of pro forma adjustments to the estimated results of operations of OPD, and the historical Condensed Consolidated Statements of Operations of the Company as if OPD had been acquired as of October 1, 2006. The pro forma financial information is based upon available information and assumptions that management believes are reasonable. The pro forma financial information does not purport to represent what our consolidated results of operations would have been had the Company's acquisition of OPD occurred on the dates indicated, or to project our consolidated financial performance for any future period.

Condensed Consolidated Pro Forma Statement of Operations
(unaudited)

(in thousands, except per share data)	Three Months Ended June 30, 2008		Three Months Ended June 30, 2007	
	EMCORE	PRO FORMA	EMCORE	PRO FORMA
Revenues	$ 75,502	$ 76,966	$ 44,428	$ 72,928
Net loss	(7,722)	(8,336)	(14,559)	(12,859)
Net loss per basic and diluted shares	$ (0.10)	$ (0.11)	$ (0.29)	$ (0.24)

(in thousands, except per share data)	Nine Months Ended June 30, 2008		Nine Months Ended June 30, 2007	
	EMCORE	PRO FORMA	EMCORE	PRO FORMA
Revenues	$ 178,688	$ 216,193	$ 122,622	$ 206,879
Net loss	(39,635)	(38,280)	(41,260)	(36,780)
Net loss per basic and diluted shares	$ (0.62)	$ (0.60)	$ (0.81)	$ (0.72)

This transaction was accounted for as a purchase in accordance with SFAS 141, Business Combinations; therefore, the tangible assets acquired and liabilities assumed were recorded at fair value on the acquisition date. The operating results of the entire business acquired are included in the accompanying consolidated statement of operations from the date of acquisition. The acquired business is part of the Company’s Fiber Optics operating segment.

NOTE 5. Receivables, net

The components of accounts receivable consisted of the following:

(in thousands)	As of June 30, 2008	As of September 30, 2007
Accounts receivable	$ 56,512	$ 35,558
Accounts receivable – unbilled	12,135	3,395
Accounts receivable, gross	68,647	38,953
Allowance for doubtful accounts	(490)	(802)
Total accounts receivable, net	$ 68,157	$ 38,151

NOTE 6. 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. The components of inventory consisted of the following:

(in thousands)	As of June 30, 2008	As of September 30, 2007
Raw materials	$ 19,352	$ 19,884
Work-in-process	10,192	6,842
Finished goods	27,050	10,891
Inventory, gross	56,594	37,617
Less: allowance for excess and obsolescence	(6,528)	(8,412)
Total inventory, net	$ 50,066	$ 29,205

As part of our acquisition of Intel's Optical Platform Division, the Company acquired inventory of approximately $31.4 million (see Note 4 - Acquisitions).

NOTE 7. Property, Plant, and Equipment, net

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

(in thousands)	As of June 30, 2008	As of September 30, 2007
Land	$ 1,502	$ 1,502
Building and improvements	44,473	43,397
Equipment	104,770	75,631
Furniture and fixtures	6,458	5,643
Leasehold improvements	93	2,141
Construction in progress	6,878	3,744
Property, plant and equipment, gross	164,174	132,058
Less: accumulated depreciation and amortization	(79,236)	(74,801)
Total property, plant and equipment, net	$ 84,938	$ 57,257

As part of our acquisition of Intel's Optical Platform Division, the Company acquired fixed assets of approximately $20.0 million (see Note 4 – Acquisitions).

As of June 30, 2008 and September 30, 2007, the Company did not have any significant capital lease agreements.

Depreciation expense was $3.5 million and $7.3 million for the three and nine months ended June 30, 2008, respectively, and $1.3 million and $5.0 million for the three and nine months ended June 30, 2007, respectively.

NOTE 8. Goodwill and Intangible Assets, net

The following table sets forth changes in the carrying value of goodwill by reportable segment during the nine months ended June 30, 2008:

(in thousands)	Fiber Optics	Photovoltaics	Total
Balance as of October 1, 2007	$ 20,606	$ 20,384	$ 40,990
Acquisition – earn-out payments	712	-	712
Acquisition – Intel's Optical Platform Division	35,030	-	35,030
Final purchase price allocation adjustment: Opticomm acquisition	118	-	118
Balance as of June 30, 2008	$ 56,466	$ 20,384	$ 76,850

The following table sets forth the carrying value of intangible assets, consisting of patents and acquired intellectual property ("IP"), as of June 30, 2008 and September 30, 2007, by reportable segment:

(in thousands)	As of June 30, 2008			As of September 30, 2007		
	Gross Assets	Accumulated Amortization	Net Assets	Gross Assets	Accumulated Amortization	Net Assets
Fiber Optics:						
Patents	$ 998	$ (495)	$ 503	$ 845	$ (358)	$ 487
Ortel acquired IP	3,274	(3,037)	237	3,274	(2,893)	381
JDSU acquired IP	1,040	(661)	379	1,040	(512)	528
Alvesta acquired IP	193	(193)	-	193	(187)	6
Molex acquired IP	558	(530)	28	558	(446)	112
Phasebridge acquired IP	603	(409)	194	603	(347)	256
Force acquired IP	1,075	(590)	485	1,075	(443)	632
K2 acquired IP	583	(325)	258	583	(248)	335
Opticomm acquired IP	2,178	(586)	1,592	2,504	(321)	2,183
Intel acquired IP	25,404	(1,002)	24,402	-	-	-
Subtotal	35,906	(7,828)	28,078	10,675	(5,755)	4,920
Photovoltaics:						
Patents	862	(370)	492	615	(260)	355
Tecstar acquired IP	1,900	(1,900)	-	1,900	(1,900)	-
Subtotal	2,762	(2,270)	492	2,515	(2,160)	355
Total	$ 38,668	$ (10,098)	$ 28,570	$ 13,190	$ (7,915)	$ 5,275

Amortization expense was $1.2 million and $2.2 million for the three and nine months ended June 30, 2008, respectively, and $0.8 million and $1.9 million for the three and nine months ended June 30, 2007, respectively.

Based on the carrying amount of the intangible assets, and assuming no future impairment of the underlying assets, the estimated future amortization expense is as follows:

(in thousands)	
Period ending:	
Three-month period ended September 30, 2008	$ 1,856
Year ended September 30, 2009	4,758
Year ended September 30, 2010	4,664

Year ended September 30, 2011	4,184
Year ended September 30, 2012	3,715
Year ended September 30, 2013	2,702
Thereafter	6,691
Total future amortization expense	$ 28,570

As of June 30, 2008, due to the recent decline in the Company's stock price, we tested for impairment of our goodwill and intangible assets and based on that analysis, we determined that the carrying amount of the reporting units did not exceed their fair value, and therefore, no impairment was recognized for any period presented in the condensed consolidated financial statements.

NOTE 9. Accrued Expenses and Other Current Liabilities

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

(in thousands)	As of June 30, 2008	As of September 30, 2007
Compensation-related	$ 7,449	$ 8,398
Interest	-	1,775
Warranty	2,028	1,310
Professional fees	3,461	6,213
Royalty	1,491	705
Self insurance	816	794
Deferred revenue, contract losses and customer deposits	1,852	687
Tax-related	4,332	3,460
Restructuring accrual	439	2,112
Inventory obligation	1,499	1,499
Other	1,303	1,823
Total accrued expenses and other current liabilities	$ 24,670	$ 28,776

In February 2008, the Company converted all of its convertible subordinated notes into shares of common stock (see Note 11 – Debt). As of June 30, 2008, the Company did not have any long-term debt or related accrued interest.

As of June 30, 2008, the Company had accrued $1.3 million related to estimated contract losses on certain CPV system-related orders.

NOTE 10. Restructuring Charges

As the Company has historically acquired businesses and consolidated them into its existing operations, the Company has incurred charges associated with the transition and integration of those activities. In accordance with SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities, expenses recognized as restructuring charges include costs associated with the integration of several business acquisitions and the Company's overall cost-reduction efforts.   Restructuring charges are included in SG&A. These charges primarily relate to our Fiber Optics operating segment. Costs incurred and expected to be incurred consist of the following:

(in thousands)	Amount Incurred in Period	Cumulative Amount Incurred to Date	Amount Expected in Future Periods	Total Amount Expected to be Incurred
One-time termination benefits	$ 4	$ 3,585	$ -	$ 3,585

The following table sets forth changes in the accrual for restructuring charges during the nine months ended June 30, 2008:

(in thousands)

Balance at October 1, 2007	$ 2,112
Increase in liability	275
Costs paid or otherwise settled	(1,948)
Balance at June 30, 2008	$ 439

NOTE 11. Debt

In January 2008, the Company entered into agreements with holders of approximately 97.5%, or approximately $83.3 million of its outstanding 5.50% convertible subordinated notes due 2011 (the "Notes") pursuant to which the holders converted their Notes into the Company's common stock. In addition, the Company called for redemption of all of its remaining outstanding Notes. Upon conversion of the Notes, the Company issued shares of its common stock, based on a conversion price of $7.01, in accordance with the terms of the Notes. To incentivize certain holders to convert their Notes, the Company made cash payments to such holders equal to 4% of the principal amount of the Notes converted, plus accrued interest. By February 20, 2008, all Notes were redeemed and converted into the Company common stock. As a result of these transactions, 12.2 million shares of the Company common stock were issued. The Company recognized a loss totaling $4.7 million on the conversion of Notes to equity of which $3.5 million was paid in cash. Interest expense incurred on the Notes totaled $1.6 million for the nine months ended June 30, 2008, and $1.3 million and $3.8 million for the three and nine months ended June 30, 2007, respectively. The Company did not incur any interest expense during the three months ended June 30, 2008.

NOTE 12. Commitments and Contingencies

The Company’s contractual obligations and commitments over the next five years are summarized in the table below:

As of June 30, 2008 (in millions)	Total	2008	2009 to 2010	2011 to 2012	2013 and later
Operating lease obligations	$ 6.8	$ 0.4	$ 2.2	$ 1.3	$ 2.9
Letters of credit	2.5	2.5	-	-	-
Purchase commitments (1)	242.8	17.2	134.9	90.7	-
Total contractual cash obligations and commitments	$ 252.1	$ 20.1	$ 137.1	$ 92.0	$ 2.9

(1) The purchase commitments primarily represent the value of purchase agreements issued for raw materials and services that have been scheduled for fulfillment over the next three to five years.

The Company leases certain land, facilities, and equipment under non-cancelable operating leases. The leases 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. Net facility and equipment rent expense under such leases amounted to approximately $0.5 million and $1.1 million for the three and nine months ended June 30, 2008, respectively, and approximately $0.5 million and $1.2 million for the three and nine months ended June 30, 2007, respectively.

As of June 30, 2008, the Company had ten standby letters of credit issued totaling approximately $2.5 million.

Credit Market Conditions

Recently, the U.S. capital markets have been experiencing turbulent conditions in the credit markets, as evidenced by tightening of lending standards, reduced availability of credit vehicles, and reduction of certain asset values. This could impact the Company's ability to obtain additional funding through financing or asset sales.

Auction Rate Securities

Historically, the Company has invested in securities with an auction reset feature ("auction rate securities"). In February 2008, the auction market failed for the Company's auction rate securities, which meant the Company was unable to sell its investments in auction rate securities. During the three months ended June 30, 2008, the Company received $2.3 million from the sale of auction rate securities at par value that had previously failed as of March 31, 2008. At June 30, 2008, the Company had approximately $3.1 million invested in auction rate securities, of which the underlying assets for $1.7 million are currently AAA rated, the highest rating by a rating agency. The remaining $1.4 million of investments are securities whose underlying assets are primarily student loans which are substantially backed by the federal government.

As of June 30, 2008, all of the securities are classified as non-current assets. The Company recorded a temporary unrealized loss of approximately $0.2 million to accumulated other comprehensive loss, a component of shareholders' equity, primarily due to liquidity factors. Based on expected operating cash flows, and other sources of cash, the Company does not anticipate the potential lack of liquidity on these investments will affect its ability to execute on its current business plan.

Legal Proceedings

The Company is subject to various legal proceedings and claims as discussed below. The Company is also subject to certain other legal proceedings and claims that have arisen in the ordinary course of business and which have not been fully adjudicated. The Company does not believe it has a potential liability related to current legal proceedings and claims that could individually or in the aggregate have a material adverse effect on its financial condition, liquidity or results of operations. However, the results of legal proceedings cannot be predicted with certainty. Should the Company fail to prevail in any legal matters or should several legal matters be resolved against the Company in the same reporting period, the operating results of a particular reporting period could be materially adversely affected.

Shareholder Derivative Litigation Relating to Historical Stock Option Practices

On February 1, 2007, Plaintiff Lewis Edelstein filed a purported stockholder derivative action (the "Federal Court Action") on behalf of the Company against certain of its present and former directors and officers (the "Individual Defendants"), as well as the Company as nominal defendant, in the U.S. District Court for the District of New Jersey, Edelstein v. Brodie, et. al., Case No. 3:07-cv-00596-FLW-JJH (D.N.J.). On May 22, 2007, Plaintiffs Kathryn Gabaldon and Michael Sackrison each filed a purported stockholder derivative action against the Individual Defendants, and the Company as nominal defendant, in the Superior Court of New Jersey, Somerset County, Gabaldon v. Brodie, et. al., Case No. 3:07-cv-03185-FLW-JJH (D.N.J.) and Sackrison v. Brodie, et. al., Case No. 3:07-cv-00596-FLW-JJH (D.N.J.) (collectively, the "State Court Actions").

A motion to approve an agreement among the parties to settle the matter reflected in a stipulation of compromise and settlement was filed with the U.S. District Court for the District of New Jersey on December 3, 2007. The Court granted the motion for preliminary approval of the settlement on January 3, 2008, and, at a hearing held on March 28, 2008, the Court issued an order giving final approval to the settlement. The settlement has become final and effective upon the expiration of the appeal period on April 30, 2008. Thus, the settlement is now binding on all parties and represents a final settlement of both the Federal Court Action and the State Court Actions. For additional information regarding this matter, please see EMCORE's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2008.

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 significantly impacted by our ability to obtain intellectual property protection for our R&D 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. Additionally, on September 11, 2006, we filed a lawsuit against Optium Corporation (Optium) in the U.S. District Court for the Western District of Pennsylvania for patent infringement. In the suit, the Company and JDS Uniphase Corporation (JDSU) allege that Optium is infringing on U.S. patents 6,282,003 and 6,490,071 with its Prisma II 1550nm transmitters. On March 14, 2007, following denial of a motion to add additional claims to its existing lawsuit, the Company and JDSU filed a second patent suit in the same court against Optium alleging infringement of JDSU's patent 6,519,374 ("the '374 patent"). On March 15, 2007, Optium filed a declaratory judgment action against the Company and JDSU. Optium sought in this litigation a declaration that certain products of Optium do not infringe the '374 patent and that the patent is invalid, but the District Court dismissed the action on January 3, 2008 without addressing the merits. The '374 patent is assigned to JDSU and licensed to the Company.

On December 20, 2007, the Company was served with a complaint in another declaratory relief action which Optium had filed in the Federal District Court for the Western District of Pennsylvania. This action seeks to have U.S. patents 6,282,003 and 6,490,071 declared invalid or unenforceable because of certain conduct alleged to have occurred in connection with the grant of these patents. These allegations are substantially the same as those brought by Optium by motion in the Company’s own case against Optium, which motion had been denied by the Court. The Court denied the Company’s motion to dismiss this action and has indicated that it will be tried at the same time as the Optium Plaintiff Matters. The Company filed its answer in this matter on May 12, 2008. In its complaint, Optium does not seek monetary damages but asks that the patents in question be declared unenforceable and that it be awarded attorneys’ fees. The Company believes that this action is without merit.

Commercial Litigation

On July 15, 2008 the Company was served with a complaint filed by Avago Technologies and what appear to be affiliates thereof in the United States District Court for the Northern District of California, San Jose Division. In this complaint, Avago asserts claims for breach of contract and breach of express warranty against defendant Venture Corporation Limited (one of the Company’s customers) and asserts a tort claim for negligent interference with prospective economic advantage against the Company. The Company has filed a motion to dismiss this action against the Company for failure to state a claim on which relief can be granted. The Company believes that this action is without merit.

NOTE 13. Segment Data and Related Information

The Company has four operating segments: (1) EMCORE Fiber Optics and (2) EMCORE Broadband, which are aggregated as a separate reporting segment, Fiber Optics, and (3) EMCORE Photovoltaics and (4) EMCORE Solar Power, which are aggregated as a separate reporting segment, Photovoltaics. The Company's Fiber Optics revenue is derived primarily from sales of optical components, subsystems and systems that enable the transmission of video, voice and data over high-capacity fiber optic cables for high-speed data and telecommunications, cable television ("CATV") and fiber-to-the-premises ("FTTP") networks. The Company's Photovoltaics revenue is derived from sales of solar products for satellite and terrestrial applications. For satellite applications, the Company offers high-efficiency compound semiconductor-based gallium arsenide ("GaAs") solar cells, covered interconnect cells ("CICs") and fully integrated solar panels. For terrestrial applications, the Company offers its high-efficiency GaAs solar cells and integrated PV components for use in solar power concentrator systems. The Company evaluates its reportable segments in accordance with SFAS 131, Disclosures About Segments of an Enterprise and Related Information. The Company's Chief Executive Officer is the Company'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 Company's recent acquisition of assets from Intel will reside in the Company's Fiber Optics reporting segment.

The following table sets forth the revenue and percentage of total revenue attributable to each of the Company's reporting segments for the three and nine months ended June 30, 2008 and 2007.

(in thousands) Segment Revenue	Three Months Ended June 30, 2008		Three Months Ended June 30, 2007	
	Revenue	% of Revenue	Revenue	% of Revenue
Fiber Optics	$ 53,589	71%	$ 27,611	62%
Photovoltaics	21,913	29	16,817	38
Total revenue	$ 75,502	100%	$ 44,428	100%

(in thousands) Segment Revenue	Nine Months Ended June 30, 2008		Nine Months Ended June 30, 2007	
	Revenue	% of Revenue	Revenue	% of Revenue
Fiber Optics	$ 125,179	70%	$ 79,171	65%
Photovoltaics	53,489	30	43,451	35
Total revenue	$ 178,668	100%	$ 122,622	100%

The following table sets forth the Company's consolidated revenues by geographic region for the three and nine months ended June 30, 2008 and 2007. Revenue was assigned to geographic regions based on the customers' or contract manufacturers' billing address.

(in thousands) Geographic Revenue	Three Months Ended June 30, 2008		Three Months Ended June 30, 2007	
	Revenue	% of Revenue	Revenue	% of Revenue
North America	$ 47,586	63%	$ 33,194	75%
Asia and South America	19,359	26	8,506	19
Europe	8,306	11	2,728	6
Other	251	-	-	-
Total revenue	$ 75,502	100%	$ 44,428	100%

(in thousands) Geographic Revenue	Nine Months Ended June 30, 2008		Nine Months Ended June 30, 2007	
	Revenue	% of Revenue	Revenue	% of Revenue
North America	$ 114,656	64%	$ 87,462	71%
Asia and South America	42,823	24	27,809	23
Europe	20,624	12	7,351	6
Other	565	-	-	-
Total revenue	$ 178,668	100%	$ 122,622	100%

The following table sets forth operating losses attributable to each of the Company's reporting segments and corporate for the three and nine months ended June 30, 2008 and 2007.

(in thousands) Statement of Operations Data	Three Months Ended June 30,		Nine Months Ended June 30,	
	2008	2007	2008	2007
Operating loss by segment and corporate:				
Fiber Optics	$ (4,234)	$ (5,053)	$ (11,735)	$ (17,667)
Photovoltaics	(7,213)	(1,613)	(20,549)	(7,989)
Corporate income (loss)	(195)	(6,813)	(1,483)	(15,179)
Operating loss	$ (11,642)	$ (13,479)	$ (33,767)	$ (40,835)

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

(in thousands) Long-lived Assets	As of June 30, 2008	As of September 30, 2007

Fiber Optics	$ 135,522	$ 56,816
Photovoltaics	54,836	46,706
Total	$ 190,358	$ 103,522

NOTE 14. Income Taxes

Effective October 1, 2007, the Company adopted Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes, an interpretation of FASB 109. As a result of the adoption of FIN 48, the Company recorded an increase in accumulated deficit and an increase in the liability for unrecognized state tax benefits of approximately $326,000 (net of the federal benefit for state tax liabilities). All of this amount, if recognized, would reduce future income tax provisions and favorably impact effective tax rates. During the quarter ended June 30, 2008, there were no material increases or decreases in unrecognized tax benefits. Management expects that over the next twelve months the liability for unrecognized state tax benefits will substantially decrease and does not anticipate any material increases over the next twelve months.

The Company's historical accounting policy with respect to interest and penalties related to tax uncertainties has been to classify these amounts as income taxes, and the Company continued this classification upon the adoption of FIN 48. At June 30, 2008, the Company had approximately $117,000 of interest and penalties accrued as tax liabilities in the Condensed Consolidated Balance Sheet.

The Company files income tax returns in the U.S. federal, state and local jurisdictions. No federal, state and local income tax returns are currently under examination. Certain income tax returns for fiscal years 2004 through 2006 remain open to examination by U.S. federal, state and local tax authorities.

NOTE 15. Related Party Transactions

Investments

On November 29, 2006, EMCORE invested $13.5 million, and incurred $0.4 million in transaction costs, in WorldWater & Solar Technologies Corporation ("WWAT"), a leader in solar electric engineering, water management solutions and solar energy installations and products. At September 30, 2007, EMCORE held an approximately 21% equity ownership in WWAT. In connection with the investment, EMCORE received two seats on WWAT's Board of Directors. EITF 02-14, Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock, provides guidance on whether an investor should apply the equity method of accounting to investments other than common stock. In accordance with EITF 02-14, although the investment in WWAT gives us the ability to exercise significant influence over the operating and financial policies of the investee, since the investment does not qualify as in-substance common stock, the equity method of accounting is not appropriate. In-substance common stock is an investment in an entity that has risk and reward characteristics that are substantially similar to the entity's common stock. The risk and reward characteristics of our investment are not substantially similar to WWAT's common stock because our investment's liquidation preference is considered substantive. Therefore, we are accounting for the investment in WWAT under the cost method of accounting and evaluating it for other-than-temporary impairment each reporting period.

In June 2008, the Company agreed to sell two million shares of Series D Preferred Stock of WWAT, together with 200,000 warrants to a major shareholder of both EMCORE and WorldWater at a price equal to $6.54 per share. The sale took place through two closings, one for one million shares and 100,000 warrants, which closed in June 2008, and one for an equal number of shares and warrants which closed in July 2008. Total proceeds from the sale were approximately $13.1 million. In the three months ended June 30, 2008, the Company recognized a gain of $3.7 million on the first sale of stock that occurred in June 2008. As of June 30, 3008, the Company had approximately $11.1 million invested in WWAT which approximates a 17% ownership. In the fourth quarter of 2008, the Company will recognize an additional gain of $3.7 million related to the second closing in July 2008. In July 2008, the Company had an approximate ownership of 16% in WWAT.

Receivables

The Company held a receivable balance owed from Velox Corporation, in which the Company has an insignificant ownership with outstanding balances of $0.3 million as of both June 30, 2008 and September 30, 2007.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Exchange Act of 1934. These forward-looking statements are based largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. These forward-looking statements may be identified by the use of terms and phrases such as "expects," "anticipates,” "intends," "plans," believes," "estimates," “targets,” “can,” “may,” “could,” “will” and variations of tl terms and similar phrases. Management cautions that these forward-looking statements are subject to business, economic, and other risks and uncertainties, both known and unknown, that may cause actual results to be materially different from those discussed in these forward-looking statements. The cautionary statements made in this Report should be read as being applicable to all forward-looking statements wherever they appear in this Report. This discussion should be read in conjunction with the consolidated financial statements, including the related notes.

These forward-looking statements include, without limitation, any and all statements or implications regarding:

- The ability of EMCORE Corporation (the “Company,” “we” or “EMCORE”) to remain competitive and a leader in its industry and the future growth of the company, the industry, and the economy in general;
- Difficulties in integrating recent or future acquisitions into our operations;
- The expected level and timing of benefits to the Company from on-going cost reduction efforts, including (i) expected cost reductions and their impact on our financial performance, (ii) our continued leadership in technology and manufacturing in its markets, and (iii) our belief that the cost reduction efforts will not impact product development or manufacturing execution;
- Expected improvements in our product and technology development programs;
- Whether our products will (i) be successfully introduced or marketed, (ii) be qualified and purchased by our customers, or (iii) perform to any particular specifications or performance or reliability standards; and/or
- Guidance provided by the Company regarding our expected financial performance in current or future periods, including, without limitation, with respect to anticipated revenues, income, or cash flows for any period in fiscal 2008 and subsequent periods.

These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected, including without limitation, the following:

- The Company’s cost reduction efforts may not be successful in achieving their expected benefits, or may negatively impact our operations;
- The failure of our 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; and/or
- Other risks and uncertainties described in the Company’s filings with the Securities and Exchange Commission (“SEC”) such as: cancellations, rescheduling, or delays in product shipments; manufacturing capacity constraints; lengthy sales and qualification cycles; difficulties in the production process; changes in semiconductor industry growth; increased competition; delays in developing and commercializing new products; and other factors.

Forward-looking statements are made only as of the date of this Report and subsequent facts or circumstances may contradict, obviate, undermine, or otherwise fail to support or substantiate such statements. We assume no obligation to update the matters discussed in this Quarterly Report on Form 10-Q to conform such statements to actual results or to changes in our expectations, except as required by applicable law or regulation.

Business Overview

EMCORE is a leading provider of compound semiconductor-based components and subsystems for the broadband, fiber optic, satellite and terrestrial solar power markets. We have two reporting segments: Fiber Optics and Photovoltaics. The Company's Fiber Optics segment offers optical components, subsystems and systems that enable the transmission of video, voice and data over high-capacity fiber optic cables for high-speed data and telecommunications, cable television ("CATV") and fiber-to-the-premises ("FTTP") networks. The Company's Photovoltaics segment provides solar products for satellite and terrestrial applications. For satellite applications, the Company offers high-efficiency compound semiconductor-based gallium arsenide ("GaAs") solar cells, covered interconnect cells ("CICs") and fully integrated solar panels. For terrestrial applications, the Company offers its high-efficiency GaAs solar cells and integrated PV components for use in solar power concentrator systems. For specific information about our company, our products or the markets we serve, please visit our website at http://www.emcore.com. The information on our website is not incorporated into this Quarterly Report on Form 10-Q. We were established in 1984 as a New Jersey corporation.

Our principal objective is to maximize shareholder value by leveraging our expertise in advanced compound semiconductor technologies to be a leading provider of high-performance, cost-effective product solutions in each of the markets we serve. We have implemented a program to focus research and product development efforts on projects that we expect to generate returns within one year.

We target market opportunities that we believe have large potential growth and where the favorable performance characteristics of our products and high volume production efficiencies may give us a competitive advantage over our competitors. We believe that as compound semiconductor production costs continue to be reduced, existing and new customers will be compelled to increase their use of these products because of their attractive performance characteristics and superior value.

On April 4, 2008, the Company announced that its Board of Directors had authorized management of the Company to prepare a comprehensive operational and strategic plan for the separation of the Company's Fiber Optics and Photovoltaic businesses into separate corporations. Management is currently assessing alternative opportunities associated with the potential separation of the Company's businesses. The purpose of the review is to determine whether there exists the potential for unlocking additional stockholder value with respect to these strategic assets through some type of separation transaction. A separation may take the form of a spin-off transaction or a public offering of securities, and we may have discussions from time-to-time with third parties involving these possibilities. There can be no assurances that our strategic review will lead to the completion of any separation transactions or as to the impact of these transactions on stockholder value or on us.

Quarterly Highlights

April 2, 2008 – The Company announced that it had been awarded a $4.6 million follow-on production order for solar cell receiver assemblies from Concentration Solar la Mancha of Manzanares (Ciudad Real), Spain. The receivers will be incorporated into CS la Mancha's 500X CPV system and will be deployed throughout Spain and other locations in fully licensed and funded projects.

April 10, 2008 – The Company announced that it agreed to supply CPV systems to XinAo Group in China. XinAo Group is one of China's largest energy companies and is well known for its clean-energy technologies. The program will start with the delivery of a 50 kilowatt (kW) CPV system, which was shipped in June 2008, to be installed in Langfang, China in August 2008. This system will be used for test and evaluation purposes. Once the expected reliability and performance metrics have been demonstrated, XinAo plans to install CPV systems to provide electric power for its innovative coal gasification project, which is estimated to have a requirement of 60 megawatts (MW) of power. XinAo believes that EMCORE's CPV technology will provide a cost-effective solution for its energy needs. In addition, XinAo intends to build a manufacturing plant in China, jointly owned by EMCORE, to manufacture CPV systems designed and certified by EMCORE for the Chinese market.

April 21, 2008 – The Company announced completion of the acquisition of the enterprise and storage assets of Intel's Optical Platform Division (OPD) and the Intel Connects Cable (ICC) business for high-performance computing under the terms signed and announced previously. The assets include intellectual property, inventory, fixed assets and technology relating to XENPAK, X2, SFP, and SFP+ optical transceivers for enterprise and storage customers, as well as the Intel Connects Cables (ICC) active cable interconnects for high-performance computing clusters. This acquisition will further enhance EMCORE's presence in the local area and storage area network market segments. These assets, along with the Telecom assets acquired in February 2008 from Intel OPD, place EMCORE among one of the major companies in the world with the most comprehensive product portfolio, vertically-integrated capability and infrastructure, and strong commitment to Telecom, Datacom, and Broadband fiber optics businesses. The acquired assets are being integrated into the EMCORE Digital Products (EDP) division.

May 5, 2008 – The Company announced that it has entered into a $28 million definitive supply agreement with ES System of Gwang-Ju, South Korea, for solar cell receivers to be fielded in fully licensed and funded solar farms in South Korea. This agreement incorporates an advance deposit to ensure production priority, and will enable the installation of 70 megawatts (MW) of solar farms. Production for this order has commenced and shipments are scheduled to occur over the next 24 months with the provisions for accelerated deliveries as well as future purchase options under the same terms.

July 9, 2008 – The Company announced that it entered into two definitive supply agreements for solar cell receivers in June 2008 with a total value of approximately $29 million. These supply agreements incorporate advance deposits to ensure production priority for these customers. The end applications for the product to be delivered range from solar farm to commercial rooftop installations employing CPV technology. Production for these orders has commenced and shipments are scheduled to occur over the next 24 months.

July 25, 2008 – The Company announced that its world record Inverted Metamorphic (IMM) solar cell technology has been chosen by R&D Magazine for an R&D 100 award. This prestigious award recognizes the IMM solar cell as one of the most innovative technologies of 2008. Developed in conjunction with the National Renewable Energy Laboratory (NREL) and the Vehicle Systems Directorate of the US Air Force Research Laboratory (AFRL), this solar cell technology provides a platform for EMCORE's next generation photovoltaic products for space and terrestrial solar power applications. Solar cells built using IMM technology recently achieved world record conversion efficiency of 33% used in space, and it is anticipated that efficiency levels in the 42%-45% range will be achieved when adapted for use under the 500-1500X concentrated illumination, typical in terrestrial CPV systems. Once commercialized, we believe the CPV systems that are powered with EMCORE's IMM based products will see a reduction in the cost of power generated by approximately 10% to 20%. EMCORE expects to commercialize this technology for both space and terrestrial applications in 2009.

August 5, 2008 – The Company announced that it entered into two new supply agreements for solar cells and receivers with a total value of over $40 million. The larger of the two purchase contracts is a multi-year supply agreement for solar cells, to be delivered over four years. The product to be delivered will be incorporated into concentrating photovoltaics (CPV) systems developed for commercial rooftop installations as well as utility-scale solar farms. The customers placing these orders are targeting CPV deployments in the United States with a particular focus on the California market. Production for these orders has commenced and approximately $1 million of product is expected to be shipped in the present quarter.

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With several strategic acquisitions and divestures in the past year, the Company has developed a well-defined business focus and comprehensive product portfolios in two main sectors: Fiber Optics and Photovoltaics.

Fiber Optics

Our fiber optics products enable information that is encoded on light signals to be transmitted, routed (switched) and received in communication systems and networks. Our fiber optics products provide our customers with increased capacity to offer more services, at increased data transmission distance, speed and bandwidth with lower noise video receive and lower power consumption. Our Fiber Optics segment primarily targets the following markets:

- Cable Television ("CATV") Networks - We are a market leader in providing radio frequency ("RF") over fiber products for the CATV industry. Our products are used in hybrid fiber coaxial ("HFC") networks that enable cable service operators to offer multiple advanced services to meet the expanding demand for high-speed Internet, on-demand and interactive video and other advanced services, such as high-definition television ("HDTV") and voice over IP ("VoIP").

- Fiber-to-the-Premises ("FTTP") Networks - Telecommunications companies are increasingly extending their optical infrastructure to the customer's location in order to deliver higher bandwidth services. We have developed and maintain customer qualified FTTP components and subsystem products to support plans by telephone companies to offer voice, video and data services through the deployment of new fiber-based access networks.

- Data Communications Networks - We provide leading-edge optical components and modules for data applications that enable switch-to-switch, router-to-router and server-to-server backbone connections at aggregate speeds of 10 gigabits per second (10G) and above.

- Telecommunications Networks - Our leading-edge optical components and modules enable high-speed (up to an aggregate 40G) optical interconnections that drive advanced architectures in next-generation carrier class switching and routing networks. Our products are used in equipment in the network core and key metro optical nodes of voice telephony and Internet infrastructures.

- Satellite Communications ("Satcom") Networks - We are a leading provider of optical components and systems for use in equipment that provides high-performance optical data links for the terrestrial portion of satellite communications networks.

- Storage Area Networks - Our high performance optical components are also used in high-end data storage solutions to improve the performance of the storage infrastructure.

- Video Transport - Our video transport product line offers solutions for broadcasting, transportation, IP television ("IPTV"), mobile video and security & surveillance applications over private and public networks. the Company's video, audio, data and RF transmission systems serve both analog and digital requirements, providing cost-effective, flexible solutions geared for network reconstruction and expansion.

- Defense and Homeland Security - Leveraging our expertise in RF module design and high-speed parallel optics, we provide a suite of ruggedized products that meet the reliability and durability requirements of the U.S. Government and defense markets. Our specialty defense products include fiber optic gyro components used in precision guided munitions, ruggedized parallel optic transmitters and receivers, high-frequency RF fiber optic link components for towed decoy systems, optical delay lines for radar systems, erbium doped fiber amplifiers ("EDFAs"), terahertz spectroscopy systems and other products.

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Consumer Products - We intend to extend our optical technology into the consumer market by integrating our Vertical Cavity Surface-Emitting Lasers (“VCSELs”) into optical computer mice and ultra short data links. We are in production with customers on several products and currently qualifying our products with additional customers. An optical computer mouse with laser illumination is superior to LED-based illumination in that it reveals surface structures that a LED light source cannot uncover. VCSELs enable computer mice to track with greater accuracy, on more surfaces and with greater responsiveness than existing LED-based solutions.

Photovoltaics

We believe our high-efficiency compound semiconductor-based multi-junction solar cell products provide our customers with compelling cost and performance advantages over traditional silicon-based solutions. These include higher solar cell efficiency allowing for greater conversion of light into electricity, an increased ability to benefit from use in solar concentrator systems, ability to withstand high heat environments and reduced overall footprint. Our Photovoltaics segment primarily targets the following markets:

- Satellite Solar Power Generation. We are a leader in providing solar power generation solutions to the global communications satellite industry and U.S. Government space programs. A satellite’s operational success and corresponding revenue depend on its available power and its capacity to transmit data. We manufacture advanced compound semiconductor-based solar cell and solar panel products, which are more resistant to radiation levels in space and generate substantially more power from sunlight than silicon-based solutions. Space power systems using our multi-junction solar cells weigh less per unit of power than traditional silicon-based solar cells. These performance characteristics increase satellite useful life, increase satellites’ transmission capacity and reduce launch costs. Our products provide our customers with higher sunlight to electrical power conversion efficiency for reduced size and launch costs; higher radiation tolerance; and longer lifetime in harsh space environments. We design and manufacture multi-junction compound semiconductor-based solar cells for both commercial and military satellite applications. We currently manufacture and sell one of the most efficient and reliable, radiation resistant advanced triple-junction solar cells in the world, with an average "beginning of life" efficiency of 28.5%. In May 2007, the Company announced that it has attained solar conversion efficiency of 31% for an entirely new class of advanced multi-junction solar cells optimized for space applications. The Company is also the only manufacturer to supply true monolithic bypass diodes for shadow protection, utilizing several the Company patented methods. The Company also provides covered interconnect cells (“CICs”) and solar panel lay-down services, giving us the capability to manufacture complete solar panels. We can provide satellite manufacturers with proven integrated satellite power solutions that considerably improve satellite economics. Satellite manufacturers and solar array integrators rely on the Company to meet their satellite power needs with our proven flight heritage.

- Terrestrial Solar Power Generation. Solar power generation systems use photovoltaic cells to convert sunlight to electricity and have been used in space programs and, to a lesser extent, in terrestrial applications for several decades. The market for terrestrial solar power generation solutions has grown significantly as solar power generation technologies improve in efficiency, as global prices for non-renewable energy sources (i.e., fossil fuels) continue to rise, and as concern has increased regarding the effect of carbon emissions on global warming. Terrestrial solar power generation has emerged as one of the most rapidly expanding renewable energy sources due to certain advantages solar power holds over other energy sources, including reduced environmental impact, elimination of fuel price risk, installation flexibility, scalability, distributed power generation (i.e., electric power is generated at the point of use rather than transmitted from a central station to the user), and reliability. The rapid increase in demand for solar power has created a growing need for highly efficient, reliable and cost-effective solar power concentrator systems.

The Company has adapted its high-efficiency compound semiconductor-based multi-junction solar cell products for terrestrial applications, which are intended for use with solar concentrator systems in utility-scale installations. In August 2007, the Company announced that it has obtained 39% peak conversion efficiency on its terrestrial concentrating solar cell products currently in volume production. This compares favorably to typical efficiency of

15-21% on silicon-based solar cells and 35% for competing multi-junction concentrating solar cells. We believe that solar concentrator systems assembled using our compound semiconductor-based solar cells will be competitive with silicon-based solar power generation systems because they are more efficient and, when combined with the advantages of concentration, we believe will result in a lower cost of power generated. Our multi-junction solar cell technology is not subject to silicon shortages, which have led to increasing prices in the raw materials required for silicon-based solar cells. While the terrestrial power generation market is still developing, we have received production orders from multiple CPV systems integrators and provided samples to several others, including major system manufacturers in the United States, Europe and Asia.

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We are committed to the ongoing evaluation of strategic opportunities that can expand our addressable markets and strengthen our competitive position. Where appropriate, we will acquire additional products, technologies, or businesses that are complementary to, or broaden the markets in which we operate. We plan to pursue strategic acquisitions, investments, and partnerships to increase revenue and allow for higher overhead absorption that will improve our gross margins. Recent acquisition activity includes:

- On February 22, 2008, the Company acquired certain assets of the telecom portion of Intel Corporation's Optical Platform Division.

- On April 20, 2008, the Company acquired certain assets of the enterprise portion of Intel Corporation's Optical Platform Division.

The Company is committed to achieving profitability by increasing revenue through the introduction of new products, reducing our cost structure and lowering the breakeven points of our product lines. We have significantly streamlined our manufacturing operations by focusing on core competencies to identify cost efficiencies. Where appropriate, we transferred the manufacturing of certain product lines to contract manufacturers.

In May 2007, the Company announced the opening of a new manufacturing facility in Langfang, China. Our new company, Langfang EMCORE Optoelectronics Co. Ltd., is located approximately 20 miles southeast of Beijing and currently occupies a space of 22,000 square feet with a Class-10,000 clean room for optoelectronic device packaging. Another 60,000 square feet is available for future expansion. We will transfer our most cost sensitive optoelectronic devices to this facility. This facility, along with a strategic alignment with our existing contract-manufacturing partners, should enable us to improve our cost structure and gross margins. We also expect to develop and provide improved service to our global customers using a local presence in Asia.

The Company's restructuring programs are designed to further reduce the number of manufacturing facilities, in addition to the divesture or exit from selected businesses and product lines that were not strategic and/or were not capable of achieving desired revenue or profitability goals. Our results of operations and financial condition have and will continue to be significantly affected by severance and restructuring charges, impairment of long-lived assets and idle facility expenses incurred during facility closing activities. Please refer to Risk Factors under Item 1A and Financial Statements and Supplemental Data under Item 8 in our Annual Report on Form 10-K for the fiscal year ended September 30, 2007, for further discussion of these items.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. 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 develops estimates based on historical experience and on various assumptions about the future that are believed to be reasonable based on the best information available. The Company's reported financial position or results of operations may be materially different under changed conditions or when using different estimates and assumptions, particularly with respect to significant accounting policies, which are discussed below. 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 Company's most significant estimates relate to accounts receivable, inventory, goodwill, intangibles, other long-lived assets, warranty accruals, revenue recognition, and valuation of stock-based compensation.

Valuation of Accounts Receivable. The Company regularly evaluates the collectibility of its accounts receivable and accordingly maintains allowances for doubtful accounts for estimated losses resulting from the inability of our customers to meet their financial obligations to us. The allowance is based on the age of receivables and a specific identification of receivables considered at risk. The Company classifies charges associated with the allowance for doubtful accounts as SG&A expense. If the financial condition of our customers were to deteriorate, additional allowances may be required.

Valuation of Inventory. Inventory is stated at the lower of cost or market, with cost being determined using the standard cost method. The Company reserves against inventory once it has been determined that: (i) conditions exist that may not allow the inventory to be sold for its intended purpose, (ii) the inventory's value is determined to be less than cost, or (iii) the inventory is determined to be obsolete. The charge related to inventory reserves is recorded as a cost of revenue. The majority of the inventory write-downs are related to estimated allowances for inventory whose carrying value is in excess of net realizable value and on excess raw material components resulting from finished product obsolescence. In most cases where the Company sells previously written down inventory, it is typically sold as a component part of a finished product. The finished product is sold at market price at the time resulting in higher average gross margin on such revenue. The Company does not track the selling price of individual raw material components that have been previously written down or written off, since such raw material components usually are only a portion of the resultant finished products and related sales price. The Company evaluates inventory levels at least quarterly against sales forecasts on a significant part-by-part basis, in addition to determining its overall inventory risk. Reserves are adjusted to reflect inventory values in excess of forecasted sales, as well as overall inventory risk assessed by management. We have incurred, and may in the future incur, charges to write-down our inventory. While we believe, based on current information, that the amount recorded for inventory is properly reflected on our balance sheet, if market conditions are less favorable than our forecasts, our future sales mix differs from our forecasted sales mix, or actual demand from our customers is lower than our estimates, we may be required to record additional inventory write-downs.

Valuation of Goodwill and Intangible Assets. Goodwill represents the excess of the purchase price of an acquired business or assets over the fair value of the identifiable assets acquired and liabilities assumed. Intangible assets consist primarily of intellectual property that has been internally developed or purchased. Purchased intangible assets include existing and core technology, trademarks and trade names, and customer contracts. Intangible assets are amortized using the straight-lined method over estimated useful lives ranging from one to fifteen years.

The Company evaluates its goodwill and intangible assets for impairment on an annual basis, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Management has elected December 31 as its annual assessment date. Circumstances that could trigger an impairment test include but are not limited to: a significant adverse change in the business climate or legal factors; an adverse action or assessment by a regulator; unanticipated competition; loss of key personnel; the likelihood that a reporting unit or significant portion of a reporting unit will be sold or otherwise disposed; results of testing for recoverability of a significant asset group within a reporting unit; and recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit. The determination as to whether a write-down of goodwill or intangible assets is necessary involves significant judgment based on the short-term and long-term projections of the future performance of the reporting unit to which the goodwill or intangible assets are attributed. As of December 31, 2008 and 2007, we tested for impairment of our goodwill and intangible assets and based on that analysis, we determined that the carrying amount of the reporting units did not exceed their fair value, and therefore, no impairment was recognized for any period presented in the condensed consolidated financial statements. As of June 30, 2008, due to the recent decline in the Company's stock price, we tested for impairment of our goodwill and intangible assets and based on that analysis, we determined that the carrying amount of the reporting units did not exceed their fair value, and therefore, no impairment was recognized for any period presented in the condensed consolidated financial statements.

Valuation of Long-lived Assets. The Company reviews long-lived assets on an annual basis or whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. A long-lived asset is considered impaired when its anticipated undiscounted cash flow is less than its carrying value. In making this determination, the Company uses certain assumptions, including, but not limited to: (a) estimates of the fair market value of these assets; and (b) estimates of future cash flows expected to be generated by these assets, which are based on additional assumptions such as asset utilization, length of service that assets will be used in our operations, and estimated salvage values.

Product Warranty Reserves. The Company provides its customers with limited rights of return for non-conforming shipments and warranty claims for certain products. In accordance with SFAS 5, Accounting for Contingencies, the Company makes estimates of product warranty expense 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.