

EMCORE CORP  
Form 424B3  
May 09, 2012  
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Filed pursuant to Rule 424(b)(3) and Rule 424(c)  
Registration Statement No. 333-175776  
PROSPECTUS SUPPLEMENT NO. 6  
(to Prospectus dated August 15, 2011)

1,101,901 Shares of Common Stock

This Prospectus Supplement No. 6 supplements the prospectus dated August 15, 2011, as supplemented by Prospectus Supplement Nos. 1, 2, 3, 4 and 5 dated January 9, 2012, February 15, 2012, February 16, 2012, March 21, 2012, and March 30, 2012, respectively (the "Prospectus"), which forms a part of our Registration Statement on Form S-1 (Registration Statement No. 333-175776) (the "Registration Statement"). This prospectus supplement is being filed to update, amend, and supplement the information included or incorporated by reference in the Prospectus with the information contained and incorporated by reference in (i) our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2012, as filed with the Securities and Exchange Commission (the "SEC") on May 3, 2012 (the "Form 10-Q") and (ii) our Current Report on Form 8-K filed with the SEC on May 8, 2012 (the "Form 8-K"). The Form 10-Q and the Form 8-K are attached hereto.

The Prospectus and this prospectus supplement relate to the resale from time to time by the selling shareholder named in the Prospectus of up to 1,101,901 shares of our common stock, no par value per share. We are not selling any shares of common stock under the Prospectus and this prospectus supplement, and therefore, we will not receive any proceeds from the sale of shares by the selling shareholder.

Our common stock is quoted on the NASDAQ Global Market under the symbol "EMKR". On May 8, 2012, the last reported closing sale price of our common stock was \$4.18.

This prospectus supplement should be read in conjunction with the Prospectus, which is to be delivered with this prospectus supplement. This prospectus supplement updates, amends, and supplements the information included or incorporated by reference in the Prospectus. If there is any inconsistency between the information in the Prospectus and this prospectus supplement, you should rely on the information in this prospectus supplement.

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Investing in our common stock involves a high degree of risk. Before making any investment in our common stock, you should read and carefully consider the risks described in the section entitled "Risk Factors" beginning on page 3 of the Prospectus, and under similar headings in any supplements to the Prospectus, including under the heading "Risk Factors" in our Annual Report on Form 10-K, filed with the SEC on December 29, 2011 and our Quarterly Report on Form 10-Q filed with the SEC on May 3, 2012.

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Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if the Prospectus or this prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.

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The date of this prospectus supplement is May 9, 2012.

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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 March 31, 2012

or

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

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

Commission File Number: 0-22175

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

New Jersey

22-2746503

(State or other jurisdiction of incorporation or organization)

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

10420 Research Road, SE, Albuquerque, New Mexico, 87123

(Address of principal executive offices) (Zip Code)

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

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

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

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

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

As of April 30, 2012, the number of shares outstanding of our no par value common stock totaled 23,910,379.

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CAUTIONARY STATEMENT  
REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act of 1934. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are largely based on our current expectations and projections about future events and financial trends affecting the financial condition of our business. Such forward-looking statements include, in particular, projections about our future results included in our Exchange Act reports, statements about our plans, strategies, business prospects, changes and trends in our business and the markets in which we operate. These forward-looking statements may be identified by the use of terms and phrases such as “anticipates”, “believes”, “can”, “could”, “estimates”, “expects”, “forecasts”, “intends”, “may”, “plans”, “projects”, “should”, “targets”, “will”, “would”, and similar expressions or variations of terms and similar phrases. Additionally, statements concerning future matters such as the development of new products, enhancements or technologies, sales levels, expense levels, and other statements regarding matters that are not historical are forward-looking statements. Management cautions that these forward-looking statements relate to future events or our future financial performance and are subject to business, economic, and other risks and uncertainties, both known and unknown, that may cause actual results, levels of activity, performance, or achievements of our business or our industry to be materially different from those expressed or implied by any forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include without limitation those discussed under Item 1A - Risk Factors in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011, as updated by our subsequent periodic reports. These cautionary statements apply to all forward-looking statements wherever they appear in this Quarterly Report.

Neither management nor any other person assumes responsibility for the accuracy and completeness of any forward-looking statement. All forward-looking statements in this Quarterly Report are made as of the date hereof, based on information available to us as of the date hereof, and subsequent facts or circumstances may contradict, obviate, undermine, or otherwise fail to support or substantiate such statements. We caution you not to rely on these statements without also considering the risks and uncertainties associated with these statements and our business that are addressed in this Quarterly Report. Certain information included in this Quarterly Report may supersede or supplement forward-looking statements in our other reports filed with the Securities and Exchange Commission. We assume no obligation to update any forward-looking statement to conform such statements to actual results or to changes in our expectations, except as required by applicable law or regulation.

EMCORE Corporation  
 FORM 10-Q  
 For the Quarterly Period Ended March 31, 2012

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## PART I. Financial Information

## ITEM 1. Financial Statements

## EMCORE CORPORATION

## Condensed Consolidated Statements of Operations and Comprehensive Loss

For the Three and Six Months Ended March 31, 2012 and 2011

(in thousands, except loss per share)

(unaudited)

|   | For the Three Months<br>Ended March 31, |           | For the Six Months Ended<br>March 31, |           |
|---|---|-----------|---------------------------------------|-----------|
|   | 2012                                    | 2011      | 2012                                  | 2011      |
| Revenue   | \$37,780                                | \$47,218  | \$75,231                              | \$99,325  |
| Cost of revenue                                       | 32,404                                  | 36,638    | 66,387                                | 76,065    |
| Gross profit  | 5,376                                   | 10,580    | 8,844                                 | 23,260    |
| Operating expense (income):                           |   |           |                                       |           |
| Selling, general, and administrative                  | 8,365                                   | 9,380     | 15,845                                | 17,644    |
| Research and development                              | 5,781                                   | 7,984     | 12,761                                | 15,175    |
| Litigation settlement                                 | —                                       | (2,590)   | —                                     | (2,590)   |
| Flood-related losses                                  | 114                                     | —         | 5,812                                 | —         |
| Flood-related insurance proceeds                      | —                                       | —         | (5,000)                               | —         |
| Total operating expense                               | 14,260                                  | 14,774    | 29,418                                | 30,229    |
| Operating loss  | (8,884)                                 | (4,194)   | (20,574)                              | (6,969)   |
| Other income (expense):                               |   |           |                                       |           |
| Interest income                                       | 1                                       | —         | 2                                     | —         |
| Interest expense                                      | (122)                                   | (130)     | (252)                                 | (388)     |
| Foreign exchange gain                                 | 167                                     | 749       | 256                                   | 414       |
| Loss from equity method investment                    | (241)                                   | (587)     | (1,201)                               | (587)     |
| Change in fair value of financial instruments         | (256)                                   | (1,038)   | (151)                                 | (1,310)   |
| Other expense   | —                                       | (5)       | —                                     | (10)      |
| Total other expense                                   | (451)                                   | (1,011)   | (1,346)                               | (1,881)   |
| Loss before income tax expense                        | (9,335)                                 | (5,205)   | (21,920)                              | (8,850)   |
| Foreign income tax expense on capital distributions   | —                                       | —         | (1,644)                               | —         |
| Net loss  | \$(9,335)                               | \$(5,205) | \$(23,564)                            | \$(8,850) |
| Foreign exchange translation adjustment               | 24                                      | (414)     | 425                                   | (308)     |
| Comprehensive loss                                    | \$(9,311)                               | \$(5,619) | \$(23,139)                            | \$(9,158) |
| Per share data:                                       |   |           |                                       |           |
| Net loss per basic share                              | \$(0.40)                                | \$(0.24)  | \$(1.00)                              | \$(0.41)  |
| Net loss per diluted share                            | \$(0.40)                                | \$(0.24)  | \$(1.00)                              | \$(0.41)  |
| Weighted-average number of basic shares outstanding   | 23,529                                  | 21,804    | 23,577                                | 21,556    |
| Weighted-average number of diluted shares outstanding | 23,529                                  | 21,804    | 23,577                                | 21,556    |

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

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## EMCORE CORPORATION

## Condensed Consolidated Balance Sheets

As of March 31, 2012 and September 30, 2011

(in thousands, except per share data)

(unaudited)

|  | As of<br>March 31,<br>2012 | As of<br>September 30,<br>2011 |
|--|----------------------------|--------------------------------|
| <b>ASSETS</b>  |                            |                                |
| Current assets:  |                            |                                |
| Cash and cash equivalents  | \$24,112                   | \$15,598                       |
| Restricted cash  | 1,242                      | 544                            |
| Accounts receivable, net of allowance of \$3,213 and \$3,332, respectively   | 28,111                     | 34,875                         |
| Inventory  | 32,746                     | 33,166                         |
| Prepaid expenses and other current assets  | 8,191                      | 7,168                          |
| Assets held for sale   | 6,192                      | —                              |
| Total current assets   | 100,594                    | 91,351                         |
| Property, plant, and equipment, net  | 42,571                     | 46,786                         |
| Goodwill   | 20,384                     | 20,384                         |
| Other intangible assets, net   | 4,422                      | 5,866                          |
| Equity method investment   | —                          | 2,374                          |
| Other non-current assets, net of allowance of \$3,501 and \$3,641, respectively  | 5,222                      | 3,537                          |
| Total assets   | \$173,193                  | \$170,298                      |
| <b>LIABILITIES and SHAREHOLDERS' EQUITY</b>  |                            |                                |
| Current liabilities:   |                            |                                |
| Borrowings from credit facility  | \$21,000                   | \$17,557                       |
| Accounts payable   | 34,981                     | 26,581                         |
| Warrant liability  | 752                        | 601                            |
| Accrued expenses and other current liabilities   | 30,316                     | 22,319                         |
| Total current liabilities  | 87,049                     | 67,058                         |
| Asset retirement obligations   | 4,902                      | 4,800                          |
| Other long-term liabilities  | 734                        | 4                              |
| Total liabilities  | 92,685                     | 71,862                         |
| Commitments and contingencies (Note 11)  |                            |                                |
| Shareholders' equity:  |                            |                                |
| Preferred stock, \$0.0001 par value, 5,882 shares authorized; none issued or outstanding   | —                          | —                              |
| Common stock, no par value, 50,000 shares authorized; 23,947 shares issued and 23,907 shares outstanding as of March 31, 2012; 23,521 shares issued and 23,481 shares outstanding as of September 30, 2011 | 718,274                    | 713,063                        |
| Treasury stock, at cost; 40 shares   | (2,083                     | ) (2,083                       |
| Accumulated other comprehensive income   | 1,337                      | 912                            |
| Accumulated deficit  | (637,020                   | ) (613,456                     |
| Total shareholders' equity   | 80,508                     | 98,436                         |
| Total liabilities and shareholders' equity   | \$173,193                  | \$170,298                      |

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





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## EMCORE CORPORATION

Condensed Consolidated Statements of Cash Flows  
For the Six Months Ended March 31, 2012 and 2011  
(in thousands)  
(unaudited)

|   | For the Six Months Ended March |            |
|---|--------------------------------|------------|
|   | 31,                            | 2011       |
|   | 2012                           | 2011       |
| Cash flows from operating activities:   |                                |            |
| Net loss  | \$(23,564                      | ) \$(8,850 |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |                                |            |
| Depreciation, amortization, and accretion expense   | 5,152                          | 5,970      |
| Stock-based compensation expense  | 4,722                          | 2,611      |
| Provision adjustments related to doubtful accounts  | (87                            | ) 79       |
| Provision adjustments related to product warranty   | 86                             | 144        |
| Provision for losses on inventory purchase commitments                                    | 1,343                          | —          |
| Loss from equity method investment  | 1,201                          | 587        |
| Change in fair value of financial instruments   | 151                            | 1,310      |
| Net gain on disposal of equipment   | (3                             | ) —        |
| Flood-related losses  | 5,812                          | —          |
| Total non-cash adjustments  | 18,377                         | 10,701     |
| Changes in operating assets and liabilities:  |                                |            |
| Accounts receivable   | 7,109                          | 2,059      |
| Inventory   | (7,829                         | ) 722      |
| Other assets  | 115                            | (3,504     |
| Accounts payable  | 8,191                          | (1,766     |
| Accrued expenses and other current liabilities  | 8,556                          | (371       |
| Total change in operating assets and liabilities  | 16,142                         | (2,860     |
| Net cash provided by (used in) operating activities                                       | 10,955                         | (1,009     |
| Cash flows from investing activities:   |                                |            |
| Purchase of equipment   | (5,533                         | ) (1,685   |
| Deposits on equipment orders  | (1,981                         | ) —        |
| Investment in internally-developed patents  | —                              | (331       |
| Investment in an unconsolidated affiliate   | —                              | (4,000     |
| Dividend from an unconsolidated affiliate   | 1,644                          | —          |
| Purchase of a business  | —                              | (750       |
| Increase in restricted cash   | (697                           | ) (1,338   |
| Net cash used in investing activities   | (6,567                         | ) (8,104   |
| Cash flows from financing activities:   |                                |            |
| Net proceeds from borrowings from credit facilities                                       | 3,443                          | 3,137      |
| Proceeds from stock plans   | 652                            | 820        |
| Payments on capital lease obligations   | —                              | (3         |
| Net cash provided by financing activities   | 4,095                          | 3,954      |
| Effect of exchange rate changes on foreign currency                                       | 31                             | (447       |
| Net increase (decrease) in cash and cash equivalents                                      | 8,514                          | (5,606     |
| Cash and cash equivalents at beginning of period  | 15,598                         | 19,944     |
| Cash and cash equivalents at end of period  | \$24,112                       | \$14,338   |

## SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

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|   |         |         |
|---|---------|---------|
| Cash paid during the period for interest                              | \$252   | \$701   |
| Cash paid during the period for income taxes                          | \$1,644 | \$—     |
| NON-CASH INVESTING AND FINANCING ACTIVITIES                           |         |         |
| Prior consulting fees received related to an unconsolidated affiliate | \$—     | \$3,000 |

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

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EMCORE Corporation

Notes to our Condensed Consolidated Financial Statements

NOTE 1. Basis of Presentation

Business Overview

EMCORE Corporation and its subsidiaries (the “Company”, “we”, “our”, or “EMCORE”) offers a broad portfolio of compound semiconductor-based products for the fiber optics and solar power markets. We were established in 1984 as a New Jersey corporation and we have two reporting segments: Fiber Optics and Photovoltaics. Our Fiber Optics reporting segment provides optical components, subsystems, and systems for the high-speed telecommunication, cable television (CATV), and fiber-to-the-premise (FTTP) networks. Additionally, we offer products for video conversion and video transport, as well as specialty photonics technologies for defense and homeland security applications. Our Photovoltaic reporting segment provides products for both space power and terrestrial solar power applications. For space power applications, we offer high-efficiency multi-junction solar cells, covered interconnect cells (CICs), and complete satellite solar panels. For terrestrial solar power applications, we offer a broad portfolio of our multi-junction solar cells and components for use in solar concentrator systems.

Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim information, and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for annual financial statements. In our opinion, the interim financial statements reflect all normal adjustments that are necessary to provide a fair presentation of the financial results for the interim periods presented. Operating results for interim periods are not necessarily indicative of results that may be expected for an entire fiscal year. The condensed consolidated balance sheet as of September 30, 2011 has been derived from the audited consolidated financial statements as of such date. For a more complete understanding of our business, financial position, operating results, cash flows, risk factors and other matters, please refer to our Annual Report on Form 10-K for the fiscal year ended September 30, 2011.

All significant intercompany accounts and transactions have been eliminated in consolidation. We are not the primary beneficiary of, nor do we hold a significant variable interest in, any variable interest entity. Certain prior period amounts have been reclassified to conform to the current period presentation.

Reverse Stock Split

On January 27, 2012, we announced that our Board of Directors approved a four-to-one reverse stock split of our common stock. Our shareholders had previously authorized our Board of Directors to approve a reverse stock split at our 2011 Annual Meeting held on June 14, 2011. On February 15, 2012, we filed a Certificate of Amendment to our Restated Certificate of Incorporation in order to effect the reverse stock split and reduce the number of authorized shares of our common stock from 200 million to 50 million.

Our common stock began trading on the NASDAQ Global Market on a split-adjusted basis on February 16, 2012. The reverse stock split reduced the number of issued and outstanding shares of our common stock from approximately

94.2 million to approximately 23.5 million. No fractional shares were issued in connection with the reverse stock split; all share amounts were rounded up. Furthermore, proportional adjustments were made to our stock options, warrants, and other securities, entitling their holders to purchase shares of common stock. The change in the number of shares has been applied retroactively to all share and per share amounts presented in our consolidated financial statements and accompanying notes.

#### Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, as of the date of the financial statements, and the reported amounts of revenue and expenses during the reported period.

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The accounting estimates that require our most significant, difficult, and/or subjective judgments include:

- the valuation of inventory, goodwill, intangible assets, warrants, and stock-based compensation;
- assessment of recovery of long-lived assets;
- asset retirement obligations and litigation contingencies;
- revenue recognition associated with the percentage of completion method;
- the allowance for doubtful accounts and warranty accruals; and,
- impairment and other losses associated with the Thailand flood.

As previously disclosed, in October 2011 flood waters infiltrated the offices and manufacturing floorspace of our primary contract manufacturer's facility in Thailand and suspended all production. As a result, the manufacturing infrastructure that supported approximately 50% of our Fiber Optics segment revenue was destroyed. This has had a significant impact on our operations and our ability to meet customer demand for certain of our fiber optics products in the near term. Our Photovoltaics segment was not affected by the Thailand floods. During the three months ended December 31, 2011, we recorded estimated flood-related losses associated with damaged inventory and equipment of approximately \$3.9 million and \$1.8 million, respectively. During the three months ended March 31, 2012, we recorded an additional \$0.1 million related to flood-damaged inventory. We continue to evaluate our estimates of flood-related losses, and in future quarters we may record additional adjustments for damaged inventory and equipment. We have designated our accounting policy related to estimating losses associated with the Thailand flood as a critical accounting policy effective during the six months ended March 31, 2012. See [Footnote 9 - Flood-related Losses](#) for additional disclosures related to the impact of the Thailand flood on our operations.

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

## Pending Sale of Fiber Optics-related Assets

On March 27, 2012, we entered into a Master Purchase Agreement with Sumitomo Electric Industries, Ltd. (SEI) pursuant to which we have agreed to sell certain assets and transfer certain obligations associated with our Fiber Optics segment for \$17 million, subject to certain customary purchase adjustments. The assets to be sold include inventory, fixed assets, and intellectual property which enabled approximately \$4.3 million and \$7.4 million of revenue from sales of datacom, parallel optical devices and EMCORE Connects Cable products during the three and six months ended March 31, 2012, respectively. The carrying value of these assets totaled \$6.2 million as of March 31, 2012, an amount which is classified as "assets held for sale" on our consolidated balance sheet. We expect to record a gain of approximately \$7.0 to \$9.0 million, subject to certain closing adjustments, before tax, upon completion of this asset sale. However, we can not be certain that this transaction will close.

At closing, SEI will deposit \$2.6 million into escrow as security for EMCORE indemnification obligations which may be distributed over a 24-month period. The Master Purchase Agreement includes customary representations, warranties, covenants, termination provisions, and indemnities by EMCORE and SEI. Each party's obligation to consummate this transaction is conditioned upon, among other things, (i) the accuracy of the parties' representations and warranties as of the closing, (ii) the parties' performance, in all material respects, of all covenants, and (iii) regulatory approval from the Committee on Foreign Investment in the United States. Either party has the right to terminate the Master Purchase Agreement if the closing has not occurred by July 1, 2012.

## Liquidity and Capital Resources

Historically, we have consumed cash from operations and incurred significant net losses. We have managed our liquidity position through a series of cost reduction initiatives, borrowings under our credit facility, capital markets transactions, and the sale of assets.

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As of March 31, 2012, cash and cash equivalents totaled \$24.1 million and working capital totaled \$13.5 million. Working capital, calculated as current assets minus current liabilities, is a financial metric we use which represents available operating liquidity. For the three and six months ended March 31, 2012, we incurred a net loss of approximately \$9.3 million and \$23.6 million, respectively. Net cash provided by operating activities for the six months ended March 31, 2012 totaled \$11.0 million which was primarily due to an increase in customer deposits and a decrease in accounts receivable.

With respect to measures taken to improve liquidity:

In November 2010, we entered into a Credit and Security Agreement (credit facility) with Wells Fargo Bank (Wells Fargo). The credit facility provides us with a revolving credit of up to \$35 million through November 2013 that can be used for working capital requirements, letters of credit, and other general corporate purposes. The credit facility is secured by the Company's assets and was initially subject to a borrowing base formula based on the Company's eligible accounts receivable and inventory accounts. On December 21, 2011, we signed an amendment to our credit facility that increased our eligible borrowing base by up to \$10 million by adding to the borrowing base formula 85% of the appraised value of the Company's equipment and 50% of the appraised value of the Company's real estate. In addition, Wells Fargo reduced our restrictions under the excess availability financial covenant requirement from \$7.5 million to \$3.5 million through December 2012. The interest rate on outstanding borrowings was increased to LIBOR rate plus four percent. We now expect at least 70% of the total amount of credit under the credit facility to be available for use based on the revised borrowing base formula during fiscal 2012. The credit facility will return to its previous agreement terms on the earlier of (i) December 31, 2012, or (ii) the date that we receive insurance proceeds of not less than \$30.0 million in the aggregate applicable to the flooding of our primary contract manufacturer in Thailand.

We expect that the pending sale of Fiber Optics-related assets to SEI will reduce availability under our eligible borrowing base by approximately \$5.0 million.

Our credit facility contains customary representations and warranties, and affirmative and negative covenants, including, among other things, cash balance and excess availability requirements, minimum tangible net worth and EBITDA covenants, and limitations on liens and certain additional indebtedness and guarantees. The covenants are written such that as long as we maintain the minimum cash balance and excess availability requirement of \$7.5 million prior to the amendment, and \$3.5 million following the amendment, the other covenants are not required to be met. As of March 31, 2012, we were in compliance with the financial covenants contained in the credit facility.

Our credit facility also contains certain events of default, including a subjective acceleration clause. Under this clause, Wells Fargo may declare an event of default if it believes in good faith that our ability to pay all or any portion of its indebtedness with Wells Fargo or to perform any of its material obligations under the credit facility has been impaired, or if it believes in good faith that there has been a material adverse change in the business or financial condition of the Company. If an event of default is not cured within the grace period (if applicable), then Wells Fargo may, among other things, accelerate repayment of amounts borrowed under the credit facility, cease making advances under the credit facility or take possession of the Company's assets that secure its obligations under the credit facility. We do not anticipate at this time any change in the business or financial condition of the Company that could be deemed a material adverse change by Wells Fargo. Wells Fargo has confirmed that they do not consider the flooding at our contract manufacturer's facility to be a material adverse change in the business or financial condition of the Company.

As of March 31, 2012, we had a \$21.0 million LIBOR rate loan outstanding under our credit facility, with an interest rate of 4.5%, which was paid off with cash on hand on April 6, 2012. As of March 31, 2012, the credit facility also had approximately \$2.5 million reserved for nine outstanding stand-by letters of credit, leaving a borrowing availability balance under the credit facility of approximately \$2.0 million.



In August 2011, we entered into a committed equity line financing facility (equity facility) with Commerce Court Small Cap Value Fund, Ltd. (Commerce Court) whereby Commerce Court has committed, upon issuance of a draw-down request by us, to purchase up to \$50 million worth of our common stock over a two-year period, subject to our common stock trading above \$4 per share, as adjusted for the four-to-one reverse stock split, during the draw down period, unless a waiver is received. As of March 31, 2012, there have been no draw down transactions completed under this equity facility.

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In November 2011, we entered into an agreement with our contract manufacturer in Thailand whereby our contract manufacturer will purchase equipment to rebuild our affected manufacturing lines which is expected to cost approximately \$5.7 million. We agreed to reimburse our contract manufacturer using insurance proceeds that we expect to receive. Additionally, we restructured our outstanding payables owed to our contract manufacturer, which delayed payments to future dates to coincide with expected timing of insurance proceeds.

During the three months ended December 31, 2011:

We signed agreements with certain customers related to our Fiber Optics segment pursuant to which they have received an allocation of our finished goods inventory that was not damaged by the Thailand flood, as well as receive a percentage of future output from our new production lines being placed into service during fiscal 2012. As consideration, we received \$6.8 million as partial prepayments for future product shipments. These advanced payments are being used to support our working capital requirements and purchases of manufacturing equipment and are presented within accrued expenses on our consolidated balance sheet.

We claimed damages and received proceeds of \$5.0 million under our own comprehensive insurance policy relating to business interruption and we recorded this amount as flood-related insurance proceeds during the three months ended December 31, 2011.

We also received a deposit totaling \$3.3 million from our Suncore joint venture related to an \$11.0 million order for terrestrial CPV solar cells.

As discussed above, we entered into a Master Purchase Agreement with SEI pursuant to which we have agreed to sell certain assets and transfer certain inventory purchase obligations associated with our Fiber Optics segment for \$17 million, subject to certain customary purchase adjustments.

We believe that our existing balances of cash and cash equivalents, the agreement with our contract manufacturer to delay payment terms and purchase equipment on our behalf, benefits expected from insurance proceeds, proceeds from the pending sale of certain Fiber Optics-related assets, and amounts expected to be available under our credit and equity facilities will provide us with sufficient financial resources to meet our cash requirements for operations, working capital, and capital expenditures for the next 12 months.

However, in the event of unforeseen circumstances, unfavorable market or economic developments, unfavorable results from operations, any failure to receive expected proceeds from insurance or the pending sale of Fiber Optics-related assets, or if Wells Fargo declares an event of default on the credit facility, we may have to raise additional funds by any one or a combination of the following: issuing equity, debt or convertible debt, or selling certain product lines and/or portions of our business. There can be no assurance that we will be able to raise additional funds on terms acceptable to us, or at all. A significant contraction in the capital markets, particularly in the technology sector, may make it difficult for us to raise additional capital if or when it is required, especially if we experience negative operating results. If adequate capital is not available to us as required, or is not available on favorable terms, our business, financial condition, results of operations, and cash flows may be adversely affected.

NOTE 2. Recent Accounting Pronouncements

There have been no recent accounting pronouncements or changes in accounting pronouncements since September 30, 2011 that are of significance or potential significance to us. We believe the impact of recently issued accounting standards that are not yet effective will not have a material impact on our consolidated financial position, results of

operations, or cash flows upon adoption.

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## NOTE 3. Fair Value Accounting

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

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities. We classify investments within Level 1 if quoted prices are available in active markets. Level 1 assets include instruments valued based on quoted market prices in active markets which generally could include money market funds, corporate publicly traded equity securities on major exchanges, and U.S. Treasury notes with quoted prices on active markets.

Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly, through market corroboration, for substantially the full term of the financial instrument. We classify items in Level 2 if the investments are valued using observable inputs to quoted market prices, benchmark yields, reported trades, broker/dealer quotes or alternative pricing sources with reasonable levels of price transparency. These investments could include: government agencies, corporate bonds, commercial paper, and auction rate securities.

Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. We do not hold any financial assets or liabilities within Level 3.

Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The following table lists our financial assets and liabilities that are measured at fair value on a recurring basis:

## Fair Value Measurement

| (in thousands)           | Level 1<br>Quoted Prices in<br>Active Markets for<br>Identical Assets | Level 2<br>Significant Other<br>Observable<br>Remaining Inputs | Level 3<br>Significant<br>Unobservable<br>Inputs | Total    |
|--------------------------|---|--|--|----------|
| As of March 31, 2012     |   |  |  |          |
| Assets:                  |   |  |  |          |
| Cash                     | \$24,112  | —  | —  | \$24,112 |
| Restricted cash          | \$1,242   | —  | —  | \$1,242  |
| Liabilities:             |   |  |  |          |
| Warrants                 | —   | \$752  | —  | \$752    |
| As of September 30, 2011 |   |  |  |          |
| Assets:                  |   |  |  |          |
| Cash                     | \$15,598  | —  | —  | \$15,598 |
| Restricted cash          | \$544   | —  | —  | \$544    |
| Liabilities:             |   |  |  |          |
| Warrants                 | —   | \$601  | —  | \$601    |

Cash consists primarily of bank deposits and occasionally highly liquid short-term investments with a maturity of three months or less at the time of purchase.

Restricted cash represents temporarily restricted deposits held as compensating balances against short-term borrowing arrangements as well as customer deposits held with restrictions on use.

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As of March 31, 2012 and September 30, 2011, warrants representing 750,010 shares of our common stock were outstanding. All of our warrants are classified as a liability since the warrants meet the classification requirements for liability accounting pursuant to ASC 815, Derivatives and Hedging. Each quarter, we expect an impact on our statement of operations and comprehensive loss when we record the change in fair value of our outstanding warrants using the Monte Carlo option valuation model. The Monte Carlo option valuation model is used since it allows the valuation of each warrant to factor in the value associated with our right to affect a mandatory exercise of each warrant. The valuation model requires the input of highly subjective assumptions, including the warrant's expected life and the price volatility of the underlying stock. The change in the fair value of the warrants is primarily due to the change in the closing price of our common stock.

The carrying amounts of accounts receivable, prepaid expenses and other current assets, borrowings under our credit facility, accounts payable, accrued expenses and other current liabilities approximate fair value because of the short maturity of these instruments.

Impairment tests related to our goodwill and long-lived assets involves comparing fair value to carrying amount. See Footnote 7 - Intangible Assets for additional disclosures related to our asset impairment tests.

## NOTE 4. Accounts Receivable

The components of accounts receivable consisted of the following:

| (in thousands)                  | As of<br>March 31,<br>2012 | As of<br>September 30, 2011 |
|---------------------------------|----------------------------|-----------------------------|
| Accounts receivable             | \$28,571                   | \$33,938                    |
| Accounts receivable – unbilled  | 2,753                      | 4,269                       |
| Accounts receivable, gross      | 31,324                     | 38,207                      |
| Allowance for doubtful accounts | (3,213                     | ) (3,332                    |
| Accounts receivable, net        | \$28,111                   | \$34,875                    |

Unbilled accounts receivable represents revenue recognized but not yet billed as of the period ended. Billings on contracts using the percentage-of-completion method usually occur upon completion of predetermined contract milestones or other contract terms, such as customer approval. The allowance for doubtful accounts is based on the age of receivables and a specific identification of receivables considered at risk of collection.

As of March 31, 2012 and September 30, 2011, we had \$4.6 million and \$3.3 million, respectively, of accounts receivable recorded using the percentage of completion method. Of these amounts, \$2.0 million was invoiced and \$2.6 million was unbilled as of of March 31, 2012; and, \$1.3 million was invoiced and \$2.0 million was unbilled as of September 30, 2011.

## NOTE 5. Inventory

The components of inventory consisted of the following:

| (in thousands) | As of<br>March 31,<br>2012 | As of<br>September 30, 2011 |
|----------------|----------------------------|-----------------------------|
|----------------|----------------------------|-----------------------------|

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|                 |          |          |
|-----------------|----------|----------|
| Raw materials   | \$15,630 | \$13,799 |
| Work in-process | 7,450    | 7,129    |
| Finished goods  | 9,666    | 12,238   |
| Inventory       | \$32,746 | \$33,166 |

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During the three and six months ended March 31, 2012, we recorded estimated flood-related losses associated with damaged inventory of approximately \$0.1 million and \$4.0 million, respectively. See Footnote 9 - Flood-related Losses for additional disclosures related to the impact of the Thailand flood on our operations.

We entered into a Master Purchase Agreement with SEI pursuant to which we have agreed to sell certain assets which include \$4.3 million of net inventory as of March 31, 2012, an amount which is classified within "assets held for sale" on our consolidated balance sheet. See Footnote 1 - Basis of Presentation for additional disclosures related to this asset sale.

## NOTE 6. Property, Plant, and Equipment

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

| (in thousands)                      | As of<br>March 31,<br>2012 | As of<br>September 30, 2011 |
|-------------------------------------|----------------------------|-----------------------------|
| Land                                | \$1,502                    | \$1,502                     |
| Building and improvements           | 19,586                     | 19,904                      |
| Equipment                           | 8,735                      | 12,656                      |
| Furniture and fixtures              | 198                        | 51                          |
| Computer hardware and software      | 1,103                      | 1,041                       |
| Leasehold improvements              | 4,050                      | 4,631                       |
| Construction in progress            | 7,397                      | 7,001                       |
| Property, plant, and equipment, net | \$42,571                   | \$46,786                    |

During the three months ended December 31, 2011, we recorded estimated flood-related losses associated with damaged equipment of approximately \$1.8 million. Equipment under capital lease totaling \$1.9 million as of September 30, 2011 was also damaged by the Thailand flood and written off against our outstanding capital lease obligation. See Footnote 9 - Flood-related Losses for additional disclosures related to the impact of the Thailand flood on our operations.

We entered into a Master Purchase Agreement with SEI pursuant to which we have agreed to sell certain assets which include \$1.4 million of net fixed assets as of March 31, 2012, an amount which is classified within "assets held for sale" on our consolidated balance sheet. See Footnote 1 - Basis of Presentation for additional disclosures related to this asset sale.

As of March 31, 2012 and September 30, 2011, accumulated depreciation was approximately \$74.1 million and \$105.5 million, respectively. The reduction in accumulated depreciation was primarily due to the reclassification of fixed assets to assets held for sale accounts associated with the SEI transaction and the write-off of damaged equipment due to the Thailand flood.

See Footnote 7 - Intangible Assets for additional disclosures related to our long-lived asset impairment tests.



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## NOTE 7. Intangible Assets

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

| (in thousands)        | As of March 31, 2012 |                          |                  | As of September 30, 2011 |                          |                  |
|-----------------------|----------------------|--------------------------|------------------|--------------------------|--------------------------|------------------|
|                       | Gross Assets         | Accumulated Amortization | Net Assets       | Gross Assets             | Accumulated Amortization | Net Assets       |
| <b>Fiber Optics:</b>  |                      |                          |                  |                          |                          |                  |
| Core Technology       | \$12,727             | \$(10,795)               | ) \$1,932        | \$13,872                 | \$(10,862)               | ) \$3,010        |
| Customer Relations    | 3,511                | (2,215)                  | ) 1,296          | 3,511                    | (2,071)                  | ) 1,440          |
| Patents               | 4,697                | (4,323)                  | ) 374            | 4,697                    | (4,265)                  | ) 432            |
|                       | 20,935               | (17,333)                 | ) 3,602          | 22,080                   | (17,198)                 | ) 4,882          |
| <b>Photovoltaics:</b> |                      |                          |                  |                          |                          |                  |
| Patents               | 2,279                | (1,459)                  | ) 820            | 2,279                    | (1,295)                  | ) 984            |
| <b>Total</b>          | <b>\$23,214</b>      | <b>\$(18,792)</b>        | <b>) \$4,422</b> | <b>\$24,359</b>          | <b>\$(18,493)</b>        | <b>) \$5,866</b> |

We entered into a Master Purchase Agreement with SEI pursuant to which we have agreed to sell certain assets which include \$0.5 million of fiber optics-related intangible assets as of March 31, 2012, an amount which is classified within "assets held for sale" on our consolidated balance sheet. See [Footnote 1 - Basis of Presentation](#) for additional disclosures related to this asset sale.

Amortization expense related to intangible assets is included in sales, general, and administrative expense on our statement of operations. Based on the carrying amount of our intangible assets as of March 31, 2012, the estimated future amortization expense is as follows:

## Estimated Future Amortization Expense

(in thousands)

|                                      |                |
|--------------------------------------|----------------|
| Six months ended September 30, 2012  | \$721          |
| Fiscal year ended September 30, 2013 | 1,405          |
| Fiscal year ended September 30, 2014 | 1,154          |
| Fiscal year ended September 30, 2015 | 555            |
| Fiscal year ended September 30, 2016 | 555            |
| Thereafter                           | 32             |
| <b>Total</b>                         | <b>\$4,422</b> |

## Impairment Testing

As of December 31, 2011, we performed an impairment test of long-lived assets within our Fiber Optics segment and we determined that no impairment existed. The impairment test was triggered by a change in long-term financial and cash flow forecasts due to the adverse impact the Thailand flood has had on our operations. See [Footnote 9 - Flood-related Losses](#) for additional disclosures related to the impact of the Thailand flood on our operations. In making this determination, we used certain assumptions, including estimates of future cash flows expected to be generated by these long-lived assets, which are based on additional assumptions such as asset utilization, expected length of service from the assets, and estimated salvage values. If we are unable to achieve projected cash flows, we may be required to perform additional impairment tests of our remaining long-lived assets which may result in the recording of impairment charges.



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## NOTE 8. Accrued Expenses and Other Current Liabilities

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

| (in thousands)                                 | As of<br>March 31,<br>2012 | As of<br>September 30, 2011 |
|--|----------------------------|-----------------------------|
| Compensation                                   | \$3,905                    | \$4,222                     |
| Warranty                                       | 4,186                      | 4,158                       |
| Termination fee                                | 2,775                      | 2,775                       |
| Professional fees                              | 764                        | 489                         |
| Royalty  | 1,557                      | 1,627                       |
| Advanced payments                              | 12,164                     | 2,753                       |
| Self insurance                                 | 1,223                      | 1,048                       |
| Capital lease obligations                      | 3                          | 1,279                       |
| Income and other taxes                         | 1,090                      | 1,269                       |
| Loss on sale contracts                         | 375                        | 480                         |
| Severance and restructuring accruals           | 351                        | 405                         |
| Loss on inventory purchase commitments         | 1,343                      | —                           |
| Litigation settlements                         | —                          | 1,445                       |
| Other  | 580                        | 369                         |
| Accrued expenses and other current liabilities | \$30,316                   | \$22,319                    |

Advanced payments - We signed agreements with certain customers related to our Fiber Optics segment pursuant to which they have received an allocation of our finished goods inventory that was not damaged by the Thailand flood, as well as receive a percentage of future output from our new production lines being placed into service during fiscal 2012. As consideration, we received \$6.8 million as partial prepayments for future product shipments, of which \$5.2 million is outstanding as of March 31, 2012. These advanced payments are being used to support our working capital requirements and purchases of manufacturing equipment. In December 2011, we also received a \$3.3 million deposit from our Suncore joint venture related to an order for terrestrial CPV solar cells, of which \$2.8 million is outstanding as of March 31, 2012.

Capital lease obligations - Equipment under capital lease was damaged by the Thailand flood and written off against our outstanding capital lease obligation.

Severance and restructuring accruals - Our restructuring-related accrual specifically relates to non-cancelable obligations associated with an abandoned leased facility. Expense related to severance and restructuring accruals is included in sales, general, and administrative expense on our statement of operations. The following table summarizes the changes in the severance and restructuring-related accrual accounts:

| Severance and Restructuring Accruals<br>(in thousands) | Severance-related<br>accruals | Restructuring-related<br>accruals | Total  |
|--|-------------------------------|-----------------------------------|--------|
| Balance as of September 30, 2011                       | \$5                           | \$400                             | \$405  |
| Expense charge to accrual                              | 112                           | 32                                | 144    |
| Payments on accrual                                    | (95                           | ) (103                            | ) (198 |
| Balance as of March 31, 2012                           | \$22                          | \$329                             | \$351  |

Loss on inventory purchase commitments - Management identified certain inventory on order related to manufacturing product lines that were destroyed by the Thailand flood and will not be replaced. This expense, which

totaled \$0.4 million and \$1.3 million for the three and six months ended March 31, 2012, respectively, was recorded within cost of revenue on our statement of operations.

See Footnote 9 - Flood-related Losses for additional disclosures related to the impact of the Thailand flood on our operations.

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NOTE 9. Flood-related Losses

In October 2011, flood waters infiltrated the offices and manufacturing floorspace of our primary contract manufacturer's facility in Thailand and suspended all production. The areas used to manufacture our fiber optic products and our process and test equipment were submerged in flood water that was several feet deep for more than a month. As a result, the manufacturing infrastructure that supported approximately 50% of our Fiber Optics segment revenue was destroyed. This has had a significant impact on our operations and our ability to meet customer demand for certain of our fiber optics products in the near term. Our Photovoltaics segment was not affected by the Thailand floods.

Production capabilities for three major product lines were impacted. These include (i) telecom products, such as tunable lasers and our high-volume tunable XFP line (our low-volume TXFP production line is located in the U.S. and continues to produce products), (ii) cable television (CATV) laser components and transmitters, and (iii) other legacy products. Over the past several months, we have been developing and implementing alternative manufacturing plans in our own facilities in China and the U.S. to meet our customers' short-term demands. Concurrently, we have been focusing on rebuilding the high-volume production infrastructure for impacted product lines at other locations owned by our primary contract manufacturer in Thailand, as well as our own manufacturing facility in China. Our focus during the rebuild is on a quick recovery and strategies to better configure the equipment for efficiency, reduce our cost structure, and provide manufacturing diversification.

The equipment we used at the Thailand facility was highly sophisticated and complex. In November 2011, we entered into an agreement with our contract manufacturer in Thailand whereby our contract manufacturer will purchase equipment to rebuild our affected manufacturing lines which is expected to cost approximately \$5.7 million. We agreed to reimburse our contract manufacturer using insurance proceeds that we expect to receive. We are making significant progress and the rebuild plan is on schedule. We have rebuilt our own CATV production line and expect that it will be at full capacity in June 2012. Our contract manufacturer is rebuilding our telecom-related production lines which are expected to be completed in June 2012.

We are working closely with customers on our recovery manufacturing plan to align with their needs. Gross margins will continue to be negatively impacted in subsequent quarters until we are able to substantially restore operations, the supply chain infrastructure is re-established, and we regain any lost market share. The flooding has delayed our development and introduction of new fiber optics-related products and technologies. Delays in implementing new technologies and introducing new products may reduce our revenue and adversely affect our consolidated results of operations even after operations are restored.

Instead of completely rebuilding all flood-damaged manufacturing lines in Thailand, management has decided to realign the Company's fiber optics product portfolio and focus on business areas with strong technology differentiation and growth opportunities. Management identified certain inventory on order related to manufacturing product lines that were destroyed by the Thailand flood and will not be replaced. This expense, which totaled \$0.4 million and \$1.3 million for the three and six months ended March 31, 2012, respectively, was recorded within cost of revenue on our statement of operations.

We are working closely with our contract manufacturer to identify all flood-damaged assets of the Company. During the three months ended December 31, 2011, we recorded estimated flood-related losses associated with damaged inventory and equipment of approximately \$3.9 million and \$1.8 million, respectively. During the three months ended March 31, 2012, we recorded an additional \$0.1 million related to flood-damaged inventory. Equipment under capital lease totaling \$1.9 million as of September 30, 2011 was also damaged by the Thailand flood and written off against our outstanding capital lease obligation. We continue to evaluate our preliminary estimates of flood-related losses, and in future quarters we may record additional adjustments for damaged inventory and equipment.

Our contract manufacturer is required under its production agreement with us to reimburse us for losses to inventory and equipment incurred while at their facility. We are working with our contract manufacturer (and our contract manufacturer's insurance carrier) to receive insurance proceeds to cover the direct damages to our assets that were impacted by the flood. We are not a named beneficiary of our contract manufacturer's insurance policy. The timing and amounts of the recovery from the contract manufacturer, including insurance proceeds, are uncertain at this time. Insurance recoveries related to inventory and equipment destroyed by the Thailand flood will be recognized to the extent when they become probable and realized. Additionally, we also claimed damages and received proceeds of \$5.0 million under our own comprehensive insurance policy relating to business interruption and we recorded this amount as flood-related insurance proceeds during the three months ended December 31, 2011. No additional business interruption insurance proceeds associated with this event are anticipated.

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## NOTE 10. Income Taxes

During the three and six months ended March 31, 2012, there were no material increases or decreases in unrecognized tax benefits and we do not anticipate any material increases or decreases in the amounts of unrecognized tax benefits for the remaining fiscal year. As of March 31, 2012, we had approximately \$198,000 of interest and penalties accrued as tax liabilities on our consolidated balance sheet.

During the three months ended December 31, 2011, we incurred \$1.6 million of foreign income tax expense associated with (i) a \$14.8 million deemed capital distribution from our Suncore joint venture which was immediately reinvested back into Suncore and (ii) a cash dividend of \$1.6 million from Suncore which was distributed to offset our foreign income tax obligation that was incurred. No tax expense was incurred during the three months ended March 31, 2012 or during the six months ended March 31, 2011. See Footnote 14 - Suncore Joint Venture for additional disclosures related to this foreign income tax expense.

We file income tax returns in the U.S. federal, state, and local jurisdictions and, currently, no federal, state, and local income tax returns are under examination. The following tax years remain open to assessment for each of the more significant jurisdictions where we are subject to income taxes: after fiscal year 2007 for U.S. federal, after fiscal year 2006 for the state of California, and after fiscal year 2007 for the state of New Mexico.

## NOTE 11. Commitments and Contingencies

Our contractual obligations and commitments over the next five years are summarized in the table below:  
(in thousands)

|  |          | For the Fiscal Years Ended September 30, |              |              |                   |  |
|--|----------|--|--------------|--------------|-------------------|--|
|  | Total    | 2012                                     | 2013 to 2014 | 2015 to 2016 | 2017<br>and later |  |
| Purchase obligations                             | \$35,780 | \$35,454                                 | \$235        | \$91         | \$—               |  |
| Credit facility borrowings                       | 21,000   | 21,000                                   | —            | —            | —                 |  |
| Asset retirement obligations                     | 4,902    | —  | 390          | 33           | 4,479             |  |
| Operating lease obligations                      | 4,272    | 514                                      | 907          | 302          | 2,549             |  |
| Total contractual obligations<br>and commitments | \$65,954 | \$56,968                                 | \$1,532      | \$426        | \$7,028           |  |

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

## Credit Facility

As of March 31, 2012, we had a \$21.0 million LIBOR rate loan outstanding under our credit facility, with an interest rate of 4.5%, which was paid off with cash on hand on April 6, 2012. See Footnote 1 - Basis of Presentation for information related to our credit facility borrowing.

## Purchase Obligations

Our purchase obligations represent agreements to purchase goods or services that are enforceable and legally binding, that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable

price provisions; and the approximate timing of the transactions.

In November 2011, we entered into an agreement with our contract manufacturer in Thailand whereby our contract manufacturer will purchase equipment to rebuild our affected manufacturing lines which is expected to cost approximately \$5.7 million. We agreed to reimburse our contract manufacturer using insurance proceeds that we expect to receive. Additionally, we restructured our outstanding payables owed to our contract manufacturer, which delayed payments to future dates to coincide with expected timing of insurance proceeds.



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We entered into a Master Purchase Agreement with SEI pursuant to which we have agreed to sell certain assets and transfer certain obligations associated with our Fiber Optics segment for \$17 million, subject to certain customary purchase adjustments. Purchase obligations related to this asset sale approximate \$2.9 million as of March 31, 2012. See Footnote 1 - Basis of Presentation for additional disclosures related to this asset sale.

### Asset Retirement Obligations

We have known conditional asset retirement conditions, such as certain asset decommissioning and restoration of rented facilities to be performed in the future. The fair value was estimated by discounting projected cash flows over the estimated life of the related assets using credit adjusted risk-free rates which ranged from 3.25% to 5.78%. Our asset retirement obligations include assumptions related to renewal option periods for those facilities where we expect to extend lease terms. In future periods, the asset retirement obligation is accreted for the change in its present value and capitalized costs are depreciated over the useful life of the related assets. If the fair value of the estimated asset retirement obligation changes, an adjustment will be recorded to both the asset retirement obligation and the asset retirement capitalized cost. Revisions in estimated liabilities can result from revisions of estimated inflation rates, escalating retirement costs, and changes in the estimated timing of settling asset retirement obligations. Total liabilities associated with asset retirements that were settled during the six months ended March 31, 2011 was approximately \$19,000. Accretion expense of \$70,000 and \$121,000 was recorded during the three and six months ended March 31, 2012.

### Operating Leases

We lease certain land, facilities, and equipment under non-cancelable operating leases. Operating lease amounts above exclude renewal option periods, property taxes, insurance and maintenance expenses on leased properties. Our facility leases typically provide for rental adjustments for increases in base rent (up to specific limits), property taxes, insurance and general property maintenance that would be recorded as rent expense. Rent expense was approximately \$0.7 million for both the three months ended March 31, 2012 and 2011, respectively and approximately \$1.4 million and \$1.3 million for the six months ended March 31, 2012 and 2011, respectively. There are no off-balance sheet arrangements other than our operating leases.

### Legal Proceedings

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

#### a) Intellectual Property Lawsuits

We protect our proprietary technology by applying for patents where appropriate and, in other cases, by preserving the technology, related know-how and information as trade secrets. The success and competitive position of our product

lines are impacted by our ability to obtain intellectual property protection for our research and development efforts. We have, from time to time, exchanged correspondence with third parties regarding the assertion of patent or other intellectual property rights in connection with certain of our products and processes.

b) Avago-related Litigation

On December 5, 2008, we were served with a complaint by Avago Technologies filed in the United States District Court for the Northern District of California, San Jose Division alleging infringement of two patents by our VCSEL products. (Avago Technologies Singapore et al., EMCORE Corporation, et al., Case No.: C08-5394 EMC) (the “N.D. CA Patent Case”). This case is ongoing and we intend to vigorously defend against these allegations.

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On March 5, 2009, we were notified that, based on a complaint filed by Avago alleging the same patent infringement that formed the basis of the complaint previously filed in the Northern District of California, the U.S. International Trade Commission (the “ITC”) had determined to begin an investigation titled “In the Matter of Certain Optoelectronic Devices, Components Thereof and Products Containing the Same”, Inv. No. 337-TA-669. This matter was tried before an administrative law judge of the ITC in November 2009.

On July 12, 2010, the ITC issued its final determination, as well as a limited exclusion order and cease and desist order directed to our infringing products which prohibits importation of those products into the United States. Those remedial orders were reviewed by the President of the United States and his decision to approve those orders was issued on September 10, 2010, thereby prohibiting further importation of the infringing products. We appealed the ITC's decision, and on November 14, 2011, the Court of Appeals affirmed the ITC's determination.

### c) Green and Gold-related litigation

On December 23, 2008, Plaintiffs Maurice Prissert and Claude Prissert filed a purported stockholder class action (the “Prissert Class Action”) pursuant to Federal Rule of Civil Procedure 23 allegedly on behalf of a class of Company shareholders against the Company and certain of its present and former directors and officers (the “Individual Defendants”) in the United States District Court for the District of New Mexico captioned, Maurice Prissert and Claude Prissert v. EMCORE Corporation, Adam Gushard, Hong Q. Hou, Reuben F. Richards, Jr., David Danzilio and Thomas Werthan, Case No. 1:08cv1190 (D.N.M.). The Complaint alleges that the Company and the Individual Defendants violated certain provisions of the federal securities laws, including Section 10(b) of the Securities Exchange Act of 1934, arising out of the Company's disclosure regarding its customer Green and Gold Energy (“GGE”) and the associated backlog of GGE orders with the Company's Photovoltaics business segment. The Complaint in the Prissert Class Action seeks, among other things, an unspecified amount of compensatory damages and other costs and expenses associated with the maintenance of the action. On or about February 12, 2009, a second purported stockholder class action (Mueller v. EMCORE Corporation et al., Case No. 1:09cv 133 (D.N.M.)) (the “Mueller Class Action”), together with the Prissert Class Action, the “Class Actions”) was filed in the United States District Court for the District of New Mexico against the same defendants named in the Prissert Class Action, based on substantially the same facts and circumstances, containing substantially the same allegations and seeking substantially the same relief.

On September 25, 2009, the court issued an order consolidating both the Prissert and Mueller class actions into one consolidated proceeding, but denied plaintiffs motions for appointment of a lead plaintiff or lead plaintiff's counsel. On July 15, 2010, the court appointed IBEW Local Union No. 58 Annuity Fund to serve as lead plaintiff (“IBEW”), but denied, without prejudice, IBEW's motion to appoint lead counsel. On August 24, 2010, IBEW filed a renewed motion for appointment as lead plaintiff and for approval of its selection of counsel. IBEW filed a renewed motion for appointment of counsel on May 13, 2011 which we did not oppose. By Order dated September 30, 2011, the court appointed counsel to act on behalf of the purported class.

On January 23, 2009, Plaintiff James E. Stearns filed a purported stockholder derivative action (the “Stearns Derivative Action”) on behalf of the Company against the Individual Defendants, as well as the Company as nominal defendant in the Superior Court of New Jersey, Atlantic County, Chancery Division (James E. Stearns, derivatively on behalf of EMCORE Corporation v. Thomas J. Russell, Robert Bogomolny, Charles Scott, John Gillen, Reuben F. Richards, Jr., Hong Q. Hou, Adam Gushard, David Danzilio and Thomas Werthan, Case No. Atl-C-10-09). This action is based on essentially the same factual contentions as the Prissert Class Action, and alleges that the Individual Defendants engaged in improprieties and violations of law in connection with the reporting of the GGE backlog. The Stearns Derivative Action seeks several forms of relief, allegedly on behalf of the Company, including, among other things, damages, equitable relief, corporate governance reforms, an accounting of, rescission of, restitution of, and costs and disbursements of the lawsuit.

On March 11, 2009, Plaintiff Gary Thomas filed a second purported shareholder derivative action (the “Thomas Derivative Action”; together with the Stearns Derivative Action, the “Derivative Actions”) in the U.S. District Court for the District of New Mexico against the Company and certain of the Individual Defendants (Gary Thomas, derivatively on behalf of EMCORE Corporation v. Thomas J. Russell, Robert Bogomolny, Charles Scott, John Gillen, Reuben F. Richards, Jr., Hong Q. Hou, and EMCORE Corporation, Case No. 1.09-cv-00236, (D.N.M.)). The Thomas Derivative Action makes substantially the same allegations as the Stearns Derivative Action and seeks essentially the same relief.

The Stearns Derivative Action and the Thomas Derivative action have been consolidated before a single judge in Somerset County, New Jersey, and have been stayed pending resolution of the Class Actions.

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On November 14, 2011, the plaintiffs filed a Consolidated Amended Complaint, again alleging violations of the federal securities laws arising out of the Company's disclosure regarding its customer GGE and the associated backlog of GGE orders with the Company's Photovoltaics business segment (the "Amended Complaint"). The Amended Complaint seeks, among other things, an unspecified amount of compensatory damages and other costs and expenses associated with the maintenance of the action. The Amended Complaint again names the Company and the Individual Defendants, with the exception of former officer and director Thomas Werthan. On January 9, 2012, EMCORE filed a motion to dismiss the Amended Complaint. Plaintiffs' have answered this motion to dismiss.

We intend to vigorously defend against the allegations of both the Class Actions and the Derivative Actions.

NOTE 12. Equity

Reverse Stock Split

See Footnote 1 - Basis of Presentation for disclosures related to our four-to-one reverse common stock split.

Equity Plans

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

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

The 2000 Plan expired in February 2010 and no additional shares are available for grant under this plan. However certain stock options issued under the 2000 Plan are still outstanding and exercisable.

The total number of stock-based awards that may be granted under the 2010 Equity Plan is 1,750,000 stock-based awards.

On March 9, 2012, our shareholders approved the 2012 Equity Plan at our 2012 Shareholder Annual Meeting and authorized the reservation of 1,000,000 shares of EMCORE common stock for issuance under the 2012 Equity Plan. Employees, non-employee directors and consultants of EMCORE and its subsidiaries will be eligible to receive awards of EMCORE common stock, stock options, stock appreciation rights, restricted stock, restricted stock units, performance units, or stock purchase rights at the Compensation Committee's discretion.

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

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## Stock Options

Most of our stock options vest and become exercisable over four to five years and have a contractual life of ten years. Certain stock options awarded are intended to qualify as incentive stock options pursuant to Section 422A of the Internal Revenue Code. The following tables summarize the activity related to stock options under the Stock Plans:

| Stock Option Activity                            | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (in years) |
|--|------------------|---------------------------------|--|
| Outstanding as of September 30, 2011             | 2,259,197        | \$17.76                         | 6.43   |
| Granted  | 8,613            | \$4.22                          |  |
| Exercised  | (4,480)          | ) 4.76                          |  |
| Forfeited  | (39,039)         | ) \$10.24                       |  |
| Cancelled  | (57,477)         | ) \$18.50                       |  |
| Outstanding as of March 31, 2012                 | 2,166,814        | \$17.85                         | 5.94   |
| Exercisable as of March 31, 2012                 | 1,512,766        | \$21.01                         | 5.24   |
| Vested and expected to vest as of March 31, 2012 | 2,098,849        | \$18.21                         | 5.86   |

As of March 31, 2012, there was approximately \$1.4 million of unrecognized stock-based compensation expense, net of estimated forfeitures, related to non-vested stock options granted under the Stock Plans which is expected to be recognized over an estimated weighted average life of 1.8 years.

Intrinsic value for stock options represents the “in-the-money” portion or the positive variance between a stock option's exercise price and the underlying stock price. The total intrinsic value related to stock options exercised during the six months ended March 31, 2012 was approximately \$3,000. The intrinsic value related to fully vested and expected to vest stock options as of March 31, 2012 was approximately \$119,000. The intrinsic value related to exercisable stock options as of March 31, 2012 was approximately \$37,000.

## Restricted Stock

Restricted stock awards (RSAs) and restricted stock units (RSUs) granted under the 2010 Equity Plan and 2012 Equity Plan typically vest over three years and are subject to forfeiture if employment terminates prior to the lapse of the restrictions. RSAs are considered issued and outstanding shares on the grant date and have the same dividend and voting rights as other common stock. RSUs are not considered issued or outstanding common stock until they vest. The following table summarizes the activity related to RSAs and RSUs:

| Restricted Stock Activity           | Restricted Stock Awards |  | Restricted Stock Units |  |
|-------------------------------------|-------------------------|--|------------------------|--|
|                                     | Number of Shares        | Weighted Average Grant Date Fair Value | Number of Shares       | Weighted Average Grant Date Fair Value |
| Non-vested as of September 30, 2011 | 410,650                 | \$5.80                                 | 308,048                | \$6.20                                 |
| Granted                             | —                       | —                                      | 806,134                | \$3.88                                 |
| Vested                              | (128,665)               | ) \$5.68                               | (192,448)              | ) \$3.84                               |
| Cancelled                           | (15,146)                | ) \$5.68                               | (34,964)               | ) \$4.72                               |
| Non-vested as of March 31, 2012     | 266,839                 | \$5.87                                 | 886,770                | \$4.66                                 |



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Restricted stock awards: As of March 31, 2012, there was approximately \$1.2 million of remaining unamortized stock-based compensation expense, net of estimated forfeitures, associated with RSAs, which will be expensed over a weighted average remaining service period of approximately 1.8 years.

Restricted stock units: As of March 31, 2012, there was approximately \$3.0 million of remaining unamortized stock-based compensation expense, net of estimated forfeitures, associated with RSUs, which will be expensed over a weighted average remaining service period of approximately 2.6 years. Of the total outstanding non-vested RSUs, approximately 750,000 RSUs are expected to vest and have an aggregate intrinsic value of approximately \$3.6 million and a weighted average remaining contractual term of 1.5 years. The total outstanding non-vested RSUs have an aggregate intrinsic value of approximately \$4.2 million and a weighted average remaining contractual term of 1.6 years.

## Stock Option Valuation Assumptions

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. The option-pricing model requires the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock. The weighted-average grant date fair value of stock options granted during the three and six months ended March 31, 2012 was \$3.46 and \$3.23, respectively. The weighted-average grant date fair value of stock options granted during the three and six months ended March 31, 2011 was \$6.32 and \$3.52, respectively.

| Black-Scholes Weighted Average Assumptions | For the Three Months Ended March 31, |         | For the Six Months Ended March 31, |        |   |
|--|--------------------------------------|---------|------------------------------------|--------|---|
|  | 2012                                 | 2011    | 2012                               | 2011   |   |
| Expected dividend yield                    | —                                    | % —     | % —                                | % —    | % |
| Expected stock price volatility            | 103.9                                | % 101.0 | % 105.2                            | % 98.6 | % |
| Risk-free interest rate                    | 1.0                                  | % 1.9   | % 0.9                              | % 1.4  | % |
| Expected term (in years)                   | 5.0                                  | 4.7     | 5.0                                | 4.9    |   |

## Employee Stock Purchase Plan

At the 2012 Annual Meeting, our shareholders approved an amendment to our 2000 Employee Stock Purchase Plan (ESPP) that increased the total number of shares of common stock on which options may be granted under the ESPP by 500,000, from a prior limit of 1,750,000 shares to a new limit of 2,250,000 shares.



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## Stock-based compensation

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

| Stock-based Compensation Expense<br>(in thousands, except per share data) | For the Three Months<br>Ended March 31, |           | For the Six Months Ended<br>March 31, |           |
|---|---|-----------|---------------------------------------|-----------|
|   | 2012                                    | 2011      | 2012                                  | 2011      |
| Stock-based compensation expense by award type:                           |   |           |                                       |           |
| Employee stock options  | \$1,088                                 | \$1,039   | \$2,135                               | \$1,721   |
| Restricted stock awards and units   | 946                                     | 90        | 1,521                                 | 90        |
| Employee stock purchase plan  | 189                                     | 77        | 413                                   | 212       |
| 401(k) match in common stock  | 245                                     | 231       | 475                                   | 464       |
| Outside director fees   | 74                                      | 51        | 178                                   | 124       |
| Total stock-based compensation expense                                    | \$2,542                                 | \$1,488   | \$4,722                               | \$2,611   |
| Stock-based compensation expense by expense category:                     |   |           |                                       |           |
| Cost of revenue   | \$593                                   | \$236     | \$1,069                               | \$453     |
| Selling, general, and administrative                                      | 1,233                                   | 925       | 2,246                                 | 1,556     |
| Research and development  | 716                                     | 327       | 1,407                                 | 602       |
| Total stock-based compensation expense                                    | \$2,542                                 | \$1,488   | \$4,722                               | \$2,611   |
| Net effect on net loss per basic and diluted share                        | \$(0.11                                 | ) \$(0.07 | ) \$(0.20                             | ) \$(0.12 |

Loss Per Share. Our loss per share amounts were calculated by dividing net loss applicable to common stock by the weighted average number of common stock shares outstanding for the period and it is presented in the accompanying condensed consolidated statements of operations and comprehensive loss. For the three and six months ended March 31, 2012, stock options representing 2,166,814 shares of common stock, restricted stock units representing 886,770 shares of common stock, and warrants representing 750,010 shares of common stock were excluded from the computation of diluted earnings per share since we incurred a net loss for these periods and any effect would have been anti-dilutive. For the three and six months ended March 31, 2011, stock options representing 2,264,496 shares of common stock and warrants representing 750,010 shares of common stock were excluded from the computation of diluted earnings per share since we incurred a net loss for these periods and any effect would have been anti-dilutive.

## Future Issuances

As of March 31, 2012, we had common stock reserved for the following future issuances:

| Future Issuances   | Number of Common Stock<br>Shares Available for Future<br>Issuances |
|--|--|
| For future exercise of outstanding stock options                         | 2,166,814  |
| For future issuances to employees under the employee stock purchase plan | 900,956  |
| For future stock-based awards under the Equity Plans                     | 1,043,005  |
| For future exercise of warrants  | 750,010  |
| For future issuance under the officer and director share purchase plan   | 101,401  |
| Total reserved   | 4,962,186  |

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## NOTE 13. Segment Data and Related Information

We have four operating divisions and two reporting segments.

**Fiber Optics:** EMCORE Digital Fiber Optics Products and EMCORE Broadband Fiber Optics Products are aggregated as a separate reporting segment, Fiber Optics. Our Fiber Optics reporting segment provides optical components, subsystems, and systems for the high-speed telecommunication, cable television (CATV), and fiber-to-the-premise (FTTP) networks. Additionally, we offer products for video conversion and video transport, as well as specialty photonics technologies for defense and homeland security applications.

**Photovoltaics:** EMCORE Photovoltaics and EMCORE Solar Power are aggregated as a separate reporting segment, Photovoltaics. Our Photovoltaic reporting segment provides products for both space power and terrestrial solar power applications. For space power applications, we offer high-efficiency multi-junction solar cells, covered interconnect cells (CICs), and complete satellite solar panels. For terrestrial solar power applications, we offer a broad portfolio of our multi-junction solar cells and components for use in solar concentrator systems.

We evaluate our reportable segments pursuant to ASC 280, Segment Reporting. The Company's Chief Executive Officer is the chief operating decision maker and he assesses the performance of the operating segments and allocates resources to segments based on their business prospects, competitive factors, net revenue, operating results and other non-GAAP financial ratios.

## Revenue

The following tables set forth the revenue and percentage of total revenue attributable to each of our reporting segments.

| Segment Revenue<br>(in thousands, expect percentages) | For the Three Months Ended March 31, |              |          |              |
|---|--------------------------------------|--------------|----------|--------------|
|   | 2012                                 |              | 2011     |              |
|   | Revenue                              | % of Revenue | Revenue  | % of Revenue |
| Fiber Optics revenue                                  | \$21,938                             | 58.1%        | \$30,032 | 63.6%        |
| Photovoltaics revenue                                 | 15,842                               | 41.9%        | 17,186   | 36.4%        |
| Total revenue   | \$37,780                             | 100.0%       | \$47,218 | 100.0%       |

| Segment Revenue<br>(in thousands, expect percentages) | For the Six Months Ended March 31, |              |          |              |
|---|------------------------------------|--------------|----------|--------------|
|   | 2012                               |              | 2011     |              |
|   | Revenue                            | % of Revenue | Revenue  | % of Revenue |
| Fiber Optics revenue                                  | \$40,241                           | 53.5%        | \$61,484 | 61.9%        |
| Photovoltaics revenue                                 | 34,990                             | 46.5%        | 37,841   | 38.1%        |
| Total revenue   | \$75,231                           | 100.0%       | \$99,325 | 100.0%       |

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

| Geographic Revenue<br>(in thousands, expect percentages) | For the Three Months Ended March 31, |              |            |              |   |
|--|--------------------------------------|--------------|------------|--------------|---|
|  | 2012                                 |              | 2011       |              |   |
|  | Revenue                              | % of Revenue | Revenue    | % of Revenue |   |
| United States  | \$25,207                             | 66.7         | % \$34,854 | 73.8         | % |
| Asia   | 6,513                                | 17.2         | % 9,669    | 20.5         | % |

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|               |          |       |            |       |   |
|---------------|----------|-------|------------|-------|---|
| Europe        | 1,512    | 4.0   | % 2,115    | 4.5   | % |
| Other         | 4,548    | 12.1  | % 580      | 1.2   | % |
| Total revenue | \$37,780 | 100.0 | % \$47,218 | 100.0 | % |

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| Geographic Revenue<br>(in thousands, except percentages) | For the Six Months Ended March 31, |              |            |              |   |
|--|------------------------------------|--------------|------------|--------------|---|
|  | 2012                               |              | 2011       |              |   |
|  | Revenue                            | % of Revenue | Revenue    | % of Revenue |   |
| United States  | \$47,573                           | 63.2         | % \$69,931 | 70.4         | % |
| Asia   | 11,785                             | 15.7         | % 23,898   | 24.1         | % |
| Europe   | 3,673                              | 4.9          | % 4,606    | 4.6          | % |
| Other  | 12,200                             | 16.2         | % 890      | 0.9          | % |
| Total revenue  | \$75,231                           | 100.0        | % \$99,325 | 100.0        | % |

The increase in geographic revenue "Other" category in fiscal 2012 represents orders shipped to customers located in Israel and Russia. We do not expect sales to be significant to these geographic locations for the remaining half of fiscal 2012.

## Thailand Flood

In October 2011, flood waters infiltrated the offices and manufacturing floorspace of our primary contract manufacturer's facility in Thailand and suspended all production. As a result, the manufacturing infrastructure that supported approximately 50% of our Fiber Optics segment revenue was destroyed. This has had a significant impact on our operations and our ability to meet customer demand for certain of our fiber optics products in the near term. Our Photovoltaics segment was not affected by the Thailand floods. See [Footnote 9 - Flood-related Losses](#) for additional disclosures related to the impact of the Thailand flood on our operations.

## Pending Sale of Fiber Optics-related Assets

We entered into a Master Purchase Agreement with SEI pursuant to which we have agreed to sell certain assets and transfer certain inventory purchase obligations associated with our Fiber Optics segment for \$17 million, subject to certain customary purchase adjustments. See [Footnote 1 - Basis of Presentation](#) for additional disclosures related to this asset sale.

## Significant Customers

During the three and six months ended March 31, 2012, Loral Space & Communications, a customer associated with our Photovoltaics segment, represented 20% and 15%, respectively, of total consolidated revenue. For both the three and six months ended March 31, 2011, Loral Space & Communications represented 13% of total consolidated revenue.

## Operating Income (Loss)

The following table sets forth operating income (loss) attributable to each of our reporting segments.

| Statement of Operations Data<br>(in thousands) | For the Three Months<br>Ended March 31, |      | For the Six Months Ended<br>March 31, |      |
|--|---|------|---------------------------------------|------|
|  | 2012                                    | 2011 | 2012                                  | 2011 |

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|                                       |           |   |           |   |            |   |           |   |
|---------------------------------------|-----------|---|-----------|---|------------|---|-----------|---|
| Fiber Optics operating loss           | \$ (7,251 | ) | \$ (5,106 | ) | \$ (18,444 | ) | \$ (9,696 | ) |
| Photovoltaics operating income (loss) | (1,633    | ) | 912       | ) | (2,130     | ) | 2,727     | ) |
| Total operating loss                  | \$ (8,884 | ) | \$ (4,194 | ) | \$ (20,574 | ) | \$ (6,969 | ) |

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## Non-Cash Expense

The following tables sets forth our significant non-cash expenses attributable to each of our reporting segments.

| Depreciation, Amortization, and Accretion Expense<br>(in thousands) | For the Three Months<br>Ended March 31, |         | For the Six Months Ended<br>March 31, |         |
|---|---|---------|---------------------------------------|---------|
|   | 2012                                    | 2011    | 2012                                  | 2011    |
| Fiber Optics segment  | \$1,271                                 | \$1,630 | \$2,926                               | \$3,278 |
| Photovoltaics segment   | 1,106                                   | 1,333   | 2,226                                 | 2,692   |
| Total depreciation, amortization, and accretion expense             | \$2,377                                 | \$2,963 | \$5,152                               | \$5,970 |

| Stock-based Compensation Expense<br>(in thousands) | For the Three Months<br>Ended March 31, |         | For the Six Months Ended<br>March 31, |         |
|--|---|---------|---------------------------------------|---------|
|  | 2012                                    | 2011    | 2012                                  | 2011    |
| Fiber Optics segment                               | \$1,575                                 | \$900   | \$2,970                               | \$1,602 |
| Photovoltaics segment                              | 967                                     | 588     | 1,752                                 | 1,009   |
| Total stock-based compensation expense             | \$2,542                                 | \$1,488 | \$4,722                               | \$2,611 |

## Long-lived Assets

Long-lived assets consist primarily of property, plant, and equipment and also goodwill and intangible assets. The following table sets forth long-lived assets for each of our reporting segments.

| (in thousands)                   | As of             | As of              |
|----------------------------------|-------------------|--------------------|
|                                  | March 31,<br>2012 | September 30, 2011 |
| Fiber Optics segment             | \$22,187          | \$26,483           |
| Photovoltaics segment            | 44,158            | 45,546             |
| Corporate division (unallocated) | 1,032             | 1,007              |
| Long-lived assets                | \$67,377          | \$73,036           |

As of March 31, 2012 and September 30, 2011, approximately 93% of our long-lived assets were located in the United States.

## NOTE 14. Suncore Joint Venture

On July 30, 2010, we entered into a joint venture agreement with San'an Optoelectronics Co., Ltd., or San'an, for the purpose of engaging in the development, manufacturing, and distribution of CPV receivers, modules, and systems for terrestrial solar power applications under a technology license from us. The joint venture, Suncore Photovoltaic Technology Co., Ltd., or Suncore, is a limited liability company under the laws of the People's Republic of China.

Initially, the total registered capital of Suncore was \$30 million, of which San'an contributed \$18 million in cash and EMCORE contributed \$12 million in cash. In addition, we entered into a Cooperation Agreement with an affiliate of San'an whereby we have received \$8.5 million in consulting fees in exchange for the technology license and related support and strategic consulting services to Suncore, which we recorded as a reduction to our investment in Suncore resulting in an \$8.5 million basis difference.



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During the three months ended December 31, 2011, Suncore increased their registered capital by recording a deemed capital distribution of \$37.0 million which was distributed and reinvested in proportion to each entity's registered capital. San'an was allocated 60% of the deemed capital distribution, or \$22.2 million, and EMCORE was allocated 40%, or \$14.8 million. During this same period, Suncore also recorded a cash dividend of approximately \$4.1 million in proportion to each entity's registered capital of which San'an received \$2.5 million and EMCORE received \$1.6 million. We recorded the Suncore cash dividend of \$1.6 million as a reduction in our investment in Suncore. EMCORE incurred a 10% foreign income tax of approximately \$1.6 million associated with these capital distributions which is disclosed under the caption foreign income tax expense on capital distributions on our statement of operations. EMCORE's cash dividend was equal to the foreign income tax expense incurred on these capital distributions.

In August 2011, we signed a solar rooftop CPV development agreement with our Suncore joint venture pursuant to which we will collaborate on the development and application of the current 500X and next-generation 1000X rooftop CPV systems. In summary, Suncore agreed to purchase joint ownership rights to rooftop CPV intellectual property and reimburse us 50% of all research and development costs incurred related to rooftop CPV solutions in exchange for joint ownership rights to the newly developed intellectual property. In addition, Suncore agreed to pay us a development fee of 20% on research and development costs billed to Suncore with a maximum development fee payout of approximately \$0.2 million. During the six months ended March 31, 2012, we billed Suncore approximately \$0.7 million for research and developments costs and recognized \$0.2 million in development fees.

Pursuant to the joint venture agreement, San'an and EMCORE share the profits, losses, and risks of Suncore in proportion to and, in the event of losses, to the extent of their respective contributions to the registered capital of Suncore. During the three months ended March 31, 2012, we began recognizing the \$8.5 million basis difference in our equity investment related to the receipt of the consulting fees over a five-year period using the straight-line amortization method, which is based on the estimated useful life. We continue to hold a 40% registered ownership in Suncore and we recorded a loss associated with our Suncore joint venture totaling \$0.2 million and \$1.2 million for the three and six months ended March 31, 2012, respectively.

As of March 31, 2012, our cumulative proportionate loss in Suncore has exceeded our net investment in Suncore by approximately \$850,000. Pursuant to ASC 323-10, Investments—Equity Method and Joint Ventures – Overall, we stopped recording our proportionate share of Suncore's loss after our investment declined to a zero value since we have no obligation or intent to fund the deficit balance. We will resume applying the equity method only after our share of net income in Suncore equals the share of net losses not recognized during the period we suspended using the equity method.

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

You should read the following discussion of our financial condition and results of operations in conjunction with the financial statements and the notes thereto included in Financial Statements under Item 1 within this Quarterly Report. The following discussion contains forward-looking statements that reflect our plans, estimates, and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include without limitation those discussed under Item 1A - Risk Factors in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011, in this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2012, as updated by our subsequent periodic reports. These cautionary statements apply to all forward-looking statements wherever they appear in this Quarterly Report.

### Business Overview



EMCORE Corporation and its subsidiaries (the “Company”, “we”, “our”, or “EMCORE”) offers a broad portfolio of compound semiconductor-based products for the fiber optics and solar power markets. We were established in 1984 as a New Jersey corporation and we have two reporting segments: Fiber Optics and Photovoltaics. Our Fiber Optics reporting segment provides optical components, subsystems, and systems for the high-speed telecommunication, cable television (CATV), and fiber-to-the-premise (FTTP) networks. Additionally, we offer products for video conversion and video transport, as well as specialty photonics technologies for defense and homeland security applications. Our Photovoltaic reporting segment provides products for both space power and terrestrial solar power applications. For space power applications, we offer high-efficiency multi-junction solar cells, covered interconnect cells (CICs), and complete satellite solar panels. For terrestrial solar power applications, we offer a broad portfolio of our multi-junction solar cells and components for use in solar concentrator systems.

Our headquarters and principal executive offices are located at 10420 Research Road, SE, Albuquerque, New Mexico, 87123, and our main telephone number is (505) 332-5000. For specific information about us, our products or the markets we serve,

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please visit our website at <http://www.emcore.com>. The information contained in or linked to our website is not a part of, nor incorporated by reference into, this Quarterly Report on Form 10-Q or a part of any other report or filing with the Securities and Exchange Commission.

As previously disclosed, in October 2011 flood waters infiltrated the offices and manufacturing floorspace of our primary contract manufacturer's facility in Thailand and suspended all production. As a result, the manufacturing infrastructure that supported approximately 50% of our Fiber Optics segment revenue was destroyed. This has had a significant impact on our operations and our ability to meet customer demand for certain of our fiber optics products in the near term. We are making significant progress and the rebuild plan is on schedule. We have rebuilt our own CATV production line and expect that it will be at full capacity in June 2012. Our contract manufacturer is rebuilding our telecom-related production lines which are expected to be completed in June 2012. Our Photovoltaics segment was not affected by the Thailand floods. See Footnote 9 - Flood-related Losses in the notes to the consolidated financial statements for additional disclosures related to the impact of the Thailand flood on our operations.

Pending Sale of Fiber Optics-related Assets

On March 27, 2012, we entered into a Master Purchase Agreement with Sumitomo Electric Industries, Ltd. pursuant to which we have agreed to sell certain assets and transfer certain inventory purchase obligations associated with our Fiber Optics segment for \$17 million, subject to certain customary purchase adjustments. See Footnote 1 - Basis of Presentation in the notes to the consolidated financial statements for additional disclosures related to this asset sale.

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## Results of Operations

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

|   | For the Three Months Ended |           | For the Six Months Ended |          |    |
|---|----------------------------|-----------|--------------------------|----------|----|
|   | March 31,                  |           | March 31,                |          |    |
|   | 2012                       | 2011      | 2012                     | 2011     | %  |
| Revenue   | 100.0                      | % 100.0   | % 100.0                  | % 100.0  | %  |
| Cost of revenue                                     | 85.8                       | 77.6      | 88.2                     | 76.6     |    |
| Gross profit  | 14.2                       | 22.4      | 11.8                     | 23.4     |    |
| Operating expense (income):                         |                            |           |                          |          |    |
| Selling, general, and administrative                | 22.1                       | 19.9      | 21.1                     | 17.8     |    |
| Research and development                            | 15.3                       | 16.9      | 17.0                     | 15.3     |    |
| Litigation settlement                               | —                          | (5.5)     | —                        | (2.6)    | )  |
| Flood-related losses                                | 0.3                        | —         | 7.7                      | —        |    |
| Flood-related insurance proceeds                    | —                          | —         | (6.6)                    | —        | )  |
| Total operating expense                             | 37.7                       | 31.3      | 39.2                     | 30.5     |    |
| Operating loss                                      | (23.5)                     | ) (8.9)   | ) (27.4)                 | ) (7.1)  | )  |
| Other income (expense):                             |                            |           |                          |          |    |
| Interest income                                     | —                          | —         | —                        | —        |    |
| Interest expense                                    | (0.3)                      | ) (0.3)   | ) (0.3)                  | ) (0.4)  | )  |
| Foreign exchange gain                               | 0.4                        | 1.6       | 0.3                      | 0.4      |    |
| Loss from equity method investment                  | (0.6)                      | ) (1.2)   | ) (1.6)                  | ) (0.6)  | )  |
| Change in fair value of financial instruments       | (0.7)                      | ) (2.2)   | ) (0.2)                  | ) (1.3)  | )  |
| Other expense                                       | —                          | —         | —                        | —        |    |
| Total other expense                                 | (1.2)                      | ) (2.1)   | ) (1.8)                  | ) (1.9)  | )  |
| Loss before income tax expense                      | (24.7)                     | ) (11.0)  | ) (29.2)                 | ) (9.0)  | )  |
| Foreign income tax expense on capital distributions | —                          | —         | (2.2)                    | —        | )  |
| Net loss  | (24.7)                     | )% (11.0) | )% (31.4)                | )% (9.0) | )% |

## Comparison of financial results

## Revenue:

(in thousands, except percentages)

|                       | For the Three Months Ended March 31, |          |            |           |
|-----------------------|--------------------------------------|----------|------------|-----------|
|                       | 2012                                 | 2011     | \$ Change  | % Change  |
| Fiber Optics revenue  | \$21,938                             | \$30,032 | \$(8,094)  | ) (27.0)% |
| Photovoltaics revenue | 15,842                               | 17,186   | (1,344)    | ) (7.8)%  |
| Total revenue         | \$37,780                             | \$47,218 | \$(9,438)  | ) (20.0)% |
|                       | For the Six Months Ended March 31,   |          |            |           |
|                       | 2012                                 | 2011     | \$ Change  | % Change  |
| Fiber Optics revenue  | \$40,241                             | \$61,484 | \$(21,243) | ) (34.6)% |
| Photovoltaics revenue | 34,990                               | 37,841   | (2,851)    | ) (7.5)%  |
| Total revenue         | \$75,231                             | \$99,325 | \$(24,094) | ) (24.3)% |

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On a consolidated basis, we expect revenue for our third quarter ended June 30, 2012 to be in the range of \$38 to \$41 million, which excludes revenue associated with the assets being sold to SEI. See Footnote 1 - Basis of Presentation in the notes to the consolidated financial statements for additional disclosures related to this asset sale.

### Fiber Optics Revenue

Our Fiber Optics reporting segment provides optical components, subsystems, and systems for the high-speed telecommunication, cable television (CATV), and fiber-to-the-premise (FTTP) networks. Additionally, we offer products for video conversion and video transport, as well as specialty photonics technologies for defense and homeland security applications. Our Fiber Optics segment is broken out into two distinct product lines:

• Broadband products, which includes cable television products, fiber-to-the-premises products, satellite communication products, and defense and homeland security products; and,

• Digital products, which include telecom optical products, enterprise products, laser/photodetector component products, parallel optical transceiver and cable products, and fiber channel transceiver products.

#### Broadband product revenue:

For the three months ended March 31, 2012, revenue from broadband products decreased 35% from the prior year which was primarily driven by decreased unit shipments of CATV-related products. The decrease in revenue was primarily due to the impact of the Thailand flood. Sales of our CATV-related products, which include our quadrature amplitude modulation (QAM) transmitters and receivers, represents the largest percentage of our total fiber optics-related revenue.

For the six months ended March 31, 2012, revenue from broadband products decreased approximately 40% from the prior year which was primarily driven by decreased unit shipments of our CATV-related products slightly offset by increased unit shipments of FTTX and video-related products. The decrease in revenue was primarily due to the impact of the Thailand flood.

#### Digital product revenue:

For the three months ended March 31, 2012, revenue from digital products decreased 27% from the prior year which was primarily due to the Thailand flood. Unit shipments of datacom and telecom optical-related products were lower when compared to the prior year. Our telecom optical-related product line, which includes tunable XFP, tunable 300-pin transponders, and integrated tunable laser assemblies (ITLAs), represents the second largest percentage of our total fiber optics-related revenue. Revenue from our enterprise digital products increased by 233% when compared to the prior period due to increased unit shipments of EMCORE Connect Cables.

For the six months ended March 31, 2012, revenue from digital products decreased 36% from the prior year which was primarily due to the Thailand flood. Unit shipments of datacom and telecom optical-related products were lower when compared to the prior year. Revenue from our enterprise digital products increased by 150% when compared to the prior period due to increased unit shipments of EMCORE Connect Cables.

Our Fiber Optics segment accounted for 58.1% and 63.6% of our consolidated revenue for the three months ended March 31, 2012 and 2011, respectively, and 53.5% and 61.9% of our consolidated revenue for the six months ended March 31, 2012 and 2011, respectively.

Photovoltaics Revenue:

Our Photovoltaic reporting segment provides products for both space power and terrestrial solar power applications. For space power applications, we offer high-efficiency multi-junction solar cells, covered interconnect cells (CICs), and complete satellite solar panels. For terrestrial solar power applications, we offer a broad portfolio of our multi-junction solar cells and components for use in solar concentrator systems.

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For the three and six months ended March 31, 2012, revenue from satellite applications decreased 16% and 10%, respectively, from the prior year. The decrease was primarily driven by lower volume sales of space solar cell CIC products. Sales of our satellite solar cells and CICs products represents the largest percentage of our total photovoltaics-related revenue. Historically, revenue has fluctuated significantly in our Photovoltaics segment due to timing of program completions and product shipments of major orders.

Revenue from our terrestrial-related products totaled approximately \$1.8 million and \$2.4 million for the three and six months ended March 31, 2012 with sales primarily related to CPV solar cells to our Suncore joint venture. In fiscal 2011, revenue from our terrestrial-related products was not significant as a percentage of total photovoltaics-related revenue.

Our Photovoltaics segment accounted for 41.9% and 36.4% of our consolidated revenue for the three months ended March 31, 2012 and 2011, respectively, and 46.5% and 38.1% of our consolidated revenue for the six months ended March 31, 2012 and 2011, respectively.

## Gross Profit:

(in thousands, except percentages)

|                            | For the Three Months Ended March 31, |          |           |           |
|----------------------------|--------------------------------------|----------|-----------|-----------|
|                            | 2012                                 | 2011     | \$ Change | % Change  |
| Fiber Optics gross profit  | \$2,059                              | \$5,396  | \$(3,337) | ) (61.8)% |
| Photovoltaics gross profit | 3,317                                | 5,184    | (1,867)   | ) (36.0)% |
| Total gross profit         | \$5,376                              | \$10,580 | \$(5,204) | ) (49.2)% |

|                            | For the Six Months Ended March 31, |          |            |           |
|----------------------------|------------------------------------|----------|------------|-----------|
|                            | 2012                               | 2011     | \$ Change  | % Change  |
| Fiber Optics gross profit  | \$1,184                            | \$11,198 | \$(10,014) | ) (89.4)% |
| Photovoltaics gross profit | 7,660                              | 12,062   | (4,402)    | ) (36.5)% |
| Total gross profit         | \$8,844                            | \$23,260 | \$(14,416) | ) (62.0)% |

Our cost of revenue consists of raw materials, compensation expense including non-cash stock-based compensation expense, depreciation expense and other manufacturing overhead costs, expenses associated with excess and obsolete inventories, and product warranty costs. Historically, our cost of revenue, as a percentage of revenue, has fluctuated largely due to inventory and product warranty charges. Our gross margins are also affected by product mix, manufacturing yields and volumes, and timing related to the completion of long-term contracts.

Consolidated gross margins were 14.2% and 22.4% for the three months ended March 31, 2012 and 2011, respectively, and 11.8% and 23.4% for the six months ended March 31, 2012 and 2011, respectively.

Product warranty expense totaled approximately \$0.1 million during each six-month period ended March 31, 2012 and 2011.

Stock-based compensation expense within cost of revenue totaled approximately \$0.6 million and \$0.2 million during the three months ended March 31, 2012 and 2011, respectively, and approximately \$1.1 million and \$0.5 million during the six months ended March 31, 2012 and 2011, respectively.

## Fiber Optics Gross Profit:

Fiber Optics gross margin was 9.4% and 18.0% for the three months ended March 31, 2012 and 2011, respectively, and 2.9% and 18.2% for the six months ended March 31, 2012 and 2011, respectively.

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Inventory excess and obsolescence expense totaled approximately \$1.9 million and \$2.6 million during the three months ended March 31, 2012 and 2011, respectively, and approximately \$5.9 million and \$3.5 million during the six months ended March 31, 2012 and 2011, respectively.

For the three and six months ended March 31, 2012, gross margins decreased from both our broadband and digital product lines when compared to the prior year. During the period, lower revenues due to the impact from the Thailand flood resulted in higher manufacturing overhead as a percentage of revenue. Manufacturing of certain fiber optics-related components was moved to Company-owned facilities which involved higher labor and other related costs. Gross margins will continue to be negatively impacted in subsequent quarters until we are able to substantially restore operations, the supply chain infrastructure is re-established, and we regain any lost market share.

Instead of completely rebuilding all flood-damaged manufacturing lines in Thailand, management has decided to realign the Company's fiber optics product portfolio and focus on business areas with strong technology differentiation and growth opportunities. Management identified certain inventory on order related to manufacturing product lines that were destroyed by the Thailand flood and will not be replaced. This expense, which totaled \$0.4 million and \$1.3 million for the three and six months ended March 31, 2012, respectively, was recorded within cost of revenue on our statement of operations.

**Photovoltaics Gross Profit:**

Photovoltaics gross margin was 20.9% and 30.2% for the three months ended March 31, 2012 and 2011, respectively, and 21.9% and 31.9% for the six months ended March 31, 2012 and 2011, respectively.

For the three and six months ended March 31, 2012, gross margins decreased from our satellite application product lines when compared to the prior year primarily due to lower revenues with product mix changes, as well as lower manufacturing yields.

**Sales, General and Administrative (SG&A):**

(in thousands, except percentages)

|              | For the Three Months Ended March 31, |         |           |           |
|--------------|--------------------------------------|---------|-----------|-----------|
|              | 2012                                 | 2011    | \$ Change | % Change  |
| SG&A expense | \$8,365                              | \$9,380 | \$(1,015) | ) (10.8)% |

  

|              | For the Six Months Ended March 31, |          |           |           |
|--------------|------------------------------------|----------|-----------|-----------|
|              | 2012                               | 2011     | \$ Change | % Change  |
| SG&A expense | \$15,845                           | \$17,644 | \$(1,799) | ) (10.2)% |

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

Stock-based compensation expense within SG&A totaled \$1.2 million and \$0.9 million during the three months ended March 31, 2012 and 2011, respectively, and approximately \$2.2 million and \$1.6 million during the six months ended March 31, 2012 and 2011, respectively.

The decrease in SG&A expense for the three and six months ended March 31, 2012 when compared to the prior year is attributable to cost reduction measures implemented which included temporary salary reductions, employee



furloughs, and reduction of discretionary spending.

As a percentage of revenue, SG&A expenses were 22.1% and 19.9% for the three months ended March 31, 2012 and 2011, respectively, and 21.1% and 17.8% for the six months ended March 31, 2012 and 2011, respectively.

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## Research and Development (R&amp;D):

(in thousands, except percentages)

|             | For the Three Months Ended March 31, |         |           |           |
|-------------|--------------------------------------|---------|-----------|-----------|
|             | 2012                                 | 2011    | \$ Change | % Change  |
| R&D expense | \$5,781                              | \$7,984 | \$(2,203) | ) (27.6)% |

|             | For the Six Months Ended March 31, |          |           |           |
|-------------|------------------------------------|----------|-----------|-----------|
|             | 2012                               | 2011     | \$ Change | % Change  |
| R&D expense | \$12,761                           | \$15,175 | \$(2,414) | ) (15.9)% |

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

Stock-based compensation expense within R&D totaled \$0.7 million and \$0.3 million during the three months ended March 31, 2012 and 2011, respectively, and \$1.4 million and \$0.6 million during the six months ended March 31, 2012 and 2011, respectively.

The decrease in R&D expense for the three and six months ended March 31, 2012 when compared to the prior year was attributable to cost reduction measures discussed above, as well as lower expense incurred related to our development of our tunable XFP (TXFP) transceiver when compared to the prior year. R&D expense incurred in our Photovoltaics segment increased due to our acquisition of Soliant Energy which was completed in March 2011. In August 2011, we signed a solar rooftop CPV development agreement with our Suncore joint venture pursuant to which we will collaborate on the development and application of the current 500X and next-generation 1000X rooftop CPV systems. During the three and six months ended March 31, 2012, we billed Suncore approximately \$0.3 million and \$0.7 million, respectively, for research and developments costs incurred.

As a percentage of revenue, R&D expenses were 15.3% and 16.9% for the three months ended March 31, 2012 and 2011, respectively, and 17.0% and 15.3% for the six months ended March 31, 2012 and 2011, respectively.

## Other Operating Expense (Income):

(in thousands, except percentages)

|                       | For the Three Months Ended March 31, |           |           |          |
|-----------------------|--------------------------------------|-----------|-----------|----------|
|                       | 2012                                 | 2011      | \$ Change | % Change |
| Litigation settlement | \$—                                  | \$(2,590) | ) \$2,590 | 100.0%   |
| Flood-related losses  | \$114                                | \$—       | \$114     | —%       |

|                                  | For the Six Months Ended March 31, |           |           |          |
|----------------------------------|------------------------------------|-----------|-----------|----------|
|                                  | 2012                               | 2011      | \$ Change | % Change |
| Litigation settlement            | \$—                                | \$(2,590) | ) \$2,590 | 100.0%   |
| Flood-related losses             | \$5,812                            | \$—       | \$5,812   | —%       |
| Flood-related insurance proceeds | \$(5,000)                          | )\$—      | \$(5,000) | ) —%     |

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## Litigation Settlement:

In September 2006, we filed a lawsuit against Optium Corporation, currently part of Finisar Corporation, for patent infringement of certain patents associated with our Fiber Optics segment. In March 2011, we received a cash payment of approximately \$2.6 million in satisfaction of a judgment for damages, net of legal fees which were incurred on a contingency basis.

## Flood-related Losses:

During the three months ended December 31, 2011, we recorded estimated flood-related losses associated with damaged inventory and equipment of approximately \$3.9 million and \$1.8 million, respectively. During the three months ended March 31, 2012, we recorded an additional \$0.1 million related to flood-damaged inventory. We continue to evaluate our estimates of flood-related losses, and in future quarters we may record additional adjustments for damaged inventory and equipment.

## Flood-related Insurance Proceeds:

We claimed damages and received proceeds of \$5.0 million under our own comprehensive insurance policy relating to business interruption and we recorded this amount as flood-related insurance proceeds during the three months ended December 31, 2011. No additional business interruption insurance proceeds associated with this event are anticipated.

See [Footnote 9 - Flood-related Losses](#) in the notes to the consolidated financial statements for additional disclosures related to the impact of the Thailand flood on our operations.

## Operating Income (Loss):

(in thousands, except percentages)

|                                       | For the Three Months Ended March 31, |           |             |            |
|---------------------------------------|--------------------------------------|-----------|-------------|------------|
|                                       | 2012                                 | 2011      | \$ Change   | % Change   |
| Fiber Optics operating loss           | \$(7,251                             | )\$(5,106 | ) \$(2,145  | ) (42.0)%  |
| Photovoltaics operating income (loss) | (1,633                               | )912      | (2,545      | ) (279.1)% |
| Total operating loss                  | \$(8,884                             | )\$(4,194 | ) \$(4,690  | ) (111.8)% |
|                                       | For the Six Months Ended March 31,   |           |             |            |
|                                       | 2012                                 | 2011      | \$ Change   | % Change   |
| Fiber Optics operating loss           | \$(18,444                            | )\$(9,696 | ) \$(8,748  | ) (90.2)%  |
| Photovoltaics operating income (loss) | (2,130                               | )2,727    | (4,857      | ) (178.1)% |
| Total operating loss                  | \$(20,574                            | )\$(6,969 | ) \$(13,605 | ) (195.2)% |

Income (loss) from operations represents revenue less the cost of revenue and direct operating expenses incurred within the operating segments as well as allocated expenses such as shared service departments. Income (loss) from operations is a measure of profit and loss that executive management uses to assess performance and make decisions. As a percentage of revenue, our operating loss was (23.5)% and (8.9)% for the three months ended March 31, 2012 and 2011, respectively, and (27.4)% and (7.1)% for the six months ended March 31, 2012 and 2011, respectively.

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## Other Income and Expenses:

(in thousands, except percentages)

|   | For the Three Months Ended March 31, |           |           |          |
|---|--------------------------------------|-----------|-----------|----------|
|   | 2012                                 | 2011      | \$ Change | % Change |
| Interest income                               | \$1                                  | \$—       | \$1       | —%       |
| Interest expense                              | (122)                                | (130)     | 8         | 6.2%     |
| Foreign exchange gain                         | 167                                  | 749       | (582)     | (77.7)%  |
| Loss from equity method investment            | (241)                                | (587)     | 346       | 58.9%    |
| Change in fair value of financial instruments | (256)                                | (1,038)   | 782       | 75.3%    |
| Other expense                                 | —                                    | (5)       | 5         | 100.0%   |
| Total other expense                           | \$(451)                              | \$(1,011) | \$560     | 55.4%    |

  

|   | For the Six Months Ended March 31, |           |           |          |
|---|------------------------------------|-----------|-----------|----------|
|   | 2012                               | 2011      | \$ Change | % Change |
| Interest income                               | \$2                                | \$—       | \$2       | —%       |
| Interest expense                              | (252)                              | (388)     | 136       | 35.1%    |
| Foreign exchange gain                         | 256                                | 414       | (158)     | (38.2)%  |
| Loss from equity method investment            | (1,201)                            | (587)     | (614)     | (104.6)% |
| Change in fair value of financial instruments | (151)                              | (1,310)   | 1,159     | 88.5%    |
| Other expense                                 | —                                  | (10)      | 10        | 100.0%   |
| Total other expense                           | \$(1,346)                          | \$(1,881) | \$535     | 28.4%    |

## Foreign Exchange

We recognize gains and losses due to the effect of exchange rate changes on foreign currency primarily due to our operations in Spain, the Netherlands, and in China. The assets and liabilities of our foreign operations are translated from their respective functional currencies into U.S. dollars at the rates in effect at the consolidated balance sheet dates, and the revenue and expense amounts are translated at the average rate during the applicable periods reflected on the consolidated statements of operations and comprehensive loss. Foreign currency translation adjustments are recorded as accumulated other comprehensive income. Gains and losses from foreign currency transactions denominated in currencies other than the U.S. dollar, both realized and unrealized, are recorded as foreign exchange gain (loss) on our consolidated statements of operations. A majority of the gain or losses recorded relates to the change in value of the euro and yuan renminbi relative to the U.S. dollar.

## Loss from Equity Method Investment

We entered into a joint venture agreement in fiscal 2010 with San'an Optoelectronics Co., Ltd. (San'an) for the purpose of engaging in the development, manufacturing, and distribution of CPV receivers, modules, and systems for terrestrial solar power applications under a technology license from us. The joint venture, Suncore Photovoltaic Technology Co., Ltd. (Suncore) was established in January 2011. We have accounted for our investment in Suncore using the equity method of accounting.

Pursuant to the joint venture agreement, San'an and EMCORE share the profits, losses, and risks of Suncore in proportion to and, in the event of losses, to the extent of their respective contributions to the registered capital of Suncore. We continue to hold a 40% registered ownership in Suncore and we recorded a loss associated with our Suncore joint venture totaling \$0.2 million and \$1.2 million for the three and six months ended March 31, 2012, respectively.

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As of March 31, 2012, our cumulative proportionate loss in Suncore has exceeded our net investment in Suncore by approximately \$850,000. Pursuant to ASC 323-10, Investments—Equity Method and Joint Ventures – Overall, we stopped recording our proportionate share of Suncore's loss after our investment declined to a zero value since we have no obligation or intent to fund the deficit balance. We will resume applying the equity method only after our share of net income in Suncore equals the share of net losses not recognized during the period we suspended using the equity method. See Footnote 14 - Suncore Joint Venture in the notes to the consolidated financial statements for additional information related to our Suncore joint venture.

## Change in Fair Value of Financial Instruments

As of March 31, 2012, warrants representing 750,010 shares of our common stock were outstanding. All of our warrants are classified as a liability since the warrants meet the classification requirements for liability accounting pursuant to ASC 815, Derivatives and Hedging. Each quarter, we expect an impact on our statement of operations and comprehensive loss when we record the change in fair value of our outstanding warrants using the Monte Carlo option valuation model. The Monte Carlo option valuation model is used since it allows the valuation of each warrant to factor in the value associated with our right to affect a mandatory exercise of each warrant. The valuation model requires the input of highly subjective assumptions, including the warrant's expected life and the price volatility of the underlying stock. The change in the fair value of the warrants is primarily due to the change in the closing price of our common stock.

## Foreign Income Tax Expense on Capital Distributions

During the three months ended December 31, 2011, Suncore increased their registered capital by recording a deemed capital distribution of \$37.0 million which was distributed and reinvested in proportion to each entity's registered capital. San'an was allocated 60% of the deemed capital distribution, or \$22.2 million, and EMCORE was allocated 40%, or \$14.8 million. During this same period, Suncore also recorded a cash dividend of approximately \$4.1 million in proportion to each entity's registered capital of which San'an received \$2.5 million and EMCORE received \$1.6 million. EMCORE incurred a 10% foreign income tax of approximately \$1.6 million associated with these capital distributions. EMCORE's cash dividend was equal to the foreign income tax expense incurred on these capital distributions. See Footnote 14 - Suncore Joint Venture in the notes to the consolidated financial statements for additional information related to our Suncore joint venture.

## Net Loss:

(in thousands, except percentages)

|          | For the Three Months Ended March 31, |             |              |            |
|----------|--------------------------------------|-------------|--------------|------------|
|          | 2012                                 | 2011        | \$ Change    | % Change   |
| Net loss | \$ (9,335                            | ) \$ (5,205 | ) \$ (4,130  | ) (79.3)%  |
|          | For the Six Months Ended March 31,   |             |              |            |
|          | 2012                                 | 2011        | \$ Change    | % Change   |
| Net loss | \$ (23,564                           | ) \$ (8,850 | ) \$ (14,714 | ) (166.3)% |

Net loss per basic and diluted share was \$(0.40) and \$(0.24) for the three months ended March 31, 2012 and 2011, respectively, and \$(1.00) and \$(0.41) for the six months ended March 31, 2012 and 2011, respectively.

## Order Backlog:

As of March 31, 2012, order backlog for our Photovoltaics segment totaled \$55.7 million, approximately an 8% increase from \$51.7 million reported as of December 31, 2011, in part driven by an increase in satellite solar cell orders. The backlog as of March 31, 2012 includes \$10.1 million of terrestrial solar cell orders from our Suncore joint

venture. Order backlog is defined as purchase orders or supply agreements accepted by us with expected product delivery and/or services to be performed within the next twelve months. From time to time, our customers may request that we delay shipment of certain orders and our order backlog could also be adversely affected if our customers unexpectedly cancel purchase orders that we have previously accepted.

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

## Cash Flow:

## Net Cash Provided By (Used In) Operating Activities

| (in thousands, except percentages)                  | For the Six Months Ended March 31, |          |             |          |
|---|------------------------------------|----------|-------------|----------|
|   | 2012                               | 2011     | \$ Change   | % Change |
| Net cash provided by (used in) operating activities | \$ 10,955                          | \$(1,009 | ) \$ 11,964 | 1,185.7% |

## Fiscal 2012:

For the six months ended March 31, 2012, our operating activities provided cash of \$11.0 million primarily due to the net change in our current assets and liabilities (or working capital components) of \$16.1 million. Our net loss of \$23.6 million was partially offset by flood-related losses of \$5.8 million, depreciation, amortization, and accretion expense of \$5.2 million, stock-based compensation expense of \$4.7 million, provision for losses on inventory purchase commitments of \$1.3 million, and losses from our Suncore joint venture totaling \$1.2 million. The change in our current assets and liabilities of \$16.1 million was primarily the result of an increase in accrued expenses and other current liabilities of approximately \$8.6 million, an increase in accounts payable of approximately \$8.2 million, and a decrease in accounts receivable of \$7.1 million; partially offset by an increase in inventory of \$7.8 million.

## Fiscal 2011:

For the six months ended March 31, 2011, our operating activities consumed cash of \$1.0 million primarily due to the net change in our working capital components of approximately \$2.9 million. Our net loss of approximately \$8.9 million was offset by depreciation and amortization expense of approximately \$6.0 million, stock-based compensation expense of \$2.6 million, and the change in fair value of our outstanding warrants of \$1.3 million. The change in our current assets and liabilities of approximately \$2.9 million was primarily the result of an increase in other assets of \$3.5 million and a decrease in accounts payable of \$1.8 million; partially offset by a decrease in accounts receivable of \$2.1 million.

## Net Cash Used In Investing Activities

| (in thousands, except percentages)    | For the Six Months Ended March 31, |           |            |          |
|---------------------------------------|------------------------------------|-----------|------------|----------|
|                                       | 2012                               | 2011      | \$ Change  | % Change |
| Net cash used in investing activities | \$(6,567                           | )\$(8,104 | ) \$ 1,537 | 19.0%    |

## Fiscal 2012:

For the six months ended March 31, 2012, our investing activities consumed \$6.6 million of cash primarily due to \$5.5 million related to capital expenditures, \$2.0 million related to deposits on equipment orders, and \$0.7 million related to an increase of restricted cash; partially offset by a net distribution of capital related to our Suncore joint venture of \$1.6 million. See Footnote 14 - Suncore Joint Venture in the notes to the consolidated financial statements for additional information related to our Suncore joint venture.

We anticipate that we will need to repair and replace equipment that has been submerged as a result of the Thailand flooding. Capital expenditures have increased sharply compared to fiscal 2011 as we rebuild our production capacity. We expect our capital expenditures will be funded primarily by insurance proceeds.

Fiscal 2011:

For the six months ended March 31, 2011, our investing activities consumed \$8.1 million of cash primarily due to a \$4.0 million investment in our Suncore joint venture, \$1.7 million related to capital expenditures, and an increase of restricted cash of \$1.3 million.



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## Net Cash Provided By Financing Activities

(in thousands, except percentages)

|   | For the Six Months Ended March 31, |         |           |          |
|---|------------------------------------|---------|-----------|----------|
|   | 2012                               | 2011    | \$ Change | % Change |
| Net cash provided by financing activities | \$4,095                            | \$3,954 | \$141     | 3.6%     |

For the six months ended March 31, 2012 and 2011, our financing activities provided cash primarily due to borrowings from our bank credit facility. See Footnote 1 - Basis of Presentation in the notes to the consolidated financial statements for information related to our bank credit facility borrowing.

## Liquidity and Capital Resources

Historically, we have consumed cash from operations and incurred significant net losses. We have managed our liquidity position through a series of cost reduction initiatives, borrowings under our credit facility, capital markets transactions, and the sale of assets.

As of March 31, 2012, cash and cash equivalents totaled \$24.1 million and working capital totaled \$13.5 million. Working capital, calculated as current assets minus current liabilities, is a financial metric we use which represents available operating liquidity. For the three and six months ended March 31, 2012, we incurred a net loss of approximately \$9.3 million and \$23.6 million, respectively. Net cash provided by operating activities for the six months ended March 31, 2012 totaled \$11.0 million which was primarily due to an increase in customer deposits and a decrease in accounts receivable.

With respect to measures taken to improve liquidity:

In November 2010, we entered into a Credit and Security Agreement (credit facility) with Wells Fargo Bank (Wells Fargo). The credit facility provides us with a revolving credit of up to \$35 million through November 2013 that can be used for working capital requirements, letters of credit, and other general corporate purposes. The credit facility is secured by the Company's assets and was initially subject to a borrowing base formula based on the Company's eligible accounts receivable and inventory accounts. On December 21, 2011, we signed an amendment to our credit facility that increased our eligible borrowing base by up to \$10 million by adding to the borrowing base formula 85% of the appraised value of the Company's equipment and 50% of the appraised value of the Company's real estate. In addition, Wells Fargo reduced our restrictions under the excess availability financial covenant requirement from \$7.5 million to \$3.5 million through December 2012. The interest rate on outstanding borrowings was increased to LIBOR rate plus four percent. We now expect at least 70% of the total amount of credit under the credit facility to be available for use based on the revised borrowing base formula during fiscal 2012. The credit facility will return to its previous agreement terms on the earlier of (i) December 31, 2012, or (ii) the date that we receive insurance proceeds of not less than \$30.0 million in the aggregate applicable to the flooding of our primary contract manufacturer in Thailand.

We expect that the pending sale of Fiber Optics-related assets to SEI will reduce availability under our eligible borrowing base by approximately \$5.0 million.

Our credit facility contains customary representations and warranties, and affirmative and negative covenants, including, among other things, cash balance and excess availability requirements, minimum tangible net worth and EBITDA covenants, and limitations on liens and certain additional indebtedness and guarantees. The covenants are written such that as long as we maintain the minimum cash balance and excess availability requirement of \$7.5 million prior to the amendment, and \$3.5 million following the amendment, the other covenants are not required to be

met. As of March 31, 2012, we were in compliance with the financial covenants contained in the credit facility.

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Our credit facility also contains certain events of default, including a subjective acceleration clause. Under this clause, Wells Fargo may declare an event of default if it believes in good faith that our ability to pay all or any portion of its indebtedness with Wells Fargo or to perform any of its material obligations under the credit facility has been impaired, or if it believes in good faith that there has been a material adverse change in the business or financial condition of the Company. If an event of default is not cured within the grace period (if applicable), then Wells Fargo may, among other things, accelerate repayment of amounts borrowed under the credit facility, cease making advances under the credit facility or take possession of the Company's assets that secure its obligations under the credit facility. We do not anticipate at this time any change in the business or financial condition of the Company that could be deemed a material adverse change by Wells Fargo. Wells Fargo has confirmed that they do not consider the flooding at our contract manufacturer's facility to be a material adverse change in the business or financial condition of the Company.

As of March 31, 2012, we had a \$21.0 million LIBOR rate loan outstanding under our credit facility, with an interest rate of 4.5%, which was paid off with cash on hand on April 6, 2012. As of March 31, 2012, the credit facility also had approximately \$2.5 million reserved for nine outstanding stand-by letters of credit, leaving a borrowing availability balance under the credit facility of approximately \$2.0 million.

In August 2011, we entered into a committed equity line financing facility (equity facility) with Commerce Court Small Cap Value Fund, Ltd. (Commerce Court) whereby Commerce Court has committed, upon issuance of a draw-down request by us, to purchase up to \$50 million worth of our common stock over a two-year period, subject to our common stock trading above \$4 per share, as adjusted for the four-to-one reverse stock split, during the draw down period, unless a waiver is received. As of March 31, 2012, there have been no draw down transactions completed under this equity facility.

In November 2011, we entered into an agreement with our contract manufacturer in Thailand whereby our contract manufacturer will purchase equipment to rebuild our affected manufacturing lines which is expected to cost approximately \$5.7 million. We agreed to reimburse our contract manufacturer using insurance proceeds that we expect to receive. Additionally, we restructured our outstanding payables owed to our contract manufacturer, which delayed payments to future dates to coincide with expected timing of insurance proceeds.

During the three months ended December 31, 2011:

We signed agreements with certain customers related to our Fiber Optics segment pursuant to which they have received an allocation of our finished goods inventory that was not damaged by the Thailand flood, as well as receive a percentage of future output from our new production lines being placed into service during fiscal 2012. As consideration, we received \$6.8 million as partial prepayments for future product shipments. These advanced payments are being used to support our working capital requirements and purchases of manufacturing equipment and are presented within accrued expenses on our consolidated balance sheet.

We claimed damages and received proceeds of \$5.0 million under our own comprehensive insurance policy relating to business interruption and we recorded this amount as flood-related insurance proceeds during the three months ended December 31, 2011.

We also received a deposit totaling \$3.3 million from our Suncore joint venture related to an \$11.0 million order for terrestrial CPV solar cells.

As discussed above, we entered into a Master Purchase Agreement with SEI pursuant to which we have agreed to sell certain assets and transfer certain inventory purchase obligations associated with our Fiber Optics segment for \$17 million, subject to certain customary purchase adjustments.

We believe that our existing balances of cash and cash equivalents, the agreement with our contract manufacturer to delay payment terms and purchase equipment on our behalf, benefits expected from insurance proceeds, proceeds from the pending sale of certain Fiber Optics-related assets, and amounts expected to be available under our credit and equity facilities will provide us with sufficient financial resources to meet our cash requirements for operations, working capital, and capital expenditures for the next 12 months.

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However, in the event of unforeseen circumstances, unfavorable market or economic developments, unfavorable results from operations, any failure to receive expected proceeds from insurance or the pending sale of Fiber Optics-related assets, or if Wells Fargo declares an event of default on the credit facility, we may have to raise additional funds by any one or a combination of the following: issuing equity, debt or convertible debt, or selling certain product lines and/or portions of our business. There can be no assurance that we will be able to raise additional funds on terms acceptable to us, or at all. A significant contraction in the capital markets, particularly in the technology sector, may make it difficult for us to raise additional capital if or when it is required, especially if we experience negative operating results. If adequate capital is not available to us as required, or is not available on favorable terms, our business, financial condition, results of operations, and cash flows may be adversely affected.

## Contractual Obligations and Commitments

See Footnote 11 - Commitments and Contingencies in the notes to the consolidated financial statements for disclosures related to our contractual obligations and commitments.

## Critical Accounting Policies

See Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011 for disclosures related to our critical accounting policies.

In October 2011, flood waters infiltrated the offices and manufacturing floorspace of our primary contract manufacturer's facility in Thailand and suspended all production. We have designated our accounting policy related to estimating losses associated with the Thailand flood as a critical accounting policy effective during the six months ended March 31, 2012. See Footnote 9 - Flood-related Losses in the notes to the consolidated financial statements for additional disclosures related to the impact of the Thailand flood on our operations.

## Recent Accounting Pronouncements

See Footnote 2 - Recent Accounting Pronouncements in the notes to the consolidated financial statements for disclosures related to recent accounting pronouncements.

## Restructuring Accruals

See Footnote 8 - Accrued Expenses and Other Current Liabilities in the notes to the consolidated financial statements for disclosures related to our severance and restructuring-related accrual accounts.

## Segment Data and Related Information

See Footnote 13 - Segment Data and Related Information in the notes to the consolidated financial statements for disclosures related to business segment revenue, geographic revenue, significant customers, and operating loss by business segment.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk affecting the Company, see Item 7A - Quantitative and Qualitative Disclosures About Market Risk in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011. We do not believe the Company's exposure related to market risk has changed materially since September 30, 2011.

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ITEM 4. Controls and Procedures

a. Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934 (the "Act") is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including its Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial and Accounting Officer), as appropriate, to allow timely decisions regarding required disclosure.

Management, under the supervision and with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Act) as of March 31, 2012. Based on this evaluation, management concluded that the Company's disclosure controls and procedures were not effective because of the material weaknesses described in section (c) below.

In light of the material weaknesses described in section (c) below, additional analyses and other procedures were performed to ensure that the Company's condensed consolidated financial statements included in this Quarterly Report on Form 10-Q were prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"). These measures included expanded quarter-end closing procedures, the dedication of significant internal resources to scrutinize account analyses and reconciliations, and management's own internal reviews and efforts to remediate the material weaknesses in internal control over financial reporting described below. As a result of these measures, management concluded that the Company's condensed consolidated financial statements included in this Quarterly Report on Form 10-Q present fairly, in all material respects, the Company's condensed consolidated financial position, results of operations, and cash flows as of the dates, and for the periods, presented in conformity with GAAP.

Attached as exhibits to this Quarterly Report on Form 10-Q are certifications of the Company's Chief Executive Officer and Chief Financial Officer, which are required in accordance with Rule 13a-14 of the Act. This Evaluation of Disclosure Controls and Procedures section includes information concerning management's evaluation of disclosure controls and procedures referred to in those certifications and, as such, should be read in conjunction with the certifications of the Company's Chief Executive Officer and Chief Financial Officer.

b. Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

c. In Process Remediation Actions to Address the Internal Control Weaknesses

A "material weakness" is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis. Management identified the following material weaknesses in the Company's internal control over financial reporting as of September 30, 2011 which continue to exist as of March 31, 2012:

1) Control activities related to certain inventory reserve transactions

The Company did not maintain effective controls over certain inventory reserve transactions. Specifically, the Company did not have effectively designed controls to ensure that certain inventory reserves were taken on excess material in accordance with GAAP. These controls did not adequately substantiate forward-looking demand for certain inventory items.

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2) Control activities related to certain inventory held by third parties

The Company did not maintain effective controls over certain inventory held by third parties. Specifically, a reconciliation of inventory held by third parties identified certain reconciling items that were not properly verified; therefore, controls were not designed and in place to provide reasonable assurance that the inventory held by third parties was recorded in accordance with GAAP.

In response to the identified material weaknesses described above, the Company is working on improving its control activities. Management believes that actions taken during the quarter ended March 31, 2012, along with other improvements not yet implemented, will address the material weaknesses in the Company's internal control over financial reporting described above. Company management plans to continue to review and make changes to the overall design of its control environment, including the roles and responsibilities within the organization and reporting structure, as well as policies and procedures to improve the overall internal control over financial reporting. In particular, the Company has implemented the measures described below to remediate the material weaknesses.

1) Control activities related to certain inventory reserve transactions

The Company has defined and implemented a new process for the quarterly review and recording of inventory reserves associated with excess material.

2) Control activities related to certain inventory held by third parties

The Company has defined lower thresholds for the reconciliation of third party inventory and expanded documentation of the reviews performed.

Management is monitoring the effectiveness of these recent actions and will make changes if deemed necessary and appropriate.

d. Limitations on the Effectiveness of Internal Control over Financial Reporting

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal controls over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by individual acts, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with associated policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.



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PART II. Other Information

ITEM 1. Legal Proceedings

See Footnote 11 - Commitments and Contingencies in the notes to our consolidated financial statements for disclosures related to our legal proceedings.

ITEM 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended September 30, 2011, which could materially affect our business, financial condition or future results. We do not believe the Company's risks have changed materially since we filed our Form 10-K on December 29, 2011. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us also may materially adversely affect our business, financial condition and/or operating results. There have been no material changes in our risk factors as disclosed in our Annual Report other than the following:

Our pending sale of certain Fiber Optics-related assets to Sumitomo Electric Industries, Ltd. (SEI), is subject to the satisfaction of material conditions. A failure of the transaction to close would likely have a material adverse effect on us.

Our agreement with SEI for the sale of certain Fiber Optics-related assets includes customary representations, warranties, covenants, termination provisions, and indemnities by EMCORE and SEI. Each party's obligation to consummate this transaction is conditioned upon, among other things, (i) the accuracy of the parties' representations and warranties as of the closing, (ii) the parties' performance, in all material respects, of all covenants, and (iii) regulatory approval from the Committee on Foreign Investment in the United States (CFIUS). Either party has the right to terminate the Master Purchase Agreement if the closing has not occurred by July 1, 2012.

A failure to close this transaction for any reason, including a failure to obtain CFIUS approval or a breach by either party, may have a material adverse effect on us and on our operating results and financial condition and could affect the price and price volatility of our common stock. Our relationships or credibility with customers could suffer if transition arrangements are planned but not implemented due to a failure to close, including any failure to close for reasons beyond our control. A failure to close this transaction could also have a material adverse effect on our liquidity position.

If the SEI transaction is consummated, the successful transition of this part of our business will be subject to additional risks and uncertainties that may have an adverse material effect on our performance.

If the SEI transaction is consummated, the successful transition of this part of our business will also be subject to additional risks and uncertainties. The assets included in the transaction will need to be transferred to SEI and as part of separate transitional service agreements, we have agreed to support the operations related to this asset sale in some cases over several years. These initiatives can be time-consuming, disruptive to our operations, and costly in the short-term. However, there can be no assurance that these initiatives will be successful. Any of these uncertainties could materially adversely affect our operating results and customer relationships.



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ITEM 6. Exhibits

| Exhibit Number | Exhibit Description   |
|----------------|---|
| 2.1**          | Master Purchase Agreement, dated March 27, 2012, between Sumitomo Electric Industries, Ltd. and the Company (+) |
| 31.1**         | Certificate of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                |
| 31.2**         | Certificate of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                |
| 32.1**         | Certificate of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                |
| 32.2**         | Certificate of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                |

\*\* Filed herewith

(+) CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY BRACKETS, HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO RULE 24B-2 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

SIGNATURES

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

EMCORE CORPORATION

Date: May 3, 2012

By: /s/ Hong Hou  
Hong Q. Hou, Ph.D.  
Chief Executive Officer  
(Principal Executive Officer)

Date: May 3, 2012

By: /s/ Mark Weinswig  
Mark Weinswig  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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Exhibit 2.1

[CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY BRACKETS, HAS BEEN OMITTED AND FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO RULE 24B-2 OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.]

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Execution Version  
MASTER PURCHASE AGREEMENT  
by and between  
EMCORE CORPORATION  
AND  
SUMITOMO ELECTRIC INDUSTRIES, LTD.  
Dated as of

March 27, 2012

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MASTER PURCHASE AGREEMENT

This Master Purchase Agreement (this “Agreement”), dated as of March 27, 2012, is entered into between EMCORE Corporation, a New Jersey corporation (“Seller Parent”) and Sumitomo Electric Industries, Ltd., a Japanese corporation (“Buyer Parent”). Seller Parent and the Subsidiaries of Seller Parent identified on Schedule I attached hereto are sometimes referred to in this Agreement each as a “Seller” and collectively as “Sellers.”

RECITALS

WHEREAS, Seller Parent and the other Sellers are engaged through its Enterprise Business Unit in the business of development, manufacture and sale of certain fiber optics products; and

WHEREAS, Seller Parent wishes to sell and assign, and cause the other Sellers to sell and assign, to Buyer Parent (or one or more designees thereof), and Buyer Parent (or one or more designees thereof) wishes to purchase and assume from Sellers, substantially all the assets, and certain specified liabilities, of the Business (as defined below), subject to the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

DEFINITIONS

The following terms have the meanings specified or referred to in this Article 1:

“Accounts Receivable” has the meaning set forth in Section 2.02(b).

“Acquisition Proposal” has the meaning set forth in Section 6.03(a).

“Acquisition Request” has the meaning set forth in Section 6.03(b).

“Action” means any claim, action, cause of action, demand, lawsuit, arbitration, inquiry, audit, notice of violation, proceeding, litigation, citation, summons, subpoena or investigation of any nature, civil, criminal, administrative, regulatory or otherwise, whether at law or in equity.

“Actual Value” has the meaning set forth in Section 2.06(g).

“Acquired Patents” means patents listed on Section 2.01(c) of the Disclosure Schedules.

“Affiliate” of a Person means any other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such Person. The term “control” (including the terms “controlled by” and “under common control with”) means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

“Agreement” has the meaning set forth in the preamble.

“Allocation Schedule” has the meaning set forth in Section 2.08(a).

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“Asset List” has the meaning set forth in Section 2.01.

“Assigned Contracts” has the meaning set forth in Section 2.01(b).

“Assumed Liabilities” has the meaning set forth in Section 2.03.

“Balance Sheet” has the meaning set forth in Section 4.04.

“Balance Sheet Date” has the meaning set forth in Section 4.04.

“Benefit Plan” means any “employee benefit plan” (as such term is defined in ERISA §3(3)) and any plans, agreements, policies, programs, or understandings providing for fringe benefits and any other bonus, incentive compensation, deferred compensation, profit sharing, stock, severance, retirement, health, life insurance, disability, sick leave, group insurance, employment, stock option, stock purchase, stock appreciation right, performance share, supplemental unemployment, layoff, vacation, holiday or other similar plans, agreements, policies, programs or understandings (whether written or oral, qualified or nonqualified), which provide benefits, or describe policies or procedures applicable, to any current or former employee of Seller Parent or any Affiliate thereof.

“Books and Records” has the meaning set forth in Section 2.01(h).

“Business” means the Enterprise Business of Seller that consists of the development, manufacture and sale of the Products, but does not include the sale of the Legacy Products.

“Business Day” means any day except Saturday, Sunday or any other day on which commercial banks located in San Francisco, California and Albuquerque, New Mexico are authorized or required by Law to be closed for business.

“Buyer” and “Buyers” means Buyer Parent or any Subsidiary of Buyer Parent that Buyer Parent designates to purchase any of the Purchased Assets.

“Buyer Basket Exclusions” has the meaning set forth in Section 8.04(a).

“Buyer Indemnitees” has the meaning set forth in Section 8.02.

“Buyer Parent” has the meaning set forth in the preamble.

“Buyer Parent Closing Certificate” has the meaning set forth in Section 7.03(f).

“Cash and Cash Equivalents” means all cash on hand and cash equivalents of Seller and its Subsidiaries (whether or not related to the Business), including currency and coins, negotiable checks, bank accounts, marketable securities, commercial paper, certificates of deposit, treasury bills, surety bonds and money market funds.

“CERCLA” means the U.S. Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. §§ 9601 et seq.

“CFIUS” means the Committee on Foreign Investment in the United States.

“Change of Control” of a Person means the occurrence of (or any public announcement of, or entry into any agreement by such Person or any of its Subsidiaries to engage in or effect, a transaction that would result in) any of the following events or circumstances, whether accomplished directly or indirectly, or in one or a series of related transactions:

(a) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act) of more than 50% of the total voting power of the outstanding capital stock of such Person;

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(b) such Person merges with or into, or consolidates with, or consummates any reorganization or similar transaction with, another Person and, immediately after giving effect to such transaction, less than 50% of the total voting power of the outstanding capital stock of the surviving or resulting Person is “beneficially owned” (within the meaning of Rule 13d-3 under the Exchange Act) in the aggregate by the shareholders of such Person immediately prior to such transaction; or

(c) such Person (including through one or more of its Subsidiaries and including through any liquidation or dissolution, other than a liquidation or dissolution in connection with a reorganization or similar transaction in which the holders of the voting stock of such Person immediately prior to such transaction continue to “beneficially own” (within the meaning of Rule 13d-3 under the Exchange Act) more than 50% of the total voting power of the outstanding capital stock of the surviving entity immediately after giving effect to such transaction) sells, assigns, conveys, transfers, leases or otherwise disposes of all or substantially all of the assets and properties (including capital stock of Subsidiaries) of such Person, but excluding sales, assignments, conveyances, transfers, leases or other dispositions of assets and properties (including capital stock of Subsidiaries) by such Person or any of its Subsidiaries to any direct or indirect Subsidiary of such Person.

“Closing” has the meaning set forth in Section 3.01(a).

“Closing Adjustment” has the meaning set forth in Section 2.06(c).

“Closing Date” has the meaning set forth in Section 3.01(a).

“Closing Purchase Price” means the Purchase Price, less the sum of the Preliminary Inventory Value of the LEO Assets and the Preliminary Tangible Personal Property Value of the LEO Assets.

“COBRA” means the requirements of Part 6 of Subtitle B of Title I of ERISA and Code §4980B and of any similar state law.

“Code” means the U.S. Internal Revenue Code of 1986, as amended.

“Confidentiality Agreement” means the confidentiality agreement, dated November 14, 2011, between Seller Parent and Buyer Parent.

“Contracts” means all contracts, leases, deeds, mortgages, licenses, instruments, notes, commitments, undertakings, indentures, joint ventures and all other agreements, commitments and legally binding arrangements, whether written or oral.

“Direct Claim” has the meaning set forth in Section 8.05(c).

“Disclosure Schedules” means the Disclosure Schedules delivered by Seller concurrently with the execution and delivery of this Agreement.

“Dispute” has the meaning set forth in Section 10.11.

“Dollars or \$” means the lawful currency of the United States.

“Employee Pension Benefit Plan” has the meaning set forth in ERISA §3(2).

“Encumbrance” means any charge, claim, community property interest, pledge, condition, equitable interest, lien (statutory or other), option, security interest, mortgage, easement, encroachment, right of way, right of first refusal, or restriction of any kind, including any restriction on use, voting, transfer, receipt of income or exercise of any other attribute of ownership.

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“Environmental Claim” means any Action, Governmental Order, lien, fine, penalty, or, as to each, any settlement or judgment arising therefrom, by or from any Person alleging liability of whatever kind or nature (including without limitation liability or responsibility for the costs of enforcement proceedings, investigations, cleanup, governmental response, removal or remediation, natural resources damages, property damages, personal injuries, medical monitoring, penalties, contribution, indemnification and injunctive relief) arising out of, based on or resulting from: (a) the presence, Release of, or exposure to, any Hazardous Materials; or (b) any actual or alleged non-compliance with or liability under any Environmental Law or term or condition of any Environmental Permit.

“Environmental Investigation” has the meaning set forth in Section 7.02(n).

“Environmental Law” means any applicable Law, and any Governmental Order or binding agreement with any Governmental Authority: (a) relating to pollution (or the investigation, cleanup, removal, or remediation thereof) or the protection of natural resources, endangered or threatened species, human health or safety, or the environment (including ambient air, soil, surface water or groundwater, or subsurface strata); or (b) concerning the presence of, exposure to, or the management, manufacture, use, containment, storage, recycling, reclamation, reuse, treatment, generation, discharge, transportation, processing, production, disposal or remediation of any Hazardous Materials. The term “Environmental Law” includes, without limitation, the following (including their implementing regulations and any state analogs): the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, 42 U.S.C. §§ 9601 et seq.; the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976, as amended by the Hazardous and Solid Waste Amendments of 1984, 42 U.S.C. §§ 6901 et seq.; the Federal Water Pollution Control Act of 1972, as amended by the Clean Water Act of 1977, 33 U.S.C. §§ 1251 et seq.; the Toxic Substances Control Act of 1976, as amended, 15 U.S.C. §§ 2601 et seq.; the Emergency Planning and Community Right-to-Know Act of 1986, 42 U.S.C. §§ 11001 et seq.; the Clean Air Act of 1966, as amended by the Clean Air Act Amendments of 1990, 42 U.S.C. §§ 7401 et seq.; and the Occupational Safety and Health Act of 1970, as amended, 29 U.S.C. §§ 651 et seq.

“Environmental Notice” means any written directive, notice of violation or infraction, or notice respecting any Environmental Claim relating to actual or alleged non-compliance with any Environmental Law or any term or condition of any Environmental Permit.

“Environmental Permit” means any Permit required under or issued, granted, given, authorized by or made pursuant to Environmental Law.

“ERISA” means the U.S. Employee Retirement Income Security Act of 1974, as amended, and the regulations promulgated thereunder.

“ERISA Affiliate” means, with respect to any Person, any other Person that, together with such first Person, would be treated as a single employer within the meaning of Section 414(b), (c), (m) or (o) of the Code.

“Escrow Account” has the meaning set forth in Section 2.05(b).

“Escrow Agent” means the entity designated to serve as escrow agent under the Escrow Agreement.

“Escrow Agreement” means the Escrow Agreement among Buyer, Seller and the Escrow Agent, to be executed and delivered at the Closing in the form attached hereto as Exhibit A.

“Escrow Amount” means the sum of Two Million Five Hundred Fifty Thousand Dollars (\$2,550,000) to be deposited with the Escrow Agent and held in escrow pursuant to the Escrow Agreement, together with any interest earned thereon.

“Exchange Act” means the U.S. Securities Exchange Act of 1934, as amended.

“Excluded Assets” has the meaning set forth in Section 2.02.



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“Excluded Contracts” has the meaning set forth in Section 2.02(c).

“Excluded Liabilities” has the meaning set forth in Section 2.04.

“Excluded Patents” means patents owned by Seller, but does not include the Retained Patents or the Acquired Patents.

“Facility Lease” has the meaning set forth in Section 3.02(a)(iii).

“FCPA” means the U.S. Foreign Corrupt Practices Act of 1977, as amended.

“Final Claim Amount” has the meaning set forth in Section 8.09(b).

“Final Closing Purchase Price” has the meaning set forth in Section 2.06(h).

“Final Inventory Value” has the meaning set forth in Section 2.06(f).

“Final Tangible Personal Property Value” has the meaning set forth in Section 2.06(f).

“Financial Statements” has the meaning set forth in Section 4.04.

“FINSA” means the U.S. Foreign Investment and National Security Act of 2007, which amends Section 721 of the Defense Production Act of 1950, 50 U.S.C. App. 2170 et seq., and the regulations issued pursuant to such law at 31 C.F.R. Part 800 et seq.

“FIRPTA Certificate” has the meaning set forth in Section 7.02(k).

“GAAP” means United States generally accepted accounting principles in effect from time to time.

“Governmental Authority” means any federal, state, local or foreign government or political subdivision thereof, or any agency or instrumentality of such government or political subdivision, or any self-regulated organization or other non-governmental regulatory authority or quasi-governmental authority (to the extent that the rules, regulations or orders of such organization or authority have the force of Law), or any arbitrator, court or tribunal of competent jurisdiction.

“Governmental Order” means any order, writ, judgment, injunction, decree, stipulation, determination or award entered by or with any Governmental Authority.

“Hazardous Materials” means: (a) any material, substance, chemical, waste, product, derivative, compound, mixture, solid, liquid, mineral or gas, in each case, whether naturally occurring or manmade, that is considered a pollutant, a contaminant, hazardous, acutely hazardous, toxic, or words of similar import or regulatory effect, or is otherwise regulated, under any Environmental Law; and (b) any petroleum or petroleum-derived products, radon, radioactive materials or wastes, asbestos in any form, lead or lead-containing materials, urea formaldehyde foam insulation and polychlorinated biphenyls.

“High Value” has the meaning set forth in Section 2.06(g).

“ICC” means the International Chamber of Commerce.

“Indemnified Party” has the meaning set forth in Section 8.05.

“Indemnifying Party” has the meaning set forth in Section 8.05.

“Independent Accountants” has the meaning set forth in Section 2.06(f).

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“Insolvent” means a financial condition such that the sum of such Person’s debts is greater than all of such Person’s property, at a fair valuation, exclusive of (a) property transferred, concealed, or removed with intent to hinder, delay or defraud such Person’s creditors and (b) property that may be exempted from property of a bankruptcy estate under Section 522 of the United States Bankruptcy Code.

“Insurance Policies” has the meaning set forth in Section 4.14.

“[\*] Agreement” has the meaning set forth in Section 6.22.

“Intellectual Property” means all of the following and similar intangible property and related proprietary rights, interests and protections, however arising, pursuant to the Laws of any jurisdiction throughout the world: (a) trademarks, service marks, trade names, brand names, logos, trade dress and other proprietary indicia of goods and services, whether registered, unregistered or arising by Law, and all registrations and applications for registration of such trademarks, including intent-to-use applications, and all issuances, extensions and renewals of such registrations and applications; (b) original works of authorship in any medium of expression, whether or not published, all copyrights (whether registered, unregistered or arising by Law), all registrations and applications for registration of such copyrights, and all issuances, extensions and renewals of such registrations and applications; (c) confidential information, formulas, designs, devices, technology, know-how, research and development, inventions, methods, processes, compositions and other trade secrets, whether or not patentable; and (d) patented and patentable designs and inventions, all design, plant and utility patents, letters patent, utility models, pending patent applications and provisional applications and all issuances, divisions, continuations, continuations-in-part, reissues, extensions, reexaminations and renewals of such patents and applications.

“Intellectual Property Assets” means all Intellectual Property that is owned by Seller and used in or necessary for the conduct of the Business as currently conducted, but does not include the Excluded Patents or the Retained Patents.

“Intellectual Property Licenses” means all licenses, sublicenses and other agreements by or through which other Persons, including Seller’s Affiliates, grant Seller exclusive or non-exclusive rights or interests in or to any Intellectual Property that is used in or necessary for the conduct of the Business as currently conducted.

“Intellectual Property Registrations” means all Intellectual Property Assets that are subject to any issuance, registration, application or other filing by, to or with any Governmental Authority or authorized private registrar in any jurisdiction, including registered trademarks, domain names and copyrights, issued and reissued patents and pending applications for any of the foregoing.

“Interim Balance Sheet” has the meaning set forth in Section 4.04.

“Interim Balance Sheet Date” has the meaning set forth in Section 4.04.

“Interim Financial Statements” has the meaning set forth in Section 4.04.

“Inventory” has the meaning set forth in Section 2.01(a).

“Knowledge of Seller Parent or Seller Parent’s Knowledge” or any other similar knowledge qualification, means the actual knowledge of any director, officer or senior manager of Seller Parent, after reasonable inquiry.

“LEO Agreement” means a Local Agreement governing the LEO Asset Sale.

“LEO Asset Sale” has the meaning set forth in Section 3.01(b).

“LEO Assets” has the meaning set forth in Section 2.07.

“LEO Closing” has the meaning set forth in Section 3.01(b).

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“LEO Purchase Price” means the Sum of the Final Inventory Value of the LEO Assets and the Final Tangible Personal Property Value of the LEO Assets, as determined pursuant to Section 2.06(f).

“Law” means any statute, law, ordinance, regulation, rule, code, order, constitution, treaty, common law, judgment, decree, other requirement or rule of law of any Governmental Authority.

“Leased Real Property” has the meaning set forth in Section 4.10(b).

“Leases” has the meaning set forth in Section 4.10(b).

“Legacy Products” means the Xenpak and X2 10 gigabit Ethernet modules with SR, LR, ER, CX4 and LX4 specifications; XFP CX4 transceivers; SFP transceivers; any products with VCSEL apertures greater than eight (8) micron, as listed on Schedule II.

“Liabilities” means with respect to any Person, liabilities, obligations or commitments of such Person of any nature whatsoever, asserted or unasserted, known or unknown, absolute or contingent, accrued or unaccrued, matured or unmatured, disputed or undisputed, liquidated or unliquidated, secured or unsecured, joint or several, vested or unvested, executory, determined, determinable or otherwise and whether or not the same is required to be accrued on the financial statements of such Person.

“License Agreement” has the meaning set forth in Section 3.02(a)(vi).

“Lien” means any mortgage, pledge, lien, encumbrance, charge or other security interest of any kind or nature.

“Local Agreements” means agreements in the form mutually agreed to by Buyer Parent and Seller Parent, which, subject to the terms and conditions of this Agreement, are to be signed at or prior to the Closing, pursuant to which, among other things, for the consideration stated herein, certain Sellers shall grant, sell, transfer, convey, assign and deliver to certain Buyers, and such Buyers shall purchase and accept from such Sellers, all right, title, and interest of such Sellers in and to the specific items of the Purchased Assets owned by such Sellers, and such Buyers agree to assume certain Assumed Liabilities of such Sellers, all in accordance with and pursuant to the terms and conditions therein and in accordance with the governing Law set forth in such Local Agreements, including all exhibits and attachments thereto, as contemplated by this Agreement.

“Low Value” has the meaning set forth in Section 2.06(g).

“Losses” means losses, damages, liabilities, deficiencies, Actions, judgments, interest, awards, penalties, fines, costs or expenses of whatever kind, including reasonable attorneys’ fees and the cost of enforcing any right to indemnification hereunder and the cost of pursuing any insurance providers, but for purposes of Article VIII, excluding any consequential, indirect, special, punitive or similar damages.

“Manufacturing Agreement” has the meaning set forth in Section 3.02(a)(v).

“Material Adverse Effect” means any event, occurrence, fact, condition or change that is, or could reasonably be expected to become, individually or in the aggregate, materially adverse to (a) the business, results of operations, condition (financial or otherwise) or assets of the Business, (b) the value of the Purchased Assets, or (c) the ability of Seller to consummate the transactions contemplated hereby on a timely basis, except any adverse effect related to or resulting from (i) general business or economic conditions affecting the industry in which the Seller operates the Business or, (ii) national or international political or social conditions, including the engagement by the United States in hostilities or the escalation thereof, whether or not pursuant to the declaration of a national emergency or war, or the occurrence or the escalation of any military or terrorist attack upon the United States, or any of its territories, possessions, or diplomatic or consular offices or upon any military installation, equipment or personnel of the United States.

“Material Contracts” has the meaning set forth in Section 4.07(a).

“Material Customers” has the meaning set forth in Section 4.13(a).

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“Material Suppliers” has the meaning set forth in Section 4.13(b).

“Negotiation Period” has the meaning set forth in Section 9.01(d)(iii).

“Owned Real Property” has the meaning set forth in Section 4.10(a).

“Permits” means all permits, licenses, clearances, franchises, approvals, waivers, letters exemptions, consents, decisions, authorizations, registrations, certificates, variances and similar rights obtained, or required to be obtained, from any Governmental Authorities.

“Permitted Encumbrances” has the meaning set forth in Section 4.08.

“Person” means an individual, corporation, partnership, joint venture, limited liability company, Governmental Authority, unincorporated organization, trust, association or other entity.

“Post-Closing Adjustment” has the meaning set forth in Section 2.06(h).

“Post-Closing Tax Period” means any taxable period beginning after the Closing Date and, with respect to any taxable period beginning before and ending after the Closing Date, the portion of such taxable period beginning after the Closing Date.

“Preliminary Closing Purchase Price” has the meaning set forth in Section 2.06(c).

“Preliminary Inventory Value” has the meaning set forth in Section 2.06(b).

“Preliminary Tangible Personal Property Value” has the meaning set forth in Section 2.06(b).

“Products” means EMCORE Connects Cables (ECC), Parallel Optical Devices (POD) and Devices and Components (DAC) and SFP+, excluding the Legacy Products, and are listed on Schedule III.

“Proposed Final Inventory Value” has the meaning set forth in Section 2.06(d).

“Proposed Final Tangible Personal Property Value” has the meaning set forth in Section 2.06(d).

“PTO Liabilities” has the meaning set forth in Section 2.03(b).

“Purchase Price” has the meaning set forth in Section 2.05.

“Purchased Assets” has the meaning set forth in Section 2.01.

“Real Property” means, collectively, the Owned Real Property and the Leased Real Property.

“Release” means any actual or threatened release, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, abandonment, disposing or allowing to escape or migrate into or through the environment (including, without limitation, ambient air (indoor or outdoor), surface water, groundwater, land surface or subsurface strata or within any building, structure, facility or fixture).

“Relocation Cost Estimate” has the meaning set forth in Section 6.17(b).

“Representative” means, with respect to any Person, any and all directors, officers, employees, consultants, financial advisors, counsel, accountants and other agents of such Person.

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“Restricted Period” has the meaning set forth in Section 6.07(a).

“Retained Marks” has the meaning set forth in Section 6.20.

“Retained Patents” means patents listed on Schedule IV.

“Section 9.01(d) Termination Notice” has the meaning set forth in Section 9.01(d)(ii).

“Seller” and “Sellers” has the meaning set forth in the preamble.

“Seller Basket Exclusions” has the meaning set forth in Section 8.04(b).

“Seller Closing Certificate” has the meaning set forth in Section 7.02(h).

“Seller Indemnitees” has the meaning set forth in Section 8.03.

“Seller Parent” has the meaning set forth in the preamble.

“Seller Parent’s Notice” has the meaning set forth in Section 6.03(c).

“Subsidiary” means, with respect to any Person, (a) any corporation, limited liability company or other similar organization as to which more than 50% of the outstanding capital stock or other securities having voting rights or power is owned or controlled, directly or indirectly, by such Person and/or by one or more of such Person’s direct or indirect subsidiaries and (b) any partnership, joint venture or other similar relationship between such Persons and any other Person.

“Superior Proposal” means an unsolicited, bona fide written offer made by a third party to consummate an Acquisition Proposal on terms that the board of directors of the Seller Parent determines, in its reasonable judgment, to be more favorable to Seller Parent and its stockholders than the terms of the transactions contemplated under this Agreement (after taking into account all relevant factors, including all conditions to the offer, the timing of the transaction contemplated by the offer, the risk of non-consummation thereof and the need for any required governmental or other consents, filings or approvals).

“Superior Proposal Period” has the meaning set forth in Section 6.03(c).

“Tangible Personal Property” has the meaning set forth in Section 2.01(d).

“Tax Clearance Certificate” has the meaning set forth in Section 6.14.

“Taxes” means all federal, state, local, foreign and other income, gross receipts, sales, use, production, ad valorem, transfer, documentary, franchise, registration, profits, license, lease, service, service use, withholding, payroll, employment, unemployment, estimated, excise, severance, environmental, stamp, occupation, premium, property (real or personal), real property gains, windfall profits, customs, duties or other taxes, fees, assessments or charges of any kind whatsoever, together with any interest, additions or penalties with respect thereto and any interest in respect of such additions or penalties and including any Liability to indemnify or otherwise assume or succeed to the Liability of any other Person with respect to any Tax.

“Tax Return” means any return, declaration, report, claim for refund, information return or statement or other document relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

“Termination Time” has the meaning set forth in Section 9.01(d)(iv).

“Territory” has the meaning set forth in Section 6.07(a).

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“Third Party Claim” has the meaning set forth in Section 8.05(a).

“Transaction Documents” means this Agreement, the Local Agreements, the Escrow Agreement, the Facility Leases, the Transition Services Agreement, the Shared Services Agreement, the Fabrication Services Agreement, the Product Services Agreement, the Intellectual Property License Agreement and the other agreements, instruments and documents required to be delivered at the Closing.

“Transfer Taxes” has the meaning set forth in Section 6.13.

“Transferred Employees” means employees of the Business who accepted and executed Buyer’s written offer of employment effective as of the Closing.

“Transition Services Agreement” has the meaning set forth in Section 3.02(a)(iv).

“Union” has the meaning set forth in Section 4.19(b).

“Value Determination Time” means the time at which the Business opens on the Closing Date.

“VCSEL Fab” has the meaning set forth in Section 6.17(a).

“WARN Act” means the U.S. Worker Adjustment and Retraining Notification Act of 1988, as amended, and any similar foreign, state or local law, regulation or ordinance.

“Yearly Financial Statements” has the meaning set forth in Section 4.04.

ARTICLE II

PURCHASE AND SALE

Section 2.01 Purchase and Sale of Assets. Subject to the terms and conditions set forth herein and in the Local Agreements, at the Closing, Sellers shall sell, assign, transfer, convey and deliver to Buyers, and Buyers shall purchase from Sellers, free and clear of any Encumbrances other than the Permitted Encumbrances, all of Sellers right, title and interest in, to and under all of the assets, properties and rights of every kind and nature, whether real, personal or mixed, tangible or intangible (including goodwill), wherever located and whether now existing or hereafter acquired (other than the Excluded Assets), which solely relate to, or are used or held for use in connection with, the Business (collectively, the “Purchased Assets”), consisting of the following:

- (a) all inventory, finished goods, raw materials, work in progress, packaging, supplies, parts and other inventories, as set forth on Section 2.01(a) of the Disclosure Schedules (“Inventory”);
- (b) all Contracts, including Intellectual Property Licenses, as set forth on Section 2.01(b) of the Disclosure Schedules (the “Assigned Contracts”);
- (c) all Intellectual Property Assets, as set forth on Section 2.01(c) of the Disclosure Schedules;
- (d) all furniture, fixtures, equipment, machinery, tools, office equipment, supplies, computers, telephones and other tangible personal property, as set forth on Section 2.01(d) of the Disclosure Schedules (the “Tangible Personal Property”);
- (e) to the extent transferable and required to operate the Business, all Permits, including Environmental Permits, which are held by Sellers and required for the conduct of the Business as currently conducted or for the ownership and use of the Purchased Assets, as listed on Section 4.16(b) and Section 4.17(b) of the Disclosure Schedules;

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(f) all prepaid expenses, credits, advance payments, claims, security, refunds, rights of recovery, rights of set-off, rights of recoupment, deposits, charges, sums and fees including any such item relating to the payment of Taxes, as set forth on Section 2.01(h) of the Disclosure Schedules;

(g) all of Sellers rights, to the extent transferable, under warranties, indemnities and all similar rights against third parties to the extent related to any Purchased Assets, as set forth on Section 2.01(f) of the Disclosure Schedules;

(h) originals, or where not available, copies, of all books and records relating solely to the Business, including, but not limited to, books of account, ledgers and general, financial and accounting records, machinery and equipment maintenance files, customer lists, customer purchasing histories, price lists, distribution lists, supplier lists, production data, quality control records and procedures, customer complaints and inquiry files, research and development files, records and data (including all correspondence with Customs or any other Governmental Authority), sales material and records (including pricing history, total sales, terms and conditions of sale, sales and pricing policies and practices), strategic plans, internal financial statements, marketing and promotional surveys, material and research and intellectual property files relating to the Intellectual Property Assets and the Intellectual Property Licenses (“Books and Records”); and

(i) all goodwill and the going concern value of the Business.

For the avoidance of doubt the Purchased Assets shall not include any assets located at Fabrinet’s premises in Thailand that are identified by the parties as unusable assets due to the damages caused by the flood in the premises and transfer of the LEO Assets will not occur until the LEO Closing.

Each Disclosure Schedule referred to in this Section 2.01 (collectively, the “Asset Lists”) indicates Purchased Assets on a country-by-country basis with applicable Seller thereof. Seller Parent and Buyer Parent shall review and finalize the Asset Lists at least five (5) Business Days prior to the Closing and the final Asset Lists agreed upon by the parties shall be prepared in writing and certified by an officer of Seller Parent.

Section 2.02 Excluded Assets. Notwithstanding the foregoing, the Purchased Assets shall not include the following assets (collectively, the “Excluded Assets”):

(a) Cash and Cash Equivalents;

(b) all accounts or notes receivable held by Seller, and any security, claim, remedy or other right related to any of the foregoing (“Accounts Receivable”);

(c) Contracts, including Intellectual Property Licenses, that are not Assigned Contracts (the “Excluded Contracts”);

(d) the corporate seals, organizational documents, minute books, stock books, Tax Returns, books of account or other records having to do with the corporate organization of Seller;

(e) all Benefit Plans and assets attributable thereto;

(f) the assets, properties and rights specifically set forth on Section 2.02(d) of the Disclosure Schedules;

(g) the rights which accrue or will accrue to Seller under the Transaction Documents;

(h) Excluded Patents;

(i) Retained Patents, provided that Seller Parent shall grant an exclusive license to Buyer Parent or its designee pursuant to the License Agreement;

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(j) all insurance benefits to Seller, including rights and proceeds, arising prior to the Closing from or relating to the Business, the Purchased Assets or the Assumed Liabilities; and

(k) all rights to any Actions of any nature available to or being pursued by Seller to the extent related to the Business and to the extent related to actions or omissions prior to the Closing, whether arising by way of counterclaim or otherwise, except to the extent that such rights are associated with the Acquired Patents.

Section 2.02 of the Disclosure Schedules lists those Excluded Assets, with respect to which Sellers shall provide necessary assistance, services and licenses for Buyers after Closing pursuant to the Transition Services Agreement so that Buyer can operate the Business as currently conducted by Sellers and proposed to be conducted by Buyers.

Section 2.03 Assumed Liabilities. Subject to the terms and conditions set forth herein, Buyers shall assume and agree to pay, perform and discharge only the following Liabilities of Seller (collectively, the “Assumed Liabilities”), and no other Liabilities:

(a) all Liabilities in respect of the Assigned Contracts but only to the extent that such Liabilities thereunder are required to be performed after the Closing Date and do not relate to any breach, default or violation by any Seller on or prior to the Closing; and

(b) any Liabilities associated with accrued and unused paid time off of Transferred Employees to the extent assumable under applicable Law (the “PTO Liabilities”).

Section 2.04 Excluded Liabilities. Notwithstanding the provisions of Section 2.03 or any other provision in this Agreement to the contrary, Buyers shall not assume and shall not be responsible to pay, perform or discharge any Liabilities of Sellers or any of their Affiliates of any kind or nature whatsoever other than the Assumed Liabilities (the “Excluded Liabilities”). Seller Parent shall, and shall cause each of its Affiliates to, pay and satisfy in due course all Excluded Liabilities which they are obligated to pay and satisfy. Without limiting the generality of the foregoing, the Excluded Liabilities shall include, but not be limited to, the following:

(a) all trade accounts payable of Sellers to third parties in connection with the Business that remain unpaid as of the Closing Date, regardless of whether they are reflected on the Interim Balance Sheet or arose in the ordinary course of business consistent with past practice since the Interim Balance Sheet Date;

(b) any Liabilities of Seller arising or incurred in connection with the negotiation, preparation, investigation and performance of this Agreement, the other Transaction Documents and the transactions contemplated hereby and thereby, including, without limitation, fees and expenses of counsel, accountants, consultants, advisers and others;

(c) any Liability for (i) Taxes of Sellers or any Affiliate of Sellers, (ii) Taxes relating to the Business, the Purchased Assets or the Assumed Liabilities for any Pre-Closing Tax Period; and (iii) Taxes that arise out of the consummation of the transactions contemplated hereby or that are the responsibility of Sellers pursuant to Section 6.13;

(d) any Liabilities relating to or arising out of the Excluded Assets;

(e) any Liabilities in respect of any pending or threatened Action arising out of, relating to or otherwise in respect of the operation of the Business or the Purchased Assets to the extent such Action relates to such operation on or prior to the Closing Date;

(f) any product Liability or similar claim for injury to a Person or property to the extent arising out of or relating to facts, circumstances or conditions existing on or prior to the Closing which arises out of or is based upon any express or implied representation, warranty, agreement or guaranty made by Sellers, or by reason of the improper performance or malfunctioning of a product, improper design or manufacture, failure to adequately package, label or warn of hazards or other related product defects of any products manufactured or sold or any service performed by Sellers;



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- (g) any recall, design defect or similar claims of any products manufactured or sold or any service performed by Sellers to the extent arising out of or relating to facts, circumstances or conditions existing on or prior to the Closing;
- (h) any Liabilities of Sellers arising under or in connection with any Benefit Plan providing benefits to any present or former employee of Sellers;
- (i) any Liabilities of Sellers for any present or former employees, officers, directors, retirees, independent contractors or consultants of Sellers, including, without limitation, any Liabilities associated with any claims for wages or other benefits, bonuses, workers' compensation, severance, retention, termination or other payments;
- (j) any Environmental Claims, or Liabilities under Environmental Laws, to the extent arising out of or relating to facts, circumstances or conditions existing on or prior to the Closing or otherwise to the extent arising out of any actions or omissions of Sellers;
- (k) any Liabilities of the Business relating or arising from unfulfilled commitments, quotations, purchase orders, customer orders or work orders that (i) do not constitute part of the Purchased Assets issued by the Business' customers to a Seller on or before the Closing; (ii) did not arise in the ordinary course of business; or (iii) are not validly and effectively assigned to a Buyer pursuant to this Agreement;
- (l) any Liabilities to indemnify, reimburse or advance amounts to any present or former officer, director, employee or agent of Sellers (including with respect to any breach of fiduciary obligations by same), except for indemnification of same pursuant to Section 8.03 as Seller Indemnitees;
- (m) any Liabilities under the Excluded Contracts or any other Contracts, including Intellectual Property Licenses, (i) which are not validly and effectively assigned to a Buyer pursuant to this Agreement; (ii) which do not conform to the representations and warranties with respect thereto contained in this Agreement; or (ii) to the extent such Liabilities arise out of or related to a breach by a Seller of such Contracts prior to Closing;
- (n) any Liabilities for actual or alleged infringement of Intellectual Property that relates to (i) the Products sold or shipped by Sellers prior to the Closing Date, (ii) the Legacy Products; including any Liabilities to indemnify Business' customers pursuant to a Contract, arising out of or in connection with "In re Matter of Certain Optoelectronic Devices, Components Thereof, and Products Containing Same, Investigation No. 337-TA-669" or Avago Technologies Fiber IP (Singapore) Pte Ltd. v. EMCORE Corporation, No. 3:08-cv-05394 (N.D. Cal. filed December 1, 2008) or (iii) U.S. Patent No. 5,359,447, regardless of whether such Liability accrues before or after the Closing and under an Assigned Contract or an Excluded Contract;
- (o) any Liabilities associated with debt, loans or credit facilities of Sellers and/or the Business owing to financial institutions;
- (p) any Liabilities arising out of, in respect of or in connection with the failure by Sellers or any of its Affiliates to comply with any Law or Governmental Order;
- (q) Liabilities associated with any Benefit Plan, or any assets held in trust or otherwise relating to any Benefit Plan or the funding thereof; any insurance policy, contract, trust, third party administrator contract or other funding arrangement for any Benefit Plan; any monies held by Seller Parent or its Affiliates in any account dedicated to the payment of benefits or insurance premiums relating to any Benefit Plan, or Seller Parent's or any Affiliate's rights to any such assets, contracts or monies; and
- (r) any Liabilities arising out of, in respect of or in connection with the closure of Seller's offices used for the Business in Taiwan.

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Section 2.05 Purchase Price. The aggregate purchase price for the Purchased Assets shall be Seventeen Million Dollars (\$17,000,000) subject to adjustment pursuant to Section 2.06 hereof (the "Purchase Price"). The Purchase Price shall be paid as follows:

(a) Buyer Parent shall pay, or cause to be paid, at the Closing, the Preliminary Closing Purchase Price less the Escrow Amount to Seller Parent (which Seller Parent shall receive for itself and on behalf of all other Sellers) by wire transfer or immediately available funds to an account designated in writing by Seller Parent to Buyer Parent no later than two (2) Business Days prior to the Closing Date;

(b) The Escrow Amount shall be deposited by wire transfer of immediately available funds into an account designated by the Escrow Agent and shall be held in a separate interest bearing account (the "Escrow Account") and distributed in accordance with the terms of the Escrow Agreement to satisfy any and all claims made by Buyer Parent or any other Buyer Indemnitee against Seller Parent pursuant to ARTICLE VIII. The funds held in the Escrow Account are intended to be held and disbursed solely for the purposes and in accordance with the terms of this Agreement and the Escrow Agreement. In no event, shall the Escrow Account or the funds held therein be released or used to pay any amounts other than as permitted by this Agreement and the Escrow Agreement. Seller Parent shall not have any right, title, or interest in and to the Escrow Account or the funds held therein until such time as all of the necessary conditions for release of funds from the Escrow Account to Seller Parent under this Agreement and the Escrow Agreement have occurred, and only to the extent of the amount of funds permitted to be released at such time to Seller Parent, and

(c) At the LEO Closing, Buyer Parent shall pay, or cause to be paid, the LEO Purchase Price less rental or other fees for the LEO Assets already paid prior thereto, if any, to a Seller pursuant to the terms of the LEO Agreement.

Section 2.06 Purchase Price Adjustment.

(a) No later than two (2) Business Days prior to an anticipated Closing Date, Seller Parent shall allow Buyer Parent and its Representative to inspect the quantity and quality of the Inventory and the Tangible Personal Property. At or prior to such inspection, Seller Parent shall provide Buyer Parent with details of the Inventory and the Tangible Personal Property in the form and manner, and calculated in accordance with the rules and procedures, set forth in Schedule 2.06.

(b) At least five (5) Business Days prior to an anticipated Closing Date, Seller Parent shall prepare and deliver to Buyer Parent a good faith and reasonable estimate by Seller Parent of the Inventory Value as of the Value Determination Time and the Tangible Personal Property Value as of the Value Determination Time, respectively, presented in the form and manner, and calculated in accordance with the rules and procedures, set forth in Schedule 2.06 (such amount, the "Preliminary Inventory Value" and the "Preliminary Tangible Personal Property Value," respectively).

(c) The "Preliminary Closing Purchase Price" shall be the Closing Purchase Price as adjusted by the Closing Adjustment. As used herein, the "Closing Adjustment" shall be an amount equal to the Preliminary Inventory Value, less \$7,722,759 (the value of the Inventory as shown in the balance sheet of the Business as of the Balance Sheet Date, a copy of which is attached hereto as Appendix 1), plus the Preliminary Tangible Personal Property Value, and less \$1,462,934 (the value of the inventories and the value of the property, plant & equipment, respectively, as shown in the balance sheet of the Business as of the Balance Sheet Date, a copy of which is attached hereto as Appendix 1); provided, however, that any excess of the difference between \$1,462,934 and the Preliminary Tangible Personal Property Value over \$2,000,000 shall be disregarded. If the Closing Adjustment is a positive number, the Closing Purchase Price shall be increased by an amount of such excess. If the Closing Adjustment is a negative number, the Closing Purchase Price shall be decreased by an amount of such deficiency.

(d) Within thirty (30) days following the Closing Date, Buyer Parent shall prepare and deliver to Seller Parent a good faith and reasonable calculation by Buyer Parent of the actual Inventory value as of the Value Determination Time and the actual Tangible Personal Property value as of the Value Determination Time, each presented in the form and manner, and calculated in accordance with the rules and procedures, set forth in Schedule 2.06 (such amount, the "Proposed Final Inventory Value" and the "Proposed Final Tangible Personal Property Value," respectively).



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(e) Until the Final Inventory Value and the Final Section Tangible Personal Property Value are determined pursuant to Section 2.06(f) Buyer Parent shall provide Seller Parent and any auditors or other representatives of Seller Parent, at all reasonable times, with reasonable access to the books and records of the applicable Subsidiary of Buyer Parent and to the personnel involved in determining the Proposed Final Inventory Value and the Proposed Final Tangible Personal Property Value.

(f) Seller Parent shall have thirty (30) days after receipt of the Proposed Final Inventory Value and the Proposed Final Tangible Personal Property Value to notify Buyer Parent of any disputes, which notice shall set forth in reasonable detail the basis for any such disputes. If Seller Parent fails to notify Buyer Parent of any such disputes within such thirty (30) day period, then the Proposed Final Inventory Value and the Proposed Final Tangible Personal Property Value shall be the “Final Inventory Value” and the “Final Tangible Personal Property Value”, respectively. If Seller Parent notifies Buyer Parent of any such disputes within such thirty (30) day period, then Buyer Parent and Seller Parent and their respective accountants shall cooperate in good faith to resolve such disputes as promptly as possible. If Buyer Parent and Seller Parent do not resolve such disputes within thirty (30) days after Seller Parent notifies Buyer Parent of any such disputes, then Buyer Parent and Seller Parent shall engage an accounting firm that is mutually acceptable to Buyer Parent and Seller Parent (the “Independent Accountants”) to resolve any remaining disputes. Buyer Parent and Seller Parent shall instruct the Independent Accountants not to assign a value to any item greater than the greatest value for such item assigned to it by Buyer Parent, on the one hand, or Seller Parent, on the other hand, or less than the smallest value for such item assigned to it by Buyer Parent, on the one hand, or Seller Parent, on the other hand. Buyer Parent and Seller Parent shall each furnish to the Independent Accountants such documents and information relating to the disputed items as such Independent Accountants may reasonably request. The determination of the Independent Accountants shall be set forth in writing and shall be conclusive and binding upon Buyer Parent and Seller Parent absent fraud or manifest error. Seller Parent shall revise the Proposed Final Inventory Value or the Proposed Final Tangible Personal Property Value, as the case may be, to reflect the resolution of any and all disputes thereto pursuant to this Section 2.06(f) and promptly distribute such revised calculations to Buyer Parent, and the Proposed Final Inventory Value and the Proposed Final Tangible Personal Property Value, as each so revised, as applicable, shall be the “Final Inventory Value” and the “Final Tangible Personal Property Value” respectively.

(g) If Buyer Parent and Seller Parent engage Independent Accountants as contemplated by Section 2.06(f), then Buyer Parent and Seller Parent shall share responsibility for the fees and expenses of the Independent Accountants as follows: (a) if the Independent Accountants resolves all of the remaining disputes in favor of Buyer Parent (the sum of the Final Inventory Value and the Final Tangible Personal Property Value so determined is referred to herein as the “Low Value”), then Seller Parent shall be responsible for all of the fees and expenses of the Independent Accountants; (b) if the Independent Accountants resolves all of the remaining disputes in favor of Seller Parent (the sum of the Final Inventory Value and the Final Tangible Personal Property Value so determined is referred to herein as the “High Value”), then Buyer Parent shall be responsible for all of the fees and expenses of the Independent Accountants; and (c) if the Independent Accountants resolves some of the remaining disputes in favor of Buyer Parent and some of the remaining disputes in favor of Seller Parent (the sum of the Final Inventory Value and the Final Tangible Personal Property Value so determined is referred to herein as the “Actual Value”), then Seller Parent shall be responsible for that fraction of the fees and expenses of the Independent Accountants equal to (1) the difference between the High Value and the Actual Value over (2) the difference between the High Value and the Low Value, and Buyer Parent shall be responsible for the remainder of the fees and expenses of the Independent Accountants.

(h) The “Final Closing Purchase Price” shall be the Purchase Price as adjusted by the Post-Closing Adjustment, less the LEO Purchase Price. As used herein, the “Post-Closing Adjustment” shall be an amount equal to the Final Inventory Value, less \$7,722,759 (the value of the Inventory as shown in the balance sheet of the Business as of the Balance Sheet Date, a copy of which is attached hereto as Appendix 1), plus the Final Tangible Personal Property Value, less \$1,462,934 (the value of the inventories and the value of the property, plant & equipment, respectively, as shown in the balance sheet of the Business as of the Balance Sheet Date, a copy of which is attached hereto as Appendix 1); provided, however, that any excess of the difference between \$1,462,934 and the Final Tangible Personal Property Value over \$2,000,000 shall be disregarded. If the Post-Closing Adjustment is a positive number, the Final Closing

Purchase Price shall be increased by an amount of such excess. If the Post-Closing Adjustment is a negative number, the Final Closing Purchase Price shall be decreased by an amount of such deficiency.

(i) Once the Final Closing Purchase Price is determined pursuant to Section 2.06(h) above:

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(i) if the Final Closing Purchase Price is greater than the Preliminary Closing Purchase Price, then Buyer Parent shall pay to Seller Parent an amount equal to such excess by delivery of cash, payable by wire transfer or delivery of other immediately available funds, within ten (10) Business Days after the date on which the Final Inventory Value and the Final Tangible Personal Property Value are determined pursuant to Section 2.06(f); or

(ii) if the Final Closing Purchase Price is less than the Preliminary Closing Purchase Price, then such deficiency shall be paid to Buyer Parent by the Escrow Agent from the Escrow Amount pursuant to the terms of the Escrow Agreement.

Notwithstanding anything contained herein, no upward or downward adjustment shall be made pursuant to this Section 2.06(i) to the extent that the absolute value of the difference between the Final Closing Purchase Price and the Preliminary Closing Purchase Price is less than \$10,000.

(j) LEO Purchase Price shall be adjusted to reflect (i) the LEO Closing Inventory Value, which shall be prepared and delivered by Seller Parent to Buyer Parent at least five (5) Business Days prior to an anticipated LEO Closing Date, presented in the form and manner, and calculated in accordance with the rules and procedures, set forth in Schedule 2.06 and (ii) any event applicable to a Tangible Personal Property of the LEO Assets not in the ordinary course of business between the Closing and the LEO Closing.

(k) For the purpose of calculating the Purchase Price adjustment pursuant to this Section 2.06, the value of the LEO Assets denominated in RMB shall be converted into the United States Dollars using the average exchange rate published by the People's Bank of China on the last Business Day prior to which such value is calculated.

(l) Payment of PTO Liabilities. Within five (5) Business Days after the Closing, Seller Parent shall prepare and deliver to Buyer Parent a written report listing Transferred Employees whose accrued and unused paid time off is assumed by Buyer Parent pursuant to Section 2.03(b) above and their respective accrued and unused paid time off as of the Closing. Within ten (10) Business Days after the Closing, Seller Parent shall pay Buyer Parent or its designee an amount equal to the PTO Liabilities by delivery of cash, payable by wire transfer or delivery of other immediately available funds.

(m) Adjustments for Tax Purposes. Any payments made pursuant to Section 2.06 and 2.05(c) shall be treated as an adjustment to the Purchase Price by the parties for Tax purposes, unless otherwise required by Law.

Section 2.07 LEO Assets. Subject to the terms and conditions set forth herein and in the Local Agreements, at the LEO Closing, Sellers shall sell, assign, transfer, convey and deliver to Buyers, and Buyers shall purchase from Sellers, free and clear of any Encumbrances other than the Permitted Encumbrances, all of Sellers right, title and interest in, to and under all of the Inventory and Tangible Personal Property which solely relate to, or are used or held for use in connection with, the Business and located at Seller's facility in Langfang City, Hebei Province, P.R. China (collectively, the "LEO Assets"). The LEO Purchase Price less rental or other fees for the LEO Assets already paid prior thereto shall be paid by Buyer Parent at the LEO Closing by wire transfer of immediately available funds to an account designated in writing by Seller Parent to Buyer Parent no later than two (2) Business Days prior to the LEO Closing Date. Sellers shall deliver, or cause to be delivered, to Buyers a bill of sale duly executed by Seller Parent and the applicable asset selling entities.

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Section 2.08 Allocation of Purchase Price.

(a) Seller Parent and Buyer Parent agree that the Purchase Price and the Assumed Liabilities (plus other relevant items, as determined in accordance with Section 1060 of the Code) shall be allocated among the Purchased Assets and the non-competition agreement under Section 6.07 for all purposes (including Tax and financial accounting) as shown on the allocation schedule (the "Allocation Schedule"), which allocation shall be made in accordance with Section 1060 of the Code. A draft of the Allocation Schedule shall be prepared by Buyer Parent and delivered to Seller Parent within 60 days following the Closing Date. If Seller Parent notifies Buyer Parent in writing that Seller Parent objects to one or more items reflected in the Allocation Schedule, Seller Parent and Buyer Parent shall negotiate in good faith to resolve such dispute; provided, however, that if Seller Parent and Buyer Parent are unable to resolve any dispute with respect to the Allocation Schedule within 60 days following the Closing Date, such dispute shall be resolved by the Independent Accountants. The Independent Account's review shall be limited to whether a disputed item is materially inconsistent with Section 1060 of the Code and the regulations promulgated thereunder, and shall be final and binding on all parties. The fees and expenses of such accounting firm shall be borne equally by Seller Parent and Buyer Parent. Buyer Parent and Seller Parent shall file all Tax Returns (including amended returns and claims for refund) and information reports in a manner consistent with the Allocation Schedule. Any adjustments to the Purchase Price pursuant to Section 2.06, Section 8.06 or otherwise under this Agreement shall be allocated in a manner consistent with the Allocation Schedule.

(b) If and to the extent that any amounts are paid to the Seller Parent with respect to the Escrow Amounts under Section 2.05(b), such amounts shall be treated as consideration for the Purchased Assets pursuant to the provisions of this Section 2.08 in a manner consistent with Section 1060 of the Code and the regulations promulgated thereunder. Furthermore, Buyer Parent and Seller Parent shall exchange completed and executed copies of a Supplemental Internal Revenue Service Form 8594, any required schedules thereto, and any similar state, local and foreign forms, not later than 30 days prior to the filing date for the supplement.

Section 2.09 Withholding Tax. With the prior written notice to Seller Parent, Buyer Parent shall be entitled to deduct and withhold from the Purchase Price all Taxes that any Buyer is required to deduct and withhold under any provision of Tax Law. All such withheld amounts shall be treated as delivered to Seller Parent hereunder.

Section 2.10 Third Party Consents. To the extent that a Seller's rights under any Contract or Permit constituting a Purchased Asset, or any other Purchased Asset, may not be assigned to the applicable Buyer without the consent of another Person which has not been obtained, this Agreement shall not constitute an agreement to assign the same if an attempted assignment would constitute a breach thereof or be unlawful, and such Seller, at its expense, shall use its reasonable efforts to obtain any such required consent(s) as promptly as possible. If any such consent shall not be obtained or if any attempted assignment would be ineffective or would impair such Buyer's rights under the Purchased Asset in question so that such Buyer would not in effect acquire the benefit of all such rights, such Seller, to the maximum extent permitted by law and the Purchased Asset, shall act after the Closing as such Buyer's agent in order to obtain for it the benefits thereunder and shall cooperate with such Buyer in any other reasonable arrangement designed to provide such benefits to such Buyer. Notwithstanding any provision in this Section 2.09 to the contrary, such Buyer shall not be deemed to have waived its rights under Section 7.02(d) hereof unless and until such Buyer either provides written waivers thereof or elects to proceed to consummate the transactions contemplated by this Agreement at Closing.

ARTICLE III

CLOSING

Section 3.01 Closing.

(a) Subject to the terms and conditions of this Agreement, the consummation of the transactions contemplated by this Agreement (the "Closing") shall take place at the offices of Squire Sanders (US) LLP, 275 Battery Street, Suite 2600, San Francisco, CA 94111, at 10:00 a.m., Pacific daylight time, on the first Business Day after all of the conditions to Closing set forth in Article VII are either satisfied or waived (other than conditions which, by their nature, are to be satisfied on the Closing Date), or at such other time, date or place as Seller Parent and Buyer Parent may mutually agree upon in writing; The date on which the Closing is to occur is herein referred to as the "Closing

Date.”

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(b) Notwithstanding the foregoing, the closing (the “LEO Closing”) of the sale and purchase of the LEO Assets (the “LEO Asset Sale”) shall take place after the Closing as set forth in the LEO Agreement. The parties hereby confirm that whenever the term “Closing” is used herein, unless the context otherwise requires, it means “LEO Closing” to the extent it relates to the LEO Asset Sale.

Section 3.02 Closing Deliverables.

(a) At the Closing, Seller Parent shall deliver to Buyer Parent (and/or to such other Buyers as instructed by Buyer Parent prior to the Closing Date) the following:

- (i) the Escrow Agreement duly executed by Seller Parent;
- (ii) the Local Agreements, and certificates and other instruments called for in such Local Agreements and duly executed by the applicable Sellers;
- (iii) the facility lease in the form reasonably agreed upon by the parties (the “Facility Lease”) and duly executed by Seller Parent;
- (iv) the transition services agreement in the form reasonably agreed upon by the parties (the “Transition Services Agreement”) and duly executed by Seller Parent;
- (v) the manufacturing agreement in the form reasonably agreed upon by the parties (the “Manufacturing Agreement”) and duly executed by Seller Parent;
- (vi) the license agreement in the form reasonably agreed upon by the parties (the “License Agreement”) and duly executed by Seller Parent;
- (vii) the Seller Parent Closing Certificate;
- (viii) the FIRPTA Certificate;
- (ix) the certificates of the Secretary or Assistant Secretary of Seller Parent required by Section 7.02(i) and Section 7.02(j); and
- (x) such other customary instruments of transfer, assumption, filings or documents, in form and substance reasonably satisfactory to Buyer Parent, as may be required to give effect to this Agreement.

(b) At the Closing, Buyer Parent shall deliver to Seller Parent (and/or to such other Sellers as instructed by Seller Parent prior to the Closing Date) the following:

- (i) the Preliminary Closing Purchase Price less the Escrow Amount;
- (ii) the Escrow Agreement duly executed by Buyer Parent or its designee;
- (iii) the Local Agreements, and certificates and other instruments called for in such Local Agreements duly executed by the applicable Buyers;
- (iv) the Facility Lease duly executed by Buyer Parent or its designee;
- (v) the Transition Services Agreement duly executed by Buyer Parent or its designee;

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- (vi) the Manufacturing Agreement duly executed by Buyer Parent or its designee;
  - (vii) the License Agreement duly executed by Buyer Parent or its designee;
  - (viii) the Buyer Parent Closing Certificate; and
  - (ix) the certificates of the Secretary or Assistant Secretary of Buyer Parent required by Section 7.03(g) and Section 7.03(h).
- (c) At the Closing, Buyer Parent shall deliver the Escrow Amount to the Escrow Agent pursuant to the Escrow Agreement.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF SELLERS

Except as set forth in the correspondingly numbered Section of the Disclosure Schedules, Seller Parent, on its behalf and, to the extent applicable, on behalf of each other Seller, represents and warrants to Buyer Parent that the statements contained in this Article IV are true and correct as of the date hereof.

Section 4.01 Organization and Qualification of Seller. Each Seller is a corporation duly organized, validly existing and in good standing under the Laws of its jurisdiction of incorporation or formation and has full corporate power and authority to own, operate or lease the properties and assets now owned, operated or leased by it and to carry on the Business as currently conducted. Section 4.01 of the Disclosure Schedules sets forth each jurisdiction in which each Seller is licensed or qualified to do business, and each Seller is duly licensed or qualified to do business and is in good standing in each jurisdiction in which the ownership of the Purchased Assets or the operation of the Business as currently conducted makes such licensing or qualification necessary, except where the failure to be so licensed or qualified would not have a Material Adverse Effect.

Section 4.02 Authority of Seller.

(a) Seller Parent has full corporate power and authority to enter into this Agreement and the other Transaction Documents to which Seller Parent is a party, to carry out its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution and delivery by Seller Parent of this Agreement and any other Transaction Document to which Seller Parent is a party, the performance by Seller Parent of its obligations hereunder and thereunder and the consummation by Seller Parent of the transactions contemplated hereby and thereby have been duly authorized by all requisite corporate action on the part of Seller Parent. This Agreement has been duly executed and delivered by Seller Parent, and (assuming due authorization, execution and delivery by Buyer) this Agreement constitutes a legal, valid and binding obligation of Seller Parent enforceable against Seller Parent in accordance with its terms. When each other Transaction Document to which Seller Parent is or will be a party has been duly executed and delivered by Seller Parent (assuming due authorization, execution and delivery by each other party thereto), such Transaction Document will constitute a legal and binding obligation of Seller Parent enforceable against it in accordance with its terms.

(b) Each Seller (other than Seller Parent) has full corporate power and authority to enter into the Transaction Documents to which such Seller is a party, to carry out its obligations thereunder and to consummate the transactions contemplated hereby and thereby. The execution and delivery by each Seller (other than Seller Parent) of any Transaction Document to which such Seller is a party, the performance by such Seller of its obligations hereunder and thereunder and the consummation by such Seller of the transactions contemplated hereby and thereby have been duly authorized by all requisite corporate action on the part of such Seller. When each Transaction Document to which a Seller (other than Seller Parent) is or will be a party has been duly executed and delivered by such Seller (assuming due authorization, execution and delivery by each other party thereto), such Transaction Document will constitute a legal and binding obligation of such Seller enforceable against it in accordance with its terms.

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Section 4.03 No Conflicts; Consents; Filings. The execution, delivery and performance of this Agreement and the other Transaction Documents by Sellers, as applicable, and the consummation of the transactions contemplated hereby and thereby, do not and will not: (a) conflict with or result in a violation or breach of, or default under, any provision of the certificate of incorporation, by-laws or other organizational documents of any Seller; (b) conflict with or result in a violation or breach of any provision of any Law or Governmental Order applicable to any Seller, the Business or the Purchased Assets; (c) except as set forth in Section 4.03 of the Disclosure Schedules, require the consent, notice or other action by any Person under, conflict with, result in a violation or breach of, constitute a default or an event that, with or without notice or lapse of time or both, would constitute a default under, result in the acceleration of or create in any party the right to accelerate, terminate, modify or cancel any Contract or Permit to which Seller is a party or by which Seller or the Business is bound or to which any of the Purchased Assets are subject (including any Assigned Contract); or (d) result in the creation or imposition of any Encumbrance other than the Permitted Encumbrances on the Purchased Assets. Except for clearance from CFIUS, no other consent, approval, Permit, Government Order, declaration or filing with, or notice to, any Governmental Authority is required by or with respect to Sellers in connection with the execution and delivery of this Agreement or any of the other Transaction Documents and the consummation of the transaction contemplated hereby and thereby.

Section 4.04 Financial Statements. Complete copies of the unaudited financial statements consisting of the balance sheet of the Business as at September 30 in each of the years 2009, 2010 and 2011 and the related statements of income, for the years then ended (the “Yearly Financial Statements”), and unaudited financial statements consisting of the balance sheet of the Business as at December 31, 2011 and the related statements of income for the three-month period then ended (the “Interim Financial Statements” and together with the Yearly Financial Statements, the “Financial Statements”) have been delivered to Buyer Parent. The Financial Statements have been prepared in accordance with GAAP applied on a consistent basis throughout the period involved, subject, in the case of the Interim Financial Statements, to normal and recurring year-end adjustments (the effect of which will not be materially adverse) and the absence of notes (that, if presented, would not differ materially from those presented in the Yearly Financial Statements). The Financial Statements are based on the books and records of the Business, and fairly present the financial condition of the Business as of the respective dates they were prepared and the results of the operations of the Business for the periods indicated. The balance sheet of the Business as of September 30, 2011 is referred to herein as the “Balance Sheet” and the date thereof as the “Balance Sheet Date” and the balance sheet of the Business as of December 31, 2011 is referred to herein as the “Interim Balance Sheet” and the date thereof as the “Interim Balance Sheet Date.” Seller Parent maintains a standard system of accounting for the Business established and administered in accordance with GAAP.

Section 4.05 Undisclosed Liabilities. Sellers have no Liabilities with respect to the Business of a type required to be set forth on a consolidated balance sheet of the Sellers in accordance with GAAP, except (a) those which are adequately reflected or reserved against in the Balance Sheet as of the Balance Sheet Date, and (b) those which have been incurred in the ordinary course of business consistent with past practice since the Balance Sheet Date and which are not, individually or in the aggregate, material in amount.

Section 4.06 Absence of Certain Changes, Events and Conditions. Since the Balance Sheet Date and except as disclosed in Section 4.06 of the Disclosure Schedules, and other than in the ordinary course of business consistent with past practice, there has not been any:

- (a) to the Actual Knowledge of Seller Parent, event, occurrence or development that has had, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect;
- (b) material change in any method of accounting or accounting practice for the Business, except as required by GAAP or as disclosed in the notes to the Financial Statements;
- (c) entry into any Contract that would constitute a Material Contract;
- (d) incurrence, assumption or guarantee of any indebtedness for borrowed money in connection with the Business except unsecured current obligations and Liabilities incurred in the ordinary course of business consistent with past practice;
- (e) transfer, assignment, sale or other disposition of any of the Purchased Assets shown or reflected in the Balance Sheet, except for the sale of Inventory in the ordinary course of business;



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- (f) transfer, assignment or grant of any license or sublicense of any material rights under or with respect to any Intellectual Property Assets or Intellectual Property Licenses;
- (g) material damage, destruction or loss, or any material interruption in use, of any Purchased Assets, whether or not covered by insurance;
- (h) acceleration, termination, material modification to or cancellation of any Assigned Contract or Permit;
- (i) material capital expenditures which would constitute an Assumed Liability;
- (j) imposition of any Encumbrance upon any of the Purchased Assets;
- (k) (i) except for Seller Parent's grant of restricted stock units under its Benefit Plans, grant of any bonuses, whether monetary or otherwise, or increase in any wages, salary, severance, pension or other compensation or benefits in respect of any employees, officers, directors, independent contractors or consultants of the Business, other than as provided for in any written agreements or required by applicable Law, (ii) change in the terms of employment, except for implementation and termination of temporary salary decreases, for any employee of the Business or any termination of any employees for which the aggregate costs and expenses exceed \$10,000, or (iii) action to accelerate the vesting or payment of any compensation or benefit for any employee, officer, director, consultant or independent contractor of the Business;
- (l) except for Seller Parent's grant of restricted stock units under its Benefit Plans, adoption, modification or termination of any: (i) employment, severance, retention or other agreement with any current or former employee, officer, director, independent contractor or consultant of the Business, (ii) Benefit Plan, or (iii) collective bargaining or other agreement with a Union, in each case whether written or oral;
- (m) any loan to (or forgiveness of any loan to), or entry into any other transaction with, any directors, officers or employees of the Business;
- (n) adoption of any plan of merger, consolidation, reorganization, liquidation or dissolution or filing of a petition in bankruptcy under any provisions of federal or state bankruptcy Law or consent to the filing of any bankruptcy petition against it under any similar Law; or
- (o) purchase, lease or other acquisition of the right to own, use or lease any property or assets in connection with the Business for an amount in excess of \$25,000, individually (in the case of a lease, per annum) or \$25,000 in the aggregate (in the case of a lease, for the entire term of the lease, not including any option term), except for purchases of Inventory or supplies in the ordinary course of business consistent with past practice.

Section 4.07 Material Contracts.

- (a) Section 4.07(a) of the Disclosure Schedules lists each of the following Contracts (x) by which any of the Purchased Assets are bound or affected or (y) to which a Seller is a party and by which it is bound in connection with the Business or the Purchased Assets (such Contracts, together with all Contracts concerning the occupancy, management or operation of any Real Property (including without limitation, brokerage contracts) listed or otherwise disclosed in Section 4.10(a) of the Disclosure Schedules and all Contracts relating to Intellectual Property set forth in Section 4.11(c) and Section 4.11(e) of the Disclosure Schedules, being "Material Contracts"):
  - (i) all Contracts involving aggregate consideration in excess of \$25,000 and which, in each case, cannot be cancelled without penalty or without more than 60 days' notice;
  - (ii) all Contracts that require a Seller to purchase or sell a stated portion of the requirements or outputs of the Business or that contain "take or pay" provisions;

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- (iii) all Contracts that provide for the indemnification of any Person or the assumption of any Tax, environmental or other Liability of any Person;
  - (iv) all broker, distributor, dealer, manufacturer's representative, franchise, agency, sales promotion, market research, marketing consulting and advertising Contracts;
  - (v) all employment agreements and Contracts with independent contractors or consultants (or similar arrangements) and which are not cancellable without material penalty or without more than 60 days' notice;
  - (vi) except for Contracts relating to trade payables, all Contracts relating to indebtedness (including, without limitation, guarantees);
  - (vii) all Contracts with any Governmental Authority;
  - (viii) all Contracts that limit or purport to limit the ability of a Seller to compete in any line of business or with any Person or in any geographic area or during any period of time;
  - (ix) all joint venture, partnership or similar Contracts;
  - (x) all Contracts for the sale of any of the Purchased Assets or for the grant to any Person of any option, right of first refusal or preferential or similar right to purchase any of the Purchased Assets;
  - (xi) all powers of attorney with respect to the Business or any Purchased Asset;
  - (xii) all collective bargaining agreements or Contracts with any Union; and
  - (xiii) all other Contracts that are material to the Purchased Assets or the operation of the Business and not previously disclosed pursuant to this Section 4.07.
- (b) Each Material Contract is valid and binding on a Seller in accordance with its terms and is in full force and effect. None of Sellers or, to Seller Parent's Knowledge, any other party thereto is in breach of or default under (or is alleged to be in breach of or default under), or has provided or received any notice of any intention to terminate, any Material Contract. To Seller Parent's Knowledge, no event or circumstance has occurred that, with notice or lapse of time or both, would constitute an event of default under any Material Contract or result in a termination thereof or would cause or permit the acceleration or other changes of any right or obligation or the loss of any benefit thereunder. Complete and correct copies of each Material Contract (including all modifications, amendments and supplements thereto and waivers thereunder) have been made available to Buyer Parent. There are no material disputes pending or, to Seller Parent's Knowledge, threatened under any Contract included in the Purchased Assets.
- Section 4.08 Title to Purchased Assets. Sellers have good and valid title to, or a valid leasehold interest in, all of the Purchased Assets. All such Purchased Assets (including leasehold interests) are free and clear of Encumbrances except for the following (collectively referred to as "Permitted Encumbrances"):
- (a) those items set forth in Section 4.08 of the Disclosure Schedules;
  - (b) liens for Taxes not yet due and payable or being contested in good faith by appropriate procedures and for which there are adequate accruals or reserves on the Balance Sheet;
  - (c) mechanics', carriers', workmen's, repairmen's or other like liens arising or incurred in the ordinary course of business consistent with past practice or amounts that are not delinquent and which are not, individually or in the aggregate, material to the Business or the Purchased Assets;

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(d) easements, rights of way, zoning ordinances and other similar encumbrances affecting Real Property which are not, individually or in the aggregate, material to the Business or the Purchased Assets, which do not prohibit or interfere with the current operation of any Real Property and which do not render title to any Real Property unmarketable; or

(e) other than with respect to Owned Real Property, liens arising under original purchase price conditional sales contracts and equipment leases with third parties entered into in the ordinary course of business consistent with past practice which are not, individually or in the aggregate, material to the Business or the Purchased Assets.

Section 4.09 Condition and Sufficiency of Assets. The furniture, fixtures, machinery, equipment, vehicles and other items of tangible personal property included in the Purchased Assets and Leased Real Property are structurally sound, are in good operating condition and repair, and are adequate for the uses to which they are being put, and none of such furniture, fixtures, machinery, equipment, vehicles and other items of tangible personal property is in need of maintenance or repairs except for ordinary, routine maintenance and repairs that, to Seller Parent's Knowledge, are not material in nature or cost. The Purchased Assets, including the VCSEL Fab, and the Leased Real Property, after giving effect and consideration to the Transaction Documents, are sufficient for the continued conduct of the Business after the Closing in substantially the same manner as conducted prior to the Closing and constitute all of the rights, property and assets necessary to conduct the Business as currently conducted.

Section 4.10 Real Property.

(a) Section 4.10(a) of the Disclosure Schedules sets forth each parcel of real property owned by each Seller and used in or necessary for the conduct of the Business as currently conducted (together with all buildings, fixtures, structures and improvements situated thereon and all easements, rights-of-way and other rights and privileges appurtenant thereto, collectively, the "Owned Real Property"), including with respect to each property, the address location and use. Seller Parent has delivered to Buyer Parent copies of the deeds and other instruments (as recorded) by which any Seller acquired such parcel of Owned Real Property, and copies of all title insurance policies, opinions, abstracts and surveys in the possession of such Seller with respect to such parcel. With respect to each parcel of Real Property:

(i) except as set forth on Section 4.10(a)(i), no Seller has leased or otherwise granted to any Person the right to use or occupy such Owned Real Property or any portion thereof; and

(ii) there are no unrecorded outstanding options, rights of first offer or rights of first refusal to purchase such Owned Real Property or any portion thereof or interest therein.

(b) Section 4.10(b) of the Disclosure Schedules sets forth each parcel of real property leased by each Seller and used in or necessary for the conduct of the Business as currently conducted (together with all rights, title and interest of such Seller in and to leasehold improvements relating thereto, including, but not limited to, security deposits, reserves or prepaid rents paid in connection therewith, collectively, the "Leased Real Property"), and a true and complete list of all leases, subleases, licenses, concessions and other agreements (whether written or oral), including all amendments, extensions renewals, guaranties and other agreements with respect thereto, pursuant to which such Seller holds any Leased Real Property (collectively, the "Leases"). Seller Parent has delivered to Buyer Parent a true and complete copy of each Lease. With respect to each Lease:

(i) such Lease is valid, binding, enforceable and in full force and effect, and each Seller enjoys peaceful and undisturbed possession of the Leased Real Property;

(ii) no Seller is in breach or default under such Lease, and no event has occurred or circumstance exists which, with the delivery of notice, passage of time or both, would constitute such a breach or default, and each Seller has paid all rent due and payable under such Lease;

(iii) no Seller has received or given any notice of any default or event that with notice or lapse of time, or both, would constitute a default by such Seller under any of the Leases and, to the Knowledge of Seller Parent, no other party is in default thereof, and no party to any Lease has exercised any termination rights with respect thereto;

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- (iv) no Seller has subleased, assigned or otherwise granted to any Person the right to use or occupy such Leased Real Property or any portion thereof; and
- (v) no Seller has pledged, mortgaged or otherwise granted an Encumbrance on its leasehold interest in any Leased Real Property.
- (c) No Seller has received any written notice of (i) violations of building codes and/or zoning ordinances or other governmental or regulatory Laws affecting the Real Property, (ii) existing, pending or threatened condemnation proceedings affecting the Real Property, or (iii) existing, pending or threatened zoning, building code or other moratorium proceedings, or similar matters which could reasonably be expected to adversely affect the ability to operate the Real Property as currently operated. Neither the whole nor any material portion of any Real Property has been damaged or destroyed by fire or other casualty.

Section 4.11 Intellectual Property.

- (a) Section 4.11(a) of the Disclosure Schedules lists all (i) Intellectual Property Registrations and (ii) Intellectual Property Assets that are not registered but that are material to the operation of the Business. All required filings and fees related to the Intellectual Property Registrations have been timely filed with and paid to the relevant Governmental Authorities and authorized registrars, and all Intellectual Property Registrations are otherwise in good standing. Seller Parent has provided Buyer Parent with true and complete copies of file histories, documents, certificates, office actions, correspondence and other materials related to all Intellectual Property Registrations. To the Knowledge of Seller Parent, there are no proceedings or actions pending before any court or tribunal (including the PTO or equivalent authority anywhere in the world) to which any Seller has been named as party and served with process that involve the validity, scope or priority of patents included in the Intellectual Property Assets. None of the copyrights included in the Intellectual Property Assets are registered copyrights.
- (b) Except as set forth in Section 4.11(b) of the Disclosure Schedules, Sellers own, exclusively or jointly with other Persons, all right, title and interest in and to the Intellectual Property Assets, free and clear of Encumbrances other than the Permitted Encumbrances. Each Seller has taken commercially reasonable steps to protect its rights in the Intellectual Property Assets. Without limiting the generality of the foregoing, each Seller has entered into binding, written agreements with every current and former employee of such Seller, and with every current and former independent contractor, to the extent such employees or contractors created any material Intellectual Property Assets on behalf of such Seller, whereby such employees and independent contractors (i) assign to such Seller any ownership interest and right they may have in the Intellectual Property Assets; and (ii) acknowledge such Seller's exclusive ownership of all Intellectual Property Assets. Seller Parent has provided Buyer Parent with true and complete copies of all such agreements. Sellers are in material compliance with all legal requirements applicable to the Intellectual Property Assets and Sellers ownership and use thereof.
- (c) Section 4.11(c) of the Disclosure Schedules lists all Intellectual Property Licenses. Seller Parent has provided Buyer Parent with true and complete copies of all such Intellectual Property Licenses. All such Intellectual Property Licenses are valid, binding and enforceable between a Seller and the other parties thereto, and Sellers and such other parties are in full compliance with the terms and conditions of such Intellectual Property Licenses.
- (d) Except as set forth in Section 4.11(d) of the Disclosure Schedules, to the Knowledge of Seller Parent, the Intellectual Property Assets and Intellectual Property Licenses as currently or formerly owned, licensed or used by Sellers or proposed to be used by Buyers, and the current manufacture, marketing, distribution or sale of any of the Products by Sellers have not, do not and will not infringe, violate or misappropriate the Intellectual Property of any Person, including, but not limited to, U.S. Patent No. 5,596,595. No Seller has received any communication, and no Action has been instituted, settled or, to Seller Parent's Knowledge, threatened that alleges any such infringement, violation or misappropriation. No Seller is a party to any outstanding decree, order or judgment of any Governmental Authority that restricts in any material manner the use, transfer or licensing of the Intellectual Property Assets, the Products or the conduct of the Business currently and formerly conducted by Sellers or proposed to be conducted by Buyers.



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(e) Section 4.11(e) of the Disclosure Schedules lists all licenses, sublicenses and other agreements pursuant to which Seller grants rights or authority to any Person with respect to any Intellectual Property Assets or Intellectual Property Licenses. Seller Parent has provided Buyer Parent with true and complete copies of all such agreements. All such agreements are valid, binding and enforceable between a Seller and, to Seller Parent's Knowledge, the other parties thereto, and such Seller and such other parties are in material compliance with the terms and conditions of such agreements. To Seller Parent's Knowledge, no Person has infringed, violated or misappropriated, or is infringing, violating or misappropriating, any Intellectual Property Assets.

(f) To Seller Parent's Knowledge, no software included in the Intellectual Property Assets is subject to any "open source license" as that term is defined by the Open Source Initiative.

(g) To Seller Parent's Knowledge, none of the Intellectual Property Assets was developed by or on behalf of, or using grants or any other subsidies from, any Governmental Authority or any university, and no government funding, facilities, faculty or students of a university, college, other educational institution or research center was used in the development of any Intellectual Property Assets.

Section 4.12 Inventory. All Inventory reflected in the Balance Sheet and in Sellers' books are determined and valued in accordance with GAAP at the lower of cost or market using the "first in first out" method of accounting, and no reserve or other adjustment with respect to the Inventory or supplies is required or desirable other than adjustments reflected in the Financial Statements. Each type of Inventory (whether raw materials, work-in-process, finished goods or other inventory) consist of items that are good and merchantable, are of a quality and quantity presently usable or saleable in the ordinary course of business, are of a quantity sufficient for the conduct of the Business in the ordinary course of business and are not excessive (but are reasonable, adequate and appropriate) in the present circumstances of Sellers. To Seller Parent's Knowledge, no previously sold Inventory is subject to returns materially in excess of that historically experienced by Sellers. All of the Sellers' Inventory included in the Financial Statements valued for purposes of thereof at the lower of cost or market. Outside of the ordinary course of business, since September 30, 2011, no Seller has experienced any significant difficulties in obtaining Inventory necessary to the operation of the Business. All Inventory is owned by Sellers free and clear of all Encumbrances other than the Permitted Encumbrances, and no Inventory is held on a consignment basis.

Section 4.13 Customers and Suppliers.

(a) Section 4.13(a) of the Disclosure Schedules sets forth with respect to the Business (i) each customer who has paid aggregate consideration to Sellers for goods or services rendered in an amount greater than or equal to \$300,000 for each of the two most recent fiscal years (collectively, the "Material Customers"); and (ii) the amount of consideration paid by each Material Customer during such periods. No Seller has received any notice, and has reason to believe, that any of the Material Customers has ceased, or intends to cease after the Closing, to use the goods or services of the Business or to otherwise terminate or materially reduce its relationship with the Business except as disclosed in Section 4.13(a) of the Disclosure Schedule.

(b) Section 4.13(b) of the Disclosure Schedules sets forth with respect to the Business (i) each supplier to whom Sellers have paid consideration for goods or services rendered in an amount greater than or equal to \$150,000 for each of the two most recent fiscal years (collectively, the "Material Suppliers"); and (ii) the amount of purchases from each Material Supplier during such periods. No Seller has received any notice, and, except as set forth in Section 4.13(b) of the Disclosure Schedules, has reason to believe, that any of the Material Suppliers has ceased, or intends to cease, to supply goods or services to the Business or to otherwise terminate or materially reduce its relationship with the Business.

Section 4.14 Insurance. There are no claims related to the Purchased Assets or the Assumed Liabilities pending under any current policies or binders of fire, liability, product liability, umbrella liability, real and personal property, workers' compensation, vehicular, fiduciary liability and other casualty and property insurance maintained by Seller or its Affiliates and relating to the Business, the Purchased Assets or the Assumed Liabilities (collectively, the "Insurance Policies") as to which coverage has been questioned, denied or disputed or in respect of which there is an outstanding reservation of rights.



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Section 4.15 Legal Proceedings; Governmental Orders.

(a) Except as set forth in Section 4.15(a) of the Disclosure Schedules, there are no Actions pending or, to Seller Parent's Knowledge, threatened against or by any Seller (a) relating to or affecting the Business, the Purchased Assets or the Assumed Liabilities; or (b) that challenge or seek to prevent, enjoin or otherwise delay the transactions contemplated by this Agreement. To Seller Parent's Actual Knowledge, except as set forth in Section 4.13(a) of the Disclosure Schedules, no event has occurred or circumstances exist that would reasonably be expected to give rise to, or serve as a basis for, any such Action.

(b) Except as set forth in Section 4.15(b) of the Disclosure Schedules, there are no outstanding Governmental Orders and no unsatisfied judgments, penalties or awards against, relating to or affecting the Business. Each Seller is in compliance with the terms of each Governmental Order set forth in Section 4.15(b) of the Disclosure Schedules. To Seller Parent's Knowledge, no event has occurred or circumstances exist that would reasonably be expected to constitute or result in (with or without notice or lapse of time) a violation of any such Governmental Order.

Section 4.16 Compliance With Laws; Permits.

(a) Except as set forth in Section 4.16(a) of the Disclosure Schedules, each Seller has complied, and is in compliance with all Laws (including the U.S. Arms Export Control Act of 1976, U.S. International Traffic in Arms Regulations, U.S. Export Administration Act of 1979 and U.S. Export Administration Regulations, in each case, as amended to date) applicable to the conduct of the Business as currently conducted or the ownership and use of the Purchased Assets, except where the failure to so comply would not have a Material Adverse Effect.

(b) All material Permits required for each Seller to conduct the Business as currently conducted or for the ownership and use of the Purchased Assets have been obtained by such Seller and are valid and in full force and effect. All fees and charges with respect to such Permits due and owing as of the date hereof have been paid in full. Section 4.16(b) of the Disclosure Schedules lists all current Permits issued to each Seller which are related to the conduct of the Business as currently conducted or the ownership and use of the Purchased Assets, including the names of the Permits and their respective dates of issuance and expiration. To Seller Parent's Knowledge, no event has occurred that, with or without notice or lapse of time or both, would reasonably be expected to result in the revocation, suspension, lapse or limitation of any Permit set forth in Section 4.16(b) of the Disclosure Schedules.

Section 4.17 Environmental Matters.

(a) The operations of Sellers with respect to the Business and the Purchased Assets are currently and have been in material compliance with all Environmental Laws. No Seller has received from any Person, with respect to the Business or the Purchased Assets, any: (i) Environmental Notice or Environmental Claim; or (ii) written request for information pursuant to Environmental Law, which, in either case, either was received by a Seller within five (5) years prior to the Closing Date, or remains pending or unresolved, or is the source of ongoing obligations or requirements as of the Closing Date.

(b) Each Seller has obtained and is in material compliance with all Environmental Permits (each of which is disclosed in Section 4.17(b) of the Disclosure Schedules) (i) necessary for the conduct of the Business as currently conducted; and (ii) all Environmental Permits necessary for the ownership, lease, operation or use of the Purchased Assets, and all such Environmental Permits are in full force and effect and shall be maintained in full force and effect by such Seller through the Closing Date in accordance with Environmental Law. Seller Parent is not aware of any condition, event or circumstance that might prevent or impede, after the Closing Date, the conduct of the Business as currently conducted or the ownership, lease, operation or use of the Purchased Assets.

(c) To Seller Parent's Knowledge, none of the Business or the Purchased Assets or any real property currently or formerly owned, leased or operated by Sellers in connection with the Business is listed on, or has been proposed for listing on, the National Priorities List (or CERCLIS) under CERCLA, or any similar state list.

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(d) To Seller Parent's Knowledge, there has been no Release of Hazardous Materials in contravention of Environmental Law with respect to the Business or the Purchased Assets or any real property currently or formerly owned, leased or operated by Sellers in connection with the Business, and no Seller has received an Environmental Notice that any of the Business or the Purchased Assets or real property currently or formerly owned, leased or operated by Sellers in connection with the Business (including soils, groundwater, surface water, buildings and other structure located thereon) has been contaminated with any Hazardous Material which could reasonably be expected to result in an Environmental Claim against, or a violation of Environmental Law or term of any Environmental Permit by, such Seller.

(e) Except as listed in Section 4.17(e) of the Disclosure Schedules, no Seller owns or operates, and has owned or operated, in connection with the Business or the Purchased Assets or any real property currently or formerly owned, leased or operated by such Seller in connection with the Business, any (i) active, abandoned or removed aboveground or underground storage tanks; (ii) groundwater monitoring wells, drinking water wells, or production water wells; or (iii) landfills, surface impoundments, or disposal areas, and, to such Seller Parent's Knowledge, asbestos containing materials are not present in the improvements or structures on the Real Property.

(f) Section 4.17(f) of the Disclosure Schedules contains a complete and accurate list of all off-site Hazardous Materials treatment, storage, or disposal facilities or locations used by each Seller in connection with the Business or the Purchased Assets as to which such Seller would reasonably be expected to retain liability, and, to Seller Parent's Knowledge, none of these facilities or locations has been placed or proposed for placement on the National Priorities List (or CERCLIS) under CERCLA, or any similar state list, and no Seller has received any Environmental Notice regarding potential liabilities with respect to such off-site Hazardous Materials treatment, storage, or disposal facilities or locations used by such Seller.

(g) No Seller has retained or assumed, by contract or, to Seller Parent's Knowledge, operation of Law, any liabilities or obligations of third parties under Environmental Law.

(h) Seller Parent has provided or otherwise made available to Buyer Parent and listed in Section 4.17(h) of the Disclosure Schedules: (i) any and all environmental reports, studies, audits, records, sampling data, site assessments, risk assessments, economic models and other similar documents with respect to the Business or the Purchased Assets or any real property currently or formerly owned, leased or operated by each Seller in connection with the Business which are in the possession or control of such Seller related to compliance with Environmental Laws, Environmental Claims or an Environmental Notice or the Release of Hazardous Materials; and (ii) any and all material documents concerning planned or anticipated capital expenditures required to reduce, offset, limit or otherwise control pollution and/or emissions, manage waste or otherwise ensure compliance with current or future Environmental Laws (including, without limitation, costs of remediation, pollution control equipment and operational changes) with respect to the Real Property.

(i) Seller Parent is not aware of or reasonably anticipates, as of the Closing Date, any condition, event or circumstance concerning the Release or regulation of Hazardous Materials that might, after the Closing Date, prevent, impede or materially increase the costs associated with the ownership, lease, operation, performance or use of the Business or the Purchased Assets or any real property currently or formerly owned, leased or operated by Seller in connection with the Business as currently carried out.

Section 4.18 Employee Benefit Matters.

(a) Neither the execution of this Agreement nor any of the transactions contemplated by this Agreement will (either alone or upon the occurrence of any additional or subsequent events): (i) entitle any current or former director, officer, employee, independent contractor or consultant of the Business to severance pay or any other payment; (ii) accelerate the time of payment, funding, or increase the amount of compensation due to any such individual; or (iii) result in "excess parachute payments" within the meaning of Section 280G(b) of the Code.

(b) Neither Seller Parent, nor any ERISA Affiliate, has any Liabilities under any Benefit Plan currently or formerly maintained by or contributed to by Seller Parent or any ERISA Affiliate that will become Liabilities of any Buyer or result in any Lien on the Purchased Assets; and no event has occurred, and there exists no condition or set of circumstances in connection with any such Benefit Plan, under which any Buyer could become subject to Liabilities relating to any such Benefit Plan under ERISA or the Code. Seller Parent and its ERISA Affiliates have complied with

the requirements of COBRA.

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(c) Neither Seller Parent, nor any ERISA Affiliate, contributes to or has ever contributed to, has any obligation to contribute to, or has any Liability under or with respect to, (A) any Employee Pension Benefit Plan that is a “defined benefit plan” (as defined in ERISA §3(35)) or (B) any multiemployer plan (as defined in ERISA §3(37)) that has resulted or will result in any asset (including any of the Purchased Assets) of Seller Parent becoming subject to any Lien under ERISA or the Code.

Section 4.19 Employment Matters.

(a) Seller Parent has made available to Buyer Parent a list of all persons who are employees, independent contractors, consultants of the Business, or other individuals providing services to the Business as of the date hereof, and sets forth for each such individual the following: (i) name; (ii) title or position (including whether full or part-time); (iii) hire date; (iv) current annual base compensation rate; (v) commission, bonus or other incentive-based compensation; and (vi) a description of the fringe benefits provided to each such individual as of the date hereof. As of the date hereof, all compensation, including wages, commissions, and bonuses payable to employees, independent contractors, consultants of the Business, or other individuals providing services to the Business for services performed on or prior to the date hereof have been paid in full and there are no outstanding agreements, understandings or commitments of Sellers with respect to any compensation, commissions or bonuses.

(b) Seller Parent and all ERISA Affiliates are not, and have not been for the past five (5) years, a party to, bound by, or negotiating any collective bargaining agreement or other Contract with a union, works council or labor organization (collectively, “Union”), and there is not, and has not been for the past five (5) years, any Union representing or purporting to represent any employee of any Seller, and to Seller Parent’s Knowledge, no Union or group of employees is seeking or has sought to organize employees for the purpose of collective bargaining. There has never been, nor has, to Seller Parent’s Knowledge there been any threat of, any strike, slowdown, work stoppage, lockout, concerted refusal to work overtime or other similar labor disruption or dispute affecting Seller Parent, any ERISA Affiliate, or any employees of the Business. Neither Seller Parent nor any ERISA Affiliate has any duty to bargain with any Union.

(c) Each Seller is and has been in compliance with all applicable Laws pertaining to employment and employment practices to the extent they relate to employees of the Business, including all Laws relating to labor relations, equal employment opportunities, fair employment practices, employment discrimination, harassment, retaliation, reasonable accommodation, disability rights or benefits, immigration, wages, hours, overtime compensation, child labor, hiring, promotion and termination of employees, working conditions, meal and break periods, privacy, health and safety, workers’ compensation, leaves of absence and unemployment insurance, except where the failure to be in compliance would not reasonably be expected to have a Material Adverse Effect. All individuals characterized and treated by each Seller and its ERISA Affiliates as consultants or independent contractors of the Business are properly treated as independent contractors under all applicable Laws. All employees of the Business classified as exempt under the U.S. Fair Labor Standards Act and state and local wage and hour laws are properly classified. There are no Actions against any Seller or its ERISA Affiliate pending, or to the Seller Parent’s or any ERISA Affiliate’s Actual Knowledge, threatened to be brought or filed, by or with any Governmental Authority or arbitrator in connection with the employment of any current or former applicant, employee, consultant, volunteer, intern or independent contractor of the Business, including, without limitation, any claim relating to unfair labor practices, employment discrimination, harassment, retaliation, equal pay, wages and hours or any other employment related matter arising under applicable Laws.

(d) With respect to the Business: (A) to the Knowledge of Seller Parent and Seller Parent’s directors and officers, no executive or manager of a Seller (1) has any present intention to terminate his or her employment, or (2) is a party to any confidentiality, non-competition, proprietary rights or other such agreement between such employee and any Person besides such entity that would be material to the performance of such employee’s employment duties, or the ability of such entity or such Seller to conduct the business of such entity; (B) no labor organization or group of employees has filed any representation petition or made any written or oral demand for recognition; (C) there is no workman’s compensation liability, experience or matter outside the ordinary course of business; (D) there is no employment-related charge, complaint, grievance, investigation, inquiry or obligation of any kind, pending or threatened, in any forum, relating to an alleged violation or breach by Sellers (or their respective directors or officers) of any Law, regulation or contract; and (H) no employee or agent of Sellers has committed any act or omission giving

rise to any Liability for any violation or breach identified in subsection (D) above.

(e) Except as set forth in Section 4.19(e) of the Disclosure Schedules, (A) there are no employment contracts or severance agreements with any employees of Sellers, and (B) there are no written personnel policies, rules, or procedures applicable to employees of Sellers. True and complete copies of all such documents have been provided to Buyer Parent.

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(f) With respect to the transaction contemplated hereby, any notice required under any Law or collective bargaining agreement has been given, and all bargaining obligations with any employee representative have been satisfied. Seller Parent has not implemented any plant closing or layoff of employees that could reasonably be expected to implicate the WARN Act, and no such action will be implemented without advance notification to Buyer Parent.

Section 4.20 Taxes. Except as set forth in Section 4.20 of the Disclosure Schedules:

(a) All Tax Returns required by applicable Law to be filed by or with respect to each Seller have been timely filed on or before the applicable due date thereof (taking into account valid extensions of time in which to file). All such Tax Returns are true, complete and correct in all respects and were prepared in compliance with applicable Law. All Taxes required by applicable Law to be paid by Seller (whether or not shown on any Tax Return) have been timely paid on or before the applicable due date thereof. No Seller is presently the beneficiary of any extension of time in which to file any Tax Return. No claim has ever been made by any taxing authority in a jurisdiction where a Seller does not file Tax Returns that such Seller is or may be subject to taxation in that jurisdiction.

(b) Each Seller has withheld and paid all Taxes required by applicable Law to have been withheld and paid in connection with any amounts paid or owing to any Employee, independent contractor, creditor, customer, shareholder or other party, and have complied with all information reporting and backup withholding provisions of applicable Law.

(c) No extensions or waivers of statutes of limitations have been given or requested with respect to any Taxes of any Seller or any Tax assessment or deficiency.

(d) All deficiencies asserted, or assessments made, against any Seller as a result of any examinations or Action by any taxing authority have been fully paid or finally settled.

(e) Seller is not a party to any Action by any taxing authority. There are no pending Actions or, to the Knowledge of Seller Parent, threatened Actions by any taxing authority involving Seller.

(f) There are no Encumbrances in respect of Taxes upon any of the Purchased Assets (other than statutory liens for current Taxes not yet due and payable).

(g) Neither Seller Parent nor any of its U.S. Subsidiaries is a “foreign person” as that term is used in Treasury Regulations Section 1.1445-2.

(h) No Seller is, or has been, a party to, or a promoter of, a “reportable transaction” within the meaning of Section 6707A(c)(1) of the Code and Treasury Regulations Section 1.6011-4(b).

(i) None of the Assumed Liabilities involves an obligation to pay any amount or confer any benefit that would not be deductible under Section 280G of the Code.

Section 4.21 Product Warranties. A copy of Sellers’ product warranties currently in effect with respect to the Products as set forth in the forms used for the Products is set forth on Section 4.21 of the Disclosure Schedules. To the Knowledge of Seller, there are no material outstanding claims with respect to product warranties relating to the Products.

Section 4.22 Solvency.

(a) Seller Parent is neither Insolvent as of the date hereof nor will it be rendered Insolvent as a result of the transactions contemplated by this Agreement and the other Transaction Documents.

(b) Seller Parent is not engaged in a business or a transaction, or is about to engage in a business or a transaction, for which any property remaining with Seller Parent after the consummation of the transactions contemplated by this Agreement and the other Transaction Documents is an unreasonably small capital.



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(c) Seller Parent does not intend to incur, nor does it believe that it will incur, debts that will be beyond its ability to pay as they mature.

(d) The transactions and obligations contemplated by this Agreement and the other Transaction Documents are not being made or incurred to or for the benefit of an insider under an employment contract outside of the ordinary course of business.

Section 4.23 Trade Practices. None of Sellers and their respective Representatives have during operation of Business (a) used any funds for unlawful contributions, unlawful gifts, unlawful entertainment or other unlawful expenses relating to political activity, (b) made any unlawful payment to foreign or domestic government officials or employees or to foreign or domestic political parties or campaigns or violated any provisions of the FCPA or any similar Law, (c) taken any action that would constitute a violation of the FCPA or any similar Law or (d) violated any applicable antitrust and trade regulation Laws.

Section 4.24 Brokers. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement or any other Transaction Document based upon arrangements made by or on behalf of Sellers.

Section 4.25 Disclaimer. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED IN THIS AGREEMENT, NONE OF THE SELLER OR AFFILIATE OF SELLER PARENT, OR ANY OF THEIR RESPECTIVE REPRESENTATIVES MAKES ANY EXPRESS OR IMPLIED REPRESENTATION OR WARRANTY, AND ANY SUCH REPRESENTATION OR WARRANTY WITH RESPECT TO THE SELLER, THE PURCHASED ASSETS, THE BUSINESS, THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED HERBY ARE HEREBY DISCLAIMED.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF BUYER PARENT

Buyer Parent, on its behalf and, to the extent applicable, on behalf of each other Buyer, represents and warrants to Seller Parent that the statements contained in this ARTICLE V are true and correct as of the date hereof.

Section 5.01 Organization of Buyer. Buyer Parent is a corporation duly organized, validly existing and in good standing under the Laws of Japan.

Section 5.02 Authority of Buyer.

(a) Buyer Parent has full corporate power and authority to enter into this Agreement and the other Transaction Documents to which Buyer Parent is a party, to carry out its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby. The execution and delivery by Buyer Parent of this Agreement and any other Transaction Document to which Buyer Parent is a party, the performance by Buyer Parent of its obligations hereunder and thereunder and the consummation by Buyer Parent of the transactions contemplated hereby and thereby have been duly authorized by all requisite corporate action on the part of Buyer Parent. This Agreement has been duly executed and delivered by Buyer Parent, and (assuming due authorization, execution and delivery by Seller Parent) this Agreement constitutes a legal, valid and binding obligation of Buyer Parent enforceable against Buyer Parent in accordance with its terms. When each other Transaction Document to which Buyer Parent is or will be a party has been duly executed and delivered by Buyer Parent (assuming due authorization, execution and delivery by each other party thereto), such Transaction Document will constitute a legal and binding obligation of Buyer Parent enforceable against it in accordance with its terms.

(b) Each Buyer (other than Buyer Parent) has full corporate power and authority to enter into the Transaction Documents to which such Buyer is a party, to carry out its obligations thereunder and to consummate the transactions contemplated hereby and thereby. The execution and delivery by each Buyer (other than Buyer Parent) of the Transaction Document to which such Buyer is a party, the performance by such Buyer of its obligations thereunder and the consummation by such Buyer of the transactions contemplated hereby and thereby have been duly authorized by all requisite corporate action on the part of such Buyer. When each other Transaction Document to which a Buyer (other than Buyer Parent) is or will be a party has been duly executed



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and delivered by such Buyer (assuming due authorization, execution and delivery by each other party thereto), such Transaction Document will constitute a legal and binding obligation of such Buyer enforceable against it in accordance with its terms.

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Section 5.03 No Conflicts; Consents; Filings. The execution, delivery and performance of this Agreement and the other Transaction Documents by Buyers, as applicable, and the consummation of the transactions contemplated hereby and thereby, do not and will not: (a) conflict with or result in a violation or breach of, or default under, any provision of the certificate of incorporation, by-laws or other organizational documents of Buyer Parent; (b) conflict with or result in a violation or breach of any provision of any Law or Governmental Order applicable to Buyer Parent; or (c) require the consent, notice or other action by any Person under any Contract to which Buyer Parent is a party. Except for clearance from CFIUS, no other consent, approval, Permit, Government Order, declaration or filing with, or notice to, any Governmental Authority is required by or with respect to Buyer Parent in connection with the execution and delivery of this Agreement or any of the other Transaction Documents and the consummation of the transaction contemplated hereby and thereby.

Section 5.04 Brokers. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement or any other Transaction Document based upon arrangements made by or on behalf of Buyers.

Section 5.05 Sufficiency of Funds. Buyer Parent has sufficient cash on hand or other sources of immediately available funds to enable it to make payment of the Purchase Price and consummate the transactions contemplated by this Agreement.

Section 5.06 Legal Proceedings. There are no Actions pending or, to Buyer Parent's knowledge, threatened against or by Buyer Parent or any Affiliate of Buyer that challenge or seek to prevent, enjoin or otherwise delay the transactions contemplated by this Agreement. No event has occurred or circumstances exist that may give rise or serve as a basis for any such Action.

ARTICLE VI  
COVENANTS

Section 6.01 Conduct of Business Prior to the Closing. From the date hereof until the Closing, except as otherwise provided in this Agreement or consented to in writing by Buyer Parent (which consent shall not be unreasonably withheld or delayed), Seller Parent shall (x) conduct the Business in the ordinary course of business consistent with past practice; and (y) use reasonable best efforts to maintain and preserve intact its current Business organization, operations and franchise and to preserve the rights, franchises, goodwill and relationships of its employees, customers, lenders, suppliers, regulators and others having relationships with the Business. Without limiting the foregoing, from the date hereof until the Closing Date, Seller Parent shall:

- (a) preserve and maintain all Permits required for the conduct of the Business as currently conducted or the ownership and use of the Purchased Assets;
- (b) pay the debts, Taxes and other obligations of the Business when due;
- (c) maintain the properties and assets included in the Purchased Assets in the same condition as they were on the date of this Agreement, subject to reasonable wear and tear;
- (d) continue in full force and effect without modification all Insurance Policies, except as required by applicable Law;
- (e) defend and protect the properties and assets included in the Purchased Assets from infringement or usurpation;
- (f) perform all of its obligations under all Assigned Contracts;
- (g) maintain the Books and Records in accordance with past practice;
- (h) comply in all material respects with all Laws applicable to the conduct of the Business or the ownership and use of the Purchased Assets; and

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(i) not take or permit any action that would cause any of the changes, events or conditions described in Section 4.06 to occur.

Section 6.02 Access to Information. From the date hereof until the Closing, Seller Parent shall (a) afford Buyer Parent and its Representatives reasonable access to and the right to inspect all of the Real Property, properties, assets, premises, Books and Records, Contracts and other documents and data related to the Business; (b) furnish Buyer Parent and its Representatives with such financial, operating and other data and information related to the Business as Buyer Parent or any of its Representatives may reasonably request; and (c) instruct the Representatives of Seller Parent to cooperate with Buyer Parent in its investigation of the Business. Without limiting the foregoing, Seller Parent shall permit Buyer Parent and its Representatives to conduct environmental due diligence of the Real Property, including the collecting and analysis of samples of indoor or outdoor air, surface water, groundwater or surface or subsurface land on, at, in, under or from the Real Property. Any investigation pursuant to this Section 6.02 shall be conducted in such manner as not to interfere unreasonably with the conduct of the Business or any other businesses of Sellers. No investigation by Buyer Parent or other information received by Buyer Parent shall operate as a waiver or otherwise affect any representation, warranty or agreement given or made by Sellers in this Agreement.

Section 6.03 No Solicitation of Other Bids.

(a) From the date hereof until the Closing or the termination of this Agreement pursuant to Article IX below, Seller Parent shall not, and shall not authorize or permit any of its Affiliates or any of its or their Representatives to, directly or indirectly, (i) encourage, solicit, initiate, facilitate or continue inquiries regarding an Acquisition Proposal; (ii) enter into discussions or negotiations with, or provide any information to, any Person concerning a possible Acquisition Proposal; or (iii) enter into any agreements or other instruments (whether or not binding) regarding an Acquisition Proposal. Seller Parent shall immediately cease and cause to be terminated, and shall cause its Affiliates and all of its and their Representatives to immediately cease and cause to be terminated, all existing discussions or negotiations with any Persons conducted heretofore with respect to, or that could lead to, an Acquisition Proposal. For purposes hereof, "Acquisition Proposal" means any inquiry, proposal or offer from any Person (other than Buyer Parent or any of its Affiliates) relating to the direct or indirect disposition, whether by sale, merger or otherwise, of all or any portion of the Business or the Purchased Assets, except for the sale of Inventory in the ordinary course of business.

(b) In the event that the Seller Parent or any its Affiliates or Representatives shall receive any written Acquisition Proposal, or any written inquiry, indication of interest, or any request for nonpublic information that might reasonably be expected to lead to an Acquisition Proposal (an "Acquisition Request"), the Seller Parent shall notify Buyer Parent in writing thereof (including the pricing, terms, conditions and other material provisions of such proposed transaction and the identity of the proposed party or parties to such proposed transaction). The Seller Parent shall keep Buyer Parent reasonably informed with respect to the status of any such Acquisition Request.

(c) Nothing set forth in this Section 6.03 or otherwise in this Agreement shall prohibit the Seller Parent or any of its Affiliates or any of its Representatives from furnishing nonpublic information regarding the Seller Parent to, entering into a confidentiality agreement with or entering into discussions for a period not to exceed fifteen (15) Business Days from the receipt of a Superior Proposal (the "Superior Proposal Period") with any Person or group in response to a Superior Proposal (and not withdrawn), if (A) neither the Seller Parent nor any Affiliates or Representatives shall have violated any of the restrictions set forth in Section 6.03, (B) the Board of Directors of the Seller Parent concludes in good faith, after consultation with its outside legal counsel, that such action is required in order for the Board of Directors of the Seller Parent to comply with its fiduciary obligations to the Seller Parent's stockholders under applicable Law, (C) prior to furnishing any such nonpublic information to, or entering into discussions with, such Person or group, the Seller Parent gives Buyer Parent forty-eight (48) hours prior written notice of the Seller Parent's intention to furnish nonpublic information to, or enter into discussions with, a Person or group, identifying the person making the proposal and all the material terms or conditions of such proposal (the "Seller Parent's Notice") and the Seller Parent receives from such Person or group an executed confidentiality agreement containing customary limitations on the use and disclosure of all nonpublic written and oral information furnished to such Person or group by or on behalf of the Seller Parent, and (D) contemporaneously with furnishing any such nonpublic information to such Person or group, the Seller Parent furnishes such nonpublic information to Buyer Parent (to the extent such nonpublic information has not been previously furnished by Seller Parent to Buyer Parent); provided, further, however, that

Seller Parent shall not consummate any transaction(s) contemplated by any Superior Proposal unless and until Seller Parent has first terminated this Agreement pursuant to Section 9.01(d).

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(d) Seller Parent agrees that the rights and remedies for noncompliance with this Section 6.03 shall include having such provision specifically enforced by any court having equity jurisdiction, it being acknowledged and agreed that any such breach or threatened breach shall cause irreparable injury to Buyer Parent and that money damages would not provide an adequate remedy to Buyer Parent.

Section 6.04 Notice of Certain Events.

(a) From the date hereof until the Closing, Seller Parent shall promptly notify in writing Buyer Parent of:

(i) any fact, circumstance, event or action the existence, occurrence or taking of which (A) has had, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, (B) has resulted in, or could reasonably be expected to result in, any representation or warranty made by Seller hereunder not being materially true and correct or (C) has resulted in, or could reasonably be expected to result in, the failure of any of the conditions set forth in Section 7.02 to be satisfied;

(ii) any notice or other communication from any Person alleging that the consent of such Person is or may be required in connection with the transactions contemplated by this Agreement;

(iii) any notice or other communication from any Governmental Authority in connection with the transactions contemplated by this Agreement; and

(iv) any Actions commenced or, to Seller Parent's Actual Knowledge, threatened against, relating to or involving or otherwise affecting the Business, the Purchased Assets or the Assumed Liabilities that, if pending on the date of this Agreement, would have been required to have been disclosed pursuant to Section 4.15 or that relates to the consummation of the transactions contemplated by this Agreement. Buyer's receipt of

(b) To the extent information pursuant to this Section 6.04 relates to facts, circumstances, events or actions arising after the date hereof which would result in any representation or warranty made by Seller hereunder not being true and correct, Seller Parent shall promptly (and in no event later than the Closing) deliver to Buyer Parent a supplement to the Disclosure Schedules reflecting such information. Buyer Parent's receipt of information pursuant to this Section 6.04 shall not operate as a waiver or otherwise affect any representation, warranty or agreement given or made by Sellers in this Agreement (including Section 7.02(a), Section 8.02 and Section 9.01(b)) and shall not be deemed to amend or supplement the Disclosure Schedules.

Section 6.05 Employees and Employee Benefits.

(a) Commencing on the Closing Date, Sellers shall terminate all employees of the Business who are actively at work on the Closing Date, and, a Buyer shall offer employment, on an "at will" basis, to any or all of such employees.

(b) Sellers shall be solely responsible, and Buyers shall have no obligations whatsoever for, any compensation or other amounts payable to any current or former employee, officer, director, independent contractor, consultant of the Business or other individual who has provided services to the Business, including, without limitation, hourly pay, commission, bonus, salary, fringe, pension or profit sharing benefits or severance pay for any period relating to the service with a Seller at any time on or prior to the Closing Date and such Seller shall pay all such amounts to all entitled persons on or prior to the Closing Date. For the avoidance of doubt, Buyer Parent and Seller Parent agree that to the extent permitted by Law employees hired by a Buyer will commence employment with the days of accrued vacation previously accrued for the years of employment with an applicable Seller.

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(c) Sellers shall remain solely responsible for the satisfaction of all claims for medical, dental, life insurance, health accident or disability benefits brought by or in respect of current or former employees, officers, directors, independent contractors or consultants of the Business or the spouses, dependents or beneficiaries thereof, which claims relate to events occurring on or prior to the Closing Date. Any employee or former employee of a Seller who receives and accepts an offer of employment by a Buyer shall be treated as a terminated employee under such Seller's Benefit Plans as of the Closing Date and shall be entitled to receive benefits thereunder determined in accordance with the provisions of such Benefit Plans in effect as of the Closing Date. If any employee or former employee of a Seller, or the dependent of either, becomes an "M&A qualified beneficiary" (as defined in Treasury Regulation §54.4980B-9) with respect to the transaction contemplated hereby, such Seller's applicable Benefit Plans shall have sole responsibility to provide COBRA continuation coverage to such M&A qualified beneficiary. Nothing in this Agreement, express or implied, is intended to or shall confer upon or be construed to confer upon any Person not a party to this Agreement, including any employee or former employee of a Seller or any legal representative thereof, any rights or remedies (including any right to employment for any specified period or rights to any specific benefits or compensation) of any nature or kind whatsoever under or by reason of this Agreement; nor shall a Buyer or its Affiliates be prevented from promoting, demoting, terminating, or taking any other action with respect to any employee or former employee of a Seller who receives and accepts an offer of employment by such Buyer.

(d) Sellers also shall remain solely responsible for all worker's compensation claims of any current or former employees, officers, directors, independent contractors or consultants of the Business which relate to events occurring on or prior to the Closing Date. Sellers shall pay, or cause to be paid, all such amounts to the appropriate persons as and when due.

(e) Each Transferred Employee shall receive the salary and benefits maintained for employees of such Buyer on substantially similar terms and conditions in the aggregate as are provided to similarly situated employees of such Buyer.

(f) Each Transferred Employee shall be given service credit for the purpose of eligibility under the group health plan of such Buyer and eligibility and vesting only under the defined contribution plan of such Buyer for his or her period of service with the applicable Seller prior to the Closing Date; provided, however, that (i) such credit shall be given based upon such Seller's payroll or plan records which shall be provided to Buyer Parent by Seller Parent, as determined by such Buyer, in its reasonable discretion; and (ii) with respect to a Buyer's defined contribution plan, such service crediting shall be consistent with the terms of such defined contribution retirement plan.

(g) The Parties acknowledge and agree that this Agreement does not and shall not obligate any Buyer to assume or have any responsibility for any Liabilities under any Benefit Plan of either Seller Parent or any ERISA Affiliate or under any employment agreements, express or implied, relating to any employees or former employees of Sellers, and no Buyer shall be obligated to assume or have any responsibility for any employee-related Liabilities with respect to any person employed, or previously employed, by Sellers or with respect to any dependent, beneficiary, or joint annuitant of any such employee or former employee, without regard to when such Liabilities arose. Each Seller shall be responsible for paying and providing its employees and former employees with all wages, salary, payroll Taxes, Benefit Plan, retirement and pension plan Liabilities, health, dental, disability and life insurance premiums, workers compensation coverage premiums, unemployment and all other fringe benefits and employee expenses of any kind that are incurred or payable prior to the Closing Date.

(h) Seller Parent shall be solely responsible for any and all notices or other Liabilities imposed by, required pursuant to or arising under the WARN Act (whether such notices or Liabilities are imposed by the WARN Act upon Seller Parent or its Affiliates or a Buyer or its Affiliates) in connection with the transactions contemplated by this Agreement or otherwise.

Section 6.06 Confidentiality. All confidential information furnished to a Buyer, its Representatives, a Seller or its Representatives by a Buyer, its Representative, a Seller or its Representative in connection with the transactions contemplated hereby shall be subject to, and the recipient of such information shall hold all such information in confidence in accordance with, the provisions of the Confidentiality Agreement.





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Section 6.07 Non-competition; Non-solicitation.

(a) For a period of three (3) years commencing on the Closing Date (the “Restricted Period”), Seller Parent shall not, and shall not permit any of its Affiliates to, directly or indirectly, (i) engage in the Business anywhere in the world (the “Territory”); (ii) have an interest in any Person that engages directly or indirectly in the Business in the Territory in any capacity, including as a partner, shareholder, member, employee, principal, agent, trustee or consultant; or (iii) cause, induce or encourage any material actual or prospective client, customer, supplier or licensor of the Business (including any existing or former client or customer of a Seller and any Person that becomes a client or customer of the Business after the Closing), or any other Person who has a material business relationship with the Business, to terminate or modify any such actual or prospective relationship. Notwithstanding the foregoing, Seller Parent may own, directly or indirectly, solely as an investment, securities of any Person traded on any national securities exchange if Seller Parent is not a controlling Person of, or a member of a group which controls, such Person and does not, directly or indirectly, own 5% or more of any class of securities of such Person; provided, however, that this Section 6.07 shall not apply in connection with, and following, Seller Parent’s Change of Control.

(b) During the Restricted Period, Seller Parent shall not, and shall not permit any of its Affiliates to, directly or indirectly, hire or solicit any person who is offered employment by a Buyer pursuant to Section 6.05(a) or is or was employed in the Business during the Restricted Period, or encourage any such employee to leave such employment or hire any such employee who has left such employment, except pursuant to a general solicitation which is not directed specifically to any such employees; provided, that nothing in this Section 6.07(b) shall prevent Seller Parent or any of its Affiliates from hiring (i) any employee whose employment has been terminated by Buyer Parent or (ii) after 60 days from the date of termination of employment, any employee whose employment has been terminated by the employee, or (iii) any employee with the prior consent of such Buyer; provided, further, that this Section 6.07(b) shall not apply to (i) any solicitation or hiring of an individual who was employed by a Buyer in California but is no longer employed by such Buyer at that time or (ii) a Buyer’s employees in California who contacted Seller Parent or any of its Affiliates independently and without any direct solicitation by Seller Parent or any of its Affiliates.

(c) Seller Parent acknowledges that a breach of this Section 6.07(a) would give rise to irreparable harm to Buyer Parent, for which monetary damages would not be an adequate remedy, and hereby agrees that in the event of a breach or a threatened breach by Seller Parent of any such obligations, Buyer Parent shall, in addition to any and all other rights and remedies that may be available to it in respect of such breach, may be entitled to equitable relief, including a temporary restraining order, an injunction, specific performance and any other relief that may be available from a court of competent jurisdiction (without any requirement to post bond).

(d) Seller Parent acknowledges that the restrictions contained in this Section 6.07 are reasonable and necessary to protect the legitimate interests of Buyer Parent and constitute a material inducement to Buyer Parent to enter into this Agreement and consummate the transactions contemplated by this Agreement. In the event that any covenant contained in this Section 6.07 should ever be adjudicated to exceed the time, geographic, product or service or other limitations permitted by applicable Law in any jurisdiction, then any court is expressly empowered to reform such covenant, and such covenant shall be deemed reformed, in such jurisdiction to the maximum time, geographic, product or service or other limitations permitted by applicable Law. The covenants contained in this Section 6.07 and each provision hereof are severable and distinct covenants and provisions. The invalidity or unenforceability of any such covenant or provision as written shall not invalidate or render unenforceable the remaining covenants or provisions hereof, and any such invalidity or unenforceability in any jurisdiction shall not invalidate or render unenforceable such covenant or provision in any other jurisdiction.

Section 6.08 Governmental Approvals and Consents.

(a) Each party hereto shall, as promptly as possible, (i) make, or cause or be made, all filings and submissions including a joint voluntary notice with CFIUS pursuant to FINSA required under any Law applicable to such party or any of its Affiliates; and (ii) use reasonable best efforts to obtain, or cause to be obtained, all consents, authorizations, orders and approvals from all Governmental Authorities that may be or become necessary for its execution and delivery of this Agreement and the performance of its obligations pursuant to this Agreement and the other Transaction Documents. Each party shall cooperate fully with the other party and its Affiliates in promptly seeking to obtain all such consents, authorizations, orders and approvals. The parties hereto shall not willfully take any action

that will have the effect of delaying, impairing or impeding the receipt of any required consents, authorizations, orders and approvals.

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(b) Seller Parent shall use reasonable efforts to give all notices to, and obtain all consents from, all third parties that are described in Section 4.03 of the Disclosure Schedules.

(c) Without limiting the generality of the parties' undertakings pursuant to subsections (a) and (b) above, each of the parties hereto shall use all reasonable efforts to:

(i) respond to any inquiries by any Governmental Authority regarding antitrust or other matters with respect to the transactions contemplated by this Agreement or any other Transaction Document;

(ii) avoid the imposition of any order or the taking of any action that would restrain, alter or enjoin the transactions contemplated by this Agreement or any other Transaction Document; and

(iii) in the event any Governmental Order adversely affecting the ability of the parties to consummate the transactions contemplated by this Agreement or any other Transaction Document has been issued, to have such Governmental Order vacated or lifted.

(d) All analyses, appearances, meetings, discussions, presentations, memoranda, briefs, filings, arguments, and proposals made by or on behalf of either party before any Governmental Authority or the staff or regulators of any Governmental Authority, in connection with the transactions contemplated hereunder (but, for the avoidance of doubt, not including any interactions between Seller Parent or Buyer Parent with Governmental Authorities in the ordinary course of business, any disclosure which is not permitted by Law or any disclosure containing confidential or personal identifier information) shall be disclosed to the other party hereunder in advance of any filing, submission or attendance, it being the intent that the parties will consult and cooperate with one another, and consider in good faith the views of one another, in connection with any such analyses, appearances, meetings, discussions, presentations, memoranda, briefs, filings, arguments, and proposals. Each party shall give notice to the other party with respect to any meeting, discussion, appearance or contact with any Governmental Authority or the staff or regulators of any Governmental Authority, with such notice being sufficient to provide the other party with the opportunity to attend and participate in such meeting, discussion, appearance or contact.

(e) Notwithstanding the foregoing, nothing in this Section 6.08 shall require, or be construed to require, Buyer Parent or any of its Affiliates to agree to (i) sell, hold, divest, discontinue or limit, before or after the Closing Date, any assets, businesses or interests of Buyer Parent or any of its Affiliates; (ii) any conditions relating to, or changes or restrictions in, the operations of any such assets, businesses or interests which, in either case, could reasonably be expected to result in a Material Adverse Effect or materially and adversely impact the economic or business benefits to Buyer Parent of the transactions contemplated by this Agreement and the other Transaction Documents; or (iii) any material modification or waiver of the terms and conditions of this Agreement.

Section 6.09 Books and Records.

(a) In order to facilitate the resolution of any claims made against or incurred by a Seller prior to the Closing, or for any other reasonable purpose, for a period of three (3) years after the Closing, each Buyer shall:

(i) retain the Books and Records (including personnel files) relating to periods prior to the Closing in a manner reasonably consistent with the prior practices of the applicable Seller; and

(ii) upon reasonable notice, afford a Seller's Representatives reasonable access (including the right to make, at such Seller's expense, photocopies), during normal business hours, to such Books and Records.

(b) In order to facilitate the resolution of any claims made by or against or incurred by a Buyer after the Closing, or for any other reasonable purpose, for a period of three (3) years following the Closing, each Seller shall:

(i) retain the books and records (including personnel files) of such Seller which relate to the Business and its operations for periods prior to the Closing; and

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(ii) upon reasonable notice, afford a Buyer's Representatives reasonable access (including the right to make, at such Buyer's expense, photocopies), during normal business hours, to such books and records.

(c) Neither a Buyer nor a Seller shall be obligated to provide the other party with access to any books or records (including personnel files) pursuant to this Section 6.09 where such access would violate any Law.

Section 6.10 Closing Conditions. From the date hereof until the Closing, each party hereto shall use reasonable best efforts to take such actions as are necessary to expeditiously satisfy the closing conditions set forth in Article VII hereof.

Section 6.11 Public Announcements. Unless otherwise required by applicable Law or stock exchange requirements (based upon the reasonable advice of counsel), no party to this Agreement shall make any public announcements in respect of this Agreement or the transactions contemplated hereby or otherwise communicate with any news media without the prior written consent of the other party (which consent shall not be unreasonably withheld or delayed), and the parties shall cooperate as to the timing and contents of any such announcement.

Section 6.12 Bulk Sales Laws. The parties hereby waive compliance with the provisions of any bulk sales, bulk transfer or similar Laws of any jurisdiction that may otherwise be applicable with respect to the sale of any or all of the Purchased Assets to Buyers; it being understood that any Liabilities arising out of the failure of Sellers to comply with the requirements and provisions of any bulk sales, bulk transfer or similar Laws of any jurisdiction which would not otherwise constitute Assumed Liabilities shall be treated as Excluded Liabilities.

Section 6.13 Transfer Taxes. All transfer, documentary, sales, use, stamp, registration, value added, customs, duties and other such Taxes and fees (including any penalties and interest) (collectively, the "Transfer Taxes") incurred under Chinese Law in connection with this Agreement and the other Transaction Documents (including any real property transfer Tax and any other similar Tax) shall be borne and timely paid by each Seller when due, and any other Transfer Taxes incurred in connection with this Agreement and the other Transaction Documents shall be borne and timely paid by each Buyer. A party responsible for payment of such Transfer Taxes shall at such party's expense timely file any Tax Return or other document with respect to such Transfer Taxes, and upon such filing party's request, the other party shall cooperate with respect thereto as necessary.

Section 6.14 Tax Clearance Certificates. If reasonably requested by Buyer Parent, Seller Parent shall notify all of the taxing authorities in the jurisdictions that impose Taxes on any Seller or where any Seller has a duty to file Tax Returns of the transactions contemplated by this Agreement in the form and manner required by such taxing authorities, if the failure to make such notifications or receive any available tax clearance certificate (a "Tax Clearance Certificate") could reasonably be expected to subject any Buyer to Liability for any Taxes of any Seller. If any taxing authority asserts that any Seller is liable for any Tax, and the Seller does not dispute the assessment of such Tax, then such Seller shall promptly pay any and all such amounts and shall provide evidence to Buyer Parent that such liabilities have been paid in full or otherwise satisfied.

Section 6.15 Apportionment of Taxes. All real property Taxes, personal property Taxes, other similar ad valorem Taxes and any other Taxes levied with respect to the Purchased Assets for any taxable period that includes (but does not end on) the Closing Date shall be apportioned between Seller and Buyer as of the Closing Date based upon the number of days of such taxable period included in the Pre-Closing Tax Period and the number of days of such taxable period included in the Post-Closing Tax Period. Each Seller shall be liable for the proportionate amount of such Taxes that is attributable to the Pre-Closing Tax Period, and each Buyer shall be liable for the proportionate amount of such Taxes that is attributable to the Post-Closing Period. In the event that bills for such Taxes have not been issued as of the Closing Date, and, if the amount of such Taxes for the taxable period including the Closing Date is not then known, the apportionment of such Taxes shall be made at Closing on the basis of the prior taxable period's Taxes. After the Closing, upon receipt of bills for the taxable period including the Closing Date, adjustments to the apportionment shall be made by the parties, so that if either party has paid more than its proper share of such Taxes at the Closing, the other party shall promptly reimburse the first party for the excess amount paid by the first party.

Section 6.16 Cooperation on Tax Matters. Buyer Parent and Seller Parent shall cooperate fully with one another, as and to the extent reasonably requested by either party, in connection with the filing of Tax Returns, the making of any Tax election and the defense or prosecution of any audit, litigation or other Action with respect to Taxes. Such cooperation shall include the provision of records and information that are reasonably relevant to the Business, the

Purchased Assets or the Assumed Liabilities and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder.

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Section 6.17 VCSEL Fab Relocation.

(a) The VCSEL Fabrication Plant currently housed in Building No. 1 of Seller Parent's facility at 10420 Research Road SE, Albuquerque, NM 87123 (the "VCSEL Fab") shall be relocated to Building No. 2 of Seller Parent's facility at 1600 Eubank Blvd. SE, Albuquerque, NM 87123 pursuant to the schedule and procedures set forth in Appendix 2.

(b) The parties agree that the costs to relocate the VCSEL Fab to be paid by Buyer Parent is estimated at Two Million Dollars (\$2,000,000) (the "Relocation Cost Estimate"); provided that the Relocation Cost Estimate is calculated by the parties based on the information provided by Seller Parent to Buyer Parent on December 14, 2011 (copy of which is attached hereto as Appendix 3); and provided, further, that Seller Parent shall be responsible for the relocation costs (i) not attributable to the Business or (ii) incurred in connection with the structure or reinforcement of Building No. 2. In the event that (i) actual relocation costs incurred by Buyer Parent in aggregate exceeds the Relocation Cost Estimate, Seller shall reimburse Buyer for half of such excess costs, and (ii) actual relocation costs incurred by Buyer Parent in aggregate is below the Relocation Cost Estimate, Buyer Parent shall reward Seller Parent for half of such saved costs. The procedure for adjusting the parties' sharing of the costs as described in the foregoing shall be agreed upon by the parties in writing prior to the Closing.

(c) Any payments made pursuant to Section 6.17(b) shall be treated as an adjustment to the Purchase Price by the parties for Tax purposes, unless otherwise required by Law.

Section 6.18 Employee and Customer Contacts. Notwithstanding anything in this Agreement to the contrary, prior to the Closing, Buyer Parent and its officers, directors, employees or other representatives shall not, without the prior written consent of Seller Parent: (a) contact any of a Seller's employees (other than those employees expressly designated by Seller Parent to Buyer Parent as members of its transaction team with respect to the Transaction Documents) for any purpose or Sellers' customers for the purpose of discussing the Business, the Purchased Assets or the transactions contemplated by this Agreement or any of the other Transaction Documents; or (b) discuss the Business, the Purchased Assets or the transaction contemplated by this Agreement or any of the other Transaction Documents in any way whatsoever in the event of any contact with such customer or employee (other than those employees expressly designated by Seller Parent to Buyer Parent as members of its transaction team with respect to the Transaction Documents) not in violation of subsection (i) above.

Section 6.19 Relocation or Consolidation of R&D or Manufacturing Facilities; R&D Roadmap.

(a) For a period of one year from the Closing, to enable Buyers to smoothly relocate or consolidate R&D or manufacturing facilities for the Business, Seller Parent shall use reasonable efforts to assist Buyers, at Buyers' expense, with the removal and installation of equipment used in the Business and setting up manufacturing facilities for the Business.

(b) Each Seller shall transfer to the applicable Buyer adequate equipment and other assets of the Business and provide adequate support for such Buyer to enable such Buyer to implement R&D Roadmap prepared by Seller Parent and submitted to Buyer Parent (copy of which is attached hereto as Appendix 4).

Section 6.20 Use of Marks. Notwithstanding any other provision of this Agreement, no interest in or right to use the name "EMCORE" or any derivation thereof or any other trademarks, service marks or tradenames of any Seller other than the Intellectual Property Assets, if any (the "Retained Marks"), is being transferred or otherwise licensed to any Buyer pursuant to the transactions contemplated by this Agreement. Buyer Parent agrees not to use any materials bearing Retained Marks or sell, transfer or ship any products or related materials bearing Retained Marks (a) unless requested to do so by a Seller, (b) except to the extent displayed on the hardcopy (non-electronic) form or the softcopy (electronic) form of such materials delivered to a Buyer at the Closing or (c) except as required under Assigned Contracts with customers until (i) such time as such Buyer shall have qualified the use of its logo, trademarks or tradenames with each such customer or (ii) the end of life of the applicable Product. The foregoing rights are subject to Sellers' standard Trademark usage guidelines, a copy of which has been provided to Buyer Parent. Upon the expiration of the foregoing license, all materials bearing any Retained Mark in the possession of Buyer Parent, any of its Subsidiaries or any of their respective agents shall be promptly destroyed.

Section 6.21 Environmental Permits. Seller Parent shall cooperate with Buyer in its efforts to transfer, or have issued in the applicable Buyer's (or its designated Affiliate's) name, upon Closing, all Environmental Permits necessary to conduct the Business.





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Section 6.22 Acquired Patents. Buyer Parent acknowledges that certain of the Acquired Patents are subject to the terms of that certain [\*] dated as of [\*] by and between Seller Parent and [\*] (the “[\*] Agreement”) and that during the term of the [\*] Agreement neither Buyer Parent nor any of its Affiliates shall take any actions in contravention of the provisions of [\*] of the [\*] Agreement with respect to such Acquired Patents.

Section 6.23 Further Assurances. Following the Closing, each of the parties hereto shall, and shall cause their respective Affiliates to, execute and deliver such additional documents, instruments, conveyances and assurances and take such further actions as may be reasonably required to carry out the provisions hereof and give effect to the transactions contemplated by this Agreement and the other Transaction Documents.

ARTICLE VII

CONDITIONS TO CLOSING

Section 7.01 Conditions to Obligations of All Parties. The obligations of each party to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment, at or prior to the Closing, of each of the following conditions:

- (a) No Governmental Authority shall have enacted, issued, promulgated, enforced or entered any Governmental Order which is in effect and has the effect of making the transactions contemplated by this Agreement illegal, otherwise restraining or prohibiting consummation of such transactions or causing any of the transactions contemplated hereunder to be rescinded following completion thereof.
- (b) Sellers shall have received all consents, authorizations, orders and approvals from the Governmental Authorities referred to in Section 4.03 and Buyers shall have received all consents, authorizations, orders and approvals from the Governmental Authorities referred to in Section 5.03, in each case, in form and substance reasonably satisfactory to Buyer Parent and Seller Parent, and no such consent, authorization, order and approval shall have been revoked.
- (c) Buyer Parent shall have been notified in writing by CFIUS that, either (i) CFIUS has advised Buyer Parent that it has concluded all action under FINSA without sending a report to the President of the United States regarding the transactions proposed in this Agreement; or (ii) the President of the United States has announced his decision not to exercise his authority under FINSA with respect to the transactions proposed in this Agreement.

Section 7.02 Conditions to Obligations of Buyers. The obligations of Buyers to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment or Buyer Parent’s waiver, at or prior to the Closing, of each of the following conditions:

- (a) Other than the representations and warranties of Sellers contained in Section 4.01, Section 4.02, Section 4.04 and Section 4.24, the representations and warranties of Sellers contained in this Agreement, the other Transaction Documents and any certificate or other writing delivered pursuant hereto shall be true and correct in all respects (in the case of any representation or warranty qualified by materiality or Material Adverse Effect) or in all material respects (in the case of any representation or warranty not qualified by materiality or Material Adverse Effect) on and as of the date hereof and on and as of the Closing Date with the same effect as though made at and as of such date (except those representations and warranties that address matters only as of a specified date, the accuracy of which shall be determined as of that specified date in all respects). The representations and warranties of Seller contained in Section 4.01, Section 4.02, Section 4.04 and Section 4.24 shall be true and correct in all respects on and as of the date hereof and on and as of the Closing Date with the same effect as though made at and as of such date (except those representations and warranties that address matters only as of a specified date, the accuracy of which shall be determined as of that specified date in all respects).
- (b) Sellers shall have duly performed and complied in all material respects with all agreements, covenants and conditions required by this Agreement and each of the other Transaction Documents to be performed or complied with by it prior to or on the Closing Date; provided, that, with respect to agreements, covenants and conditions that are qualified by materiality, Sellers shall have performed such agreements, covenants and conditions, as so qualified, in all respects.

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- (c) No Action shall have been commenced against Buyer or Seller, which would prevent the Closing. No injunction or restraining order shall have been issued by any Governmental Authority, and be in effect, which restrains or prohibits any transaction contemplated hereby.
- (d) All approvals, consents and waivers that are listed on Section 4.03 of the Disclosure Schedules shall have been received, and executed counterparts thereof shall have been delivered to Buyer Parent at or prior to the Closing.
- (e) From the date of this Agreement, there shall not have occurred any Material Adverse Effect, nor shall any event or events have occurred that, individually or in the aggregate, with or without the lapse of time, could reasonably be expected to result in a Material Adverse Effect.
- (f) Sellers shall have delivered to Buyers duly executed counterparts to the Transaction Documents (other than this Agreement) and such other documents and deliveries set forth in Section 3.02(a).
- (g) All Encumbrances relating to the Purchased Assets, including Wells Fargo Bank, National Association's security interest under the Credit and Security Agreement dated November 11, 2010, as amended from time to time, on the Purchased Assets, and to the extent that and while, the proceeds thereof are held in the Escrow Account or are released to Buyer Parent pursuant to the terms of this Agreement and the Escrow Agreement, shall have been released in full, other than the other Permitted Encumbrances, and Seller Parent shall have delivered to Buyer Parent written evidence, in form satisfactory to Buyer Parent in its reasonable discretion, of the release of such Encumbrances.
- (h) Buyer Parent shall have received a certificate, dated the Closing Date and signed by a duly authorized officer of Seller Parent, that each of the conditions set forth in Section 7.02(a) and Section 7.02(b) has been satisfied (the "Seller Parent Closing Certificate").
- (i) Buyer Parent shall have received a certificate of the Secretary or an Assistant Secretary (or equivalent officer) of Seller Parent certifying that attached thereto are true and complete copies of all resolutions adopted by the board of directors of Seller Parent authorizing the execution, delivery and performance of this Agreement and the other Transaction Documents and the consummation of the transactions contemplated hereby and thereby, and that all such resolutions are in full force and effect and are all the resolutions adopted in connection with the transactions contemplated hereby and thereby.
- (j) Buyer Parent shall have received a certificate of the Secretary or an Assistant Secretary (or equivalent officer) of Seller Parent certifying the names and signatures of the officers of Seller Parent authorized to sign this Agreement, the Transaction Documents and the other documents to be delivered hereunder and thereunder.
- (k) Buyer Parent shall have received a certification of non-foreign status, duly executed by a Seller that is transferring a "US Real Property Interest" as defined in Section 897(c) of the Code, in form and substance reasonably acceptable to Buyer Parent and meeting the requirements of Treasury Regulations Section 1.1445-2(b) (the "FIRPTA Certificate").
- (l) Chris Wiggins, Kenneth Jackson, Chris Hoover, David Chen, and Nelson Li shall have entered into employment agreements with the applicable Buyer on terms agreed with such Buyer; provided, however, that such Buyer will offer employment terms no less favorable than those offered to these employees by Seller Parent, including without limitation, title, duties, pay and benefits.
- (m) Buyers or their respective designated Affiliates shall have been transferred or been issued, or otherwise be in possession of in its name, Environmental Permits necessary to conduct the Business and for the ownership, lease, operation or use of the Purchased Assets.

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- (n) Buyer Parent shall have received the results of a Phase I Environmental Site Assessment and environmental regulatory compliance audit (collectively, “Environmental Investigation”) of the Business, Purchased Assets and real property currently owned, leased or operated by Seller Parent or a Subsidiary, and of any environmental sampling results deemed appropriate based on the Environmental Investigation, such results being satisfactory to Buyer Parent in its sole discretion, and Buyer Parent shall have been reasonably satisfied with the feasibility of obtaining Environmental Permits necessary for the operation of the VCSEL Fab in Building No. 2.
- (o) Seller Parent shall have delivered to Buyer Parent such other documents or instruments as Buyer reasonably requests and are reasonably necessary to consummate the transactions contemplated by this Agreement.
- Section 7.03 Conditions to Obligations of Sellers. The obligations of Sellers to consummate the transactions contemplated by this Agreement shall be subject to the fulfillment or Seller Parent’s waiver, at or prior to the Closing, of each of the following conditions:
- (a) Other than the representations and warranties of Buyers contained in Section 5.01, Section 5.02 and Section 5.04, the representations and warranties of Buyers contained in this Agreement, the other Transaction Documents and any certificate or other writing delivered pursuant hereto shall be true and correct in all respects (in the case of any representation or warranty qualified by materiality or Material Adverse Effect) or in all material respects (in the case of any representation or warranty not qualified by materiality or Material Adverse Effect) on and as of the date hereof and on and as of the Closing Date with the same effect as though made at and as of such date (except those representations and warranties that address matters only as of a specified date, the accuracy of which shall be determined as of that specified date in all respects). The representations and warranties of Buyers contained in Section 5.01, Section 5.02 and Section 5.04 shall be true and correct in all respects on and as of the date hereof and on and as of the Closing Date with the same effect as though made at and as of such date.
- (b) Buyers shall have duly performed and complied in all material respects with all agreements, covenants and conditions required by this Agreement and each of the other Transaction Documents to be performed or complied with by it prior to or on the Closing Date; provided, that, with respect to agreements, covenants and conditions that are qualified by materiality, Buyers shall have performed such agreements, covenants and conditions, as so qualified, in all respects.
- (c) No injunction or restraining order shall have been issued by any Governmental Authority, and be in effect, which restrains or prohibits any material transaction contemplated hereby.
- (d) Buyers shall have delivered to Sellers duly executed counterparts to the Transaction Documents (other than this Agreement) and such other documents and deliveries set forth in Section 3.02(b).
- (e) Buyer Parent shall have delivered the Escrow Amount to the Escrow Agent pursuant to Section 3.02(c).
- (f) Seller Parent shall have received a certificate, dated the Closing Date and signed by a duly authorized officer of Buyer Parent, that each of the conditions set forth in Section 7.03(a) and Section 7.03(b) has been satisfied (the “Buyer Parent Closing Certificate”).
- (g) Seller Parent shall have received a certificate of the Secretary or an Assistant Secretary (or equivalent officer) of Buyer Parent certifying that attached thereto are true and complete copies of all resolutions adopted by the board of directors of Buyer authorizing the execution, delivery and performance of this Agreement and the other Transaction Documents and the consummation of the transactions contemplated hereby and thereby, and that all such resolutions are in full force and effect and are all the resolutions adopted in connection with the transactions contemplated hereby and thereby.
- (h) Seller Parent shall have received a certificate of the Secretary or an Assistant Secretary (or equivalent officer) of Buyer Parent certifying the names and signatures of the officers of Buyer Parent authorized to sign this Agreement, the Transaction Documents and the other documents to be delivered hereunder and thereunder.
- (i) Buyer Parent shall have delivered to Seller Parent such other documents or instruments as Seller reasonably requests and are reasonably necessary to consummate the transactions contemplated by this Agreement.

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ARTICLE VIII  
INDEMNIFICATION

Section 8.01 Survival. Subject to the limitations and other provisions of this Agreement, the representations and warranties contained herein shall survive the Closing and shall remain in full force and effect until the date that is two (2) years from the Closing Date; provided, that the representations and warranties in Section 4.01, Section 4.02, Section 4.08, Section 4.09, Section 4.17, Section 5.01 and Section 5.02 shall survive indefinitely and the representations and warranties in, Section 4.18, Section 4.20 and Section 4.23 shall survive for the full period of all applicable statutes of limitations (giving effect to any waiver, mitigation or extension thereof) plus 60 days. All covenants and agreements of the parties contained herein shall survive the Closing indefinitely or for the period explicitly specified therein. Notwithstanding the foregoing, any claims asserted in good faith with reasonable specificity (to the extent known at such time) and in writing by notice from the non-breaching party to the breaching party prior to the expiration date of the applicable survival period shall not thereafter be barred by the expiration of the relevant representation or warranty and such claims shall survive until finally resolved.

Section 8.02 Indemnification By Seller Parent. Subject to the other terms and conditions of this Article VIII, Seller Parent shall indemnify and defend each of Buyers and their Affiliates and their respective Representatives (collectively, the “Buyer Indemnitees”) against, and shall hold each of them harmless from and against, and shall pay and reimburse each of them for, any and all Losses incurred or sustained by, or imposed upon, the Buyer Indemnitees based upon, arising out of, with respect to or by reason of:

- (a) any inaccuracy in or breach of any of the representations or warranties of any Seller contained in this Agreement, the other Transaction Documents or in any certificate or instrument delivered by or on behalf of any Seller pursuant to this Agreement, as of the date such representation or warranty was made or as if such representation or warranty was made on and as of the Closing Date (except for representations and warranties that expressly relate to a specified date, the inaccuracy in or breach of which will be determined with reference to such specified date);
- (b) any breach or non-fulfillment of any covenant, agreement or obligation to be performed by any Seller pursuant to this Agreement, the other Transaction Documents or any certificate or instrument delivered by or on behalf of any Seller pursuant to this Agreement;
- (c) any Excluded Asset or any Excluded Liability; or
- (d) any Third Party Claim based upon, resulting from or arising out of the business, operations, properties, assets or obligations of Seller or any of its Affiliates (other than the Purchased Assets or Assumed Liabilities) conducted, existing or arising on or prior to the Closing Date.

Notwithstanding the foregoing, the indemnification obligations of Seller Parent shall not apply to any claim or proceeding by [\*] or its Affiliates, agents, assigns or successors in interest for infringement or misappropriation by any Buyer Indemnitee of the “Seller Licensed Patents” (term as defined in the [\*] Agreement).

Section 8.03 Indemnification By Buyer Parent. Subject to the other terms and conditions of this Article VIII, Buyer Parent shall indemnify and defend each of Sellers and their Affiliates and their respective Representatives (collectively, the “Seller Indemnitees”) against, and shall hold each of them harmless from and against, and shall pay and reimburse each of them for, any and all Losses incurred or sustained by, or imposed upon, the Seller Indemnitees based upon, arising out of, with respect to or by reason of:

- (a) any inaccuracy in or breach of any of the representations or warranties of any Buyer contained in this Agreement or in any certificate or instrument delivered by or on behalf of any Buyer pursuant to this Agreement, as of the date such representation or warranty was made or as if such representation or warranty was made on and as of the Closing Date (except for representations and warranties that expressly relate to a specified date, the inaccuracy in or breach of which will be determined with reference to such specified date);
- (b) any breach or non-fulfillment of any covenant, agreement or obligation to be performed by any Buyer pursuant to this Agreement;

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- (c) any Assumed Liability; or
- (d) any Third Party Claim based upon, resulting from or arising out of the business, operations, properties, assets or obligations of Buyer or any of its Affiliates conducted, existing or arising on or following the Closing Date.

Section 8.04

Certain Limitations. The indemnification provided for in Section 8.02 and Section 8.03 shall be subject to the following limitations:

- (a) Seller Parent shall not be liable to the Buyer Indemnitees for indemnification under Section 8.02(a) (other than with respect to a claim for indemnification based upon, arising out of, with respect to or by reason of (i) any inaccuracy in or breach of any representation or warranty in Section 4.01, Section 4.02, Section 4.08, Section 4.09, Section 4.17, Section 4.18, Section 4.20 and Section 4.23 or (ii) any breach of any Seller's representation or warranty made with the intent to mislead or defraud any Buyer (items (i) and (ii) are collectively referred to herein as the "Buyer Basket Exclusions"), until the aggregate amount of all Losses in respect of indemnification under Section 8.02(a) (other than those based upon, arising out of, with respect to or by reason of the Buyer Basket Exclusions) exceeds [\*], in which event Seller Parent shall only be required to pay or be liable for such Losses in excess of such amount.
- (b) Buyer Parent shall not be liable to the Seller Indemnitees for indemnification under Section 8.03(a) (other than with respect to a claim for indemnification based upon, arising out of, with respect to or by reason of (i) any inaccuracy in or breach of any representation or warranty in Section 5.01 and Section 5.02 or (ii) any breach of any Buyer's representation or warranty made with the intent to mislead or defraud any Seller (items (i) and (ii) are collectively referred to herein as the "Seller Basket Exclusions") until the aggregate amount of all Losses in respect of indemnification under Section 8.03(a) (other than those based upon, arising out of, with respect to or by reason of the Seller Basket Exclusions) exceeds [\*], in which event Buyer Parent shall be only required to pay or be liable for such Losses in excess of such amount.
- (c) With respect to any claims which the Buyer Indemnitees may be entitled to indemnification under Section 8.02(a), Seller Parent shall not be liable for any individual or series of related Losses which do not exceed [\*] (which Losses shall not be counted towards the other limit in this Section 8.04(a)).
- (d) With respect to any claims as to which the Seller Indemnitees may be entitled to indemnification under Section 8.03(a), Buyer Parent shall not be liable for any individual or series of related Losses which do not exceed [\*] (which Losses shall not be counted towards the other limit in this Section 8.04(b)).
- (e) The aggregate amount of all Losses for which Seller Parent shall be liable pursuant to Section 8.02(a) (other than the Buyer Basket Exclusions) shall not exceed [\*].
- (f) The aggregate amount of all Losses for which Buyer Parent shall be liable pursuant to Section 8.03(a) (other than the Seller Basket Exclusions) shall not exceed [\*].
- (g) The amount of any and all Losses under this Article VIII will be determined net of any amounts recovered by an Indemnified Party or its Affiliates under or pursuant to any insurance policy, title insurance policy, indemnity, reimbursement arrangement or contract pursuant to which or under which such Indemnified Party or Affiliate is a party or has rights.

Section 8.05 Indemnification Procedures. The party making a claim under this Article VIII is referred to as the "Indemnified Party," and the party against whom such claims are asserted under this Article VIII is referred to as the "Indemnifying Party."

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(a) Third Party Claims. If any Indemnified Party receives notice of the assertion or commencement of any Action made or brought by any Person who is not a party to this Agreement or an Affiliate of a party to this Agreement or a Representative of the foregoing (a "Third Party Claim") against such Indemnified Party with respect to which the Indemnifying Party is obligated to provide indemnification under this Agreement, the Indemnified Party shall give the Indemnifying Party reasonably prompt written notice thereof, but in any event not later than 30 calendar days after receipt of such notice of such Third Party Claim. The failure to give such prompt written notice shall not, however, relieve the Indemnifying Party of its indemnification obligations, except and only to the extent that the Indemnifying Party forfeits rights or defenses by reason of such failure, or Indemnifying Party's ability to defend and/or provide indemnification with respect to such Third Party Claim is otherwise adversely affected. Such notice by the Indemnified Party shall describe the Third Party Claim in reasonable detail, shall include copies of all material written evidence thereof and shall indicate the estimated amount, if reasonably practicable, of the Loss that has been or may be sustained by the Indemnified Party. The Indemnifying Party shall have the right to participate in, or by giving written notice to the Indemnified Party, to assume the defense of any Third Party Claim at the Indemnifying Party's expense and by the Indemnifying Party's own counsel, and the Indemnified Party shall cooperate in good faith in such defense. In the event that the Indemnifying Party assumes the defense of any Third Party Claim, subject to Section 8.05(b), it shall have the right to take such action as it deems necessary to avoid, dispute, defend, appeal or make counterclaims pertaining to any such Third Party Claim in the name and on behalf of the Indemnified Party. The Indemnified Party shall have the right to participate in the defense of any Third Party Claim with counsel selected by it subject to the Indemnifying Party's right to control the defense thereof. The fees and disbursements of such counsel shall be at the expense of the Indemnified Party, provided, that if in the reasonable opinion of counsel to the Indemnified Party, (A) there are legal defenses available to an Indemnified Party that are different from or additional to those available to the Indemnifying Party; or (B) there exists a conflict of interest between the Indemnifying Party and the Indemnified Party that cannot be waived, the Indemnifying Party shall be liable for the reasonable fees and expenses of counsel to the Indemnified Party in each jurisdiction for which the Indemnified Party determines counsel is required. If the Indemnifying Party elects not to compromise or defend such Third Party Claim, or fails to notify the Indemnified Party in writing of its election to defend as provided in this Agreement, the Indemnified Party may, subject to Section 8.05(b), pay, compromise, defend such Third Party Claim and seek indemnification for any and all Losses based upon, arising from or relating to such Third Party Claim. Seller and Buyer shall cooperate with each other in all reasonable respects in connection with the defense of any Third Party Claim, including making available (subject to the provisions of Section 6.06) records relating to such Third Party Claim and furnishing, without expense (other than reimbursement of actual out-of-pocket expenses) to the defending party, management employees of the non-defending party as may be reasonably necessary for the preparation of the defense of such Third Party Claim.

(b) Settlement of Third Party Claims. Notwithstanding any other provision of this Agreement, the Indemnifying Party shall not enter into settlement of any Third Party Claim without the prior written consent of the Indemnified Party, except as provided in this Section 8.05(b). If a firm offer is made to settle a Third Party Claim without leading to liability or the creation of a financial or other obligation on the part of the Indemnified Party and provides, in customary form, for the unconditional release of each Indemnified Party from all liabilities and obligations in connection with such Third Party Claim and the Indemnifying Party desires to accept and agree to such offer, the Indemnifying Party shall give written notice to that effect to the Indemnified Party. If the Indemnified Party fails to consent to such firm offer within ten days after its receipt of such notice, the Indemnified Party may continue to contest or defend such Third Party Claim and in such event, the maximum liability of the Indemnifying Party as to such Third Party Claim shall not exceed the amount of such settlement offer. If the Indemnified Party fails to consent to such firm offer and also fails to assume defense of such Third Party Claim, the Indemnifying Party may settle the Third Party Claim upon the terms set forth in such firm offer to settle such Third Party Claim. If the Indemnified Party has assumed the defense pursuant to Section 8.05(a), it shall not agree to any settlement without the written consent of the Indemnifying Party (which consent shall not be unreasonably withheld or delayed).

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(c) Direct Claims. Any Action by an Indemnified Party on account of a Loss which does not result from a Third Party Claim (a "Direct Claim") shall be asserted by the Indemnified Party giving the Indemnifying Party reasonably prompt written notice thereof, but in any event not later than 30 days after the Indemnified Party becomes aware of such Direct Claim. The failure to give such prompt written notice shall not, however, relieve the Indemnifying Party of its indemnification obligations, except and only to the extent that the Indemnifying Party forfeits rights or defenses by reason of such failure or Indemnifying Party's ability to defend and/or provide indemnification with respect to such Direct Claim is otherwise adversely affected. Such notice by the Indemnified Party shall describe the Direct Claim in reasonable detail, shall include copies of all material written evidence thereof and shall indicate the estimated amount, if reasonably practicable, of the Loss that has been or may be sustained by the Indemnified Party. The Indemnifying Party shall have 30 days after its receipt of such notice to respond in writing to such Direct Claim (which notice shall also indicate whether or not the Indemnifying Party intends to investigate the matter or circumstance alleged to give rise to the Direct Claim). Following the receipt of such notice, the Indemnified Party shall allow the Indemnifying Party and its professional advisors to investigate the matter or circumstance alleged to give rise to the Direct Claim, and whether and to what extent any amount is payable in respect of the Direct Claim and the Indemnified Party shall assist the Indemnifying Party's investigation by giving such information and assistance (including access to the Indemnified Party's premises and personnel and the right to examine and copy any accounts, documents or records) as the Indemnifying Party or any of its professional advisors may reasonably request. If the Indemnifying Party does not so respond within such 30 day period, the Indemnifying Party shall be deemed to have rejected such claim, in which case the Indemnified Party shall be free to pursue such remedies as may be available to the Indemnified Party on the terms and subject to the provisions of this Agreement.

Section 8.06 Tax Treatment of Indemnification Payments. All indemnification payments made under this Agreement shall be treated by the parties as an adjustment to the Purchase Price for Tax purposes, unless otherwise required by Law.

Section 8.07 Effect of Investigation. The representations, warranties and covenants of the Indemnifying Party, and the Indemnified Party's right to indemnification with respect thereto, shall not be affected or deemed waived by reason of any investigation made by or on behalf of the Indemnified Party (including by any of its Representatives) or by reason of the fact that the Indemnified Party or any of its Representatives knew or should have known that any such representation or warranty is, was or might be inaccurate or by reason of the Indemnified Party's waiver of any condition set forth in Section 7.02 or Section 7.03, as the case may be.

Section 8.08 Exclusive Remedies. Subject to Section 6.07 and Section 10.12, the parties acknowledge and agree that their sole and exclusive remedy with respect to any and all claims (other than claims arising from fraud, criminal activity or willful misconduct on the part of a party hereto in connection with the transactions contemplated by this Agreement) for any breach of any representation, warranty, covenant, agreement or obligation set forth herein or otherwise relating to the subject matter of this Agreement, shall be pursuant to the indemnification provisions set forth in this Article VIII. In furtherance of the foregoing, each party hereby waives, to the fullest extent permitted under Law, any and all rights, claims and causes of action for any breach of any representation, warranty, covenant, agreement or obligation set forth herein or otherwise relating to the subject matter of this Agreement it may have against the other parties hereto and their Affiliates and each of their respective Representatives arising under or based upon any Law, except pursuant to the indemnification provisions set forth in this Article VIII. Nothing in this Section 8.08 shall limit any Person's right to seek and obtain any equitable relief to which any Person shall be entitled or to seek any remedy on account of any Person's fraudulent, criminal or intentional misconduct.

Section 8.09 Escrow Claims.

(a) Prior to the expiration of the twenty-four (24) month term of the Escrow Agreement and subject to the applicable limitations set forth in Article VIII, any amounts due to any of the Buyer Indemnitee under Article VIII for the recovery of indemnifiable Liabilities shall be satisfied first, and to the extent of the Escrow Amount; provided, that the foregoing shall in no way be construed to limit any of the Buyer Indemnitees' rights to indemnifiable Liabilities in excess of the Escrow Amount.





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(b) In the event Seller Parent does not dispute a claim for indemnification made by any of the Buyer Indemnitee that pursuant to this Article VIII is to be satisfied from the Escrow Amount, Seller Parent and Buyer Parent shall provide joint written instructions to the Escrow Agent to disburse to the applicable Buyer Indemnitee the amount of the undisputed claim. Upon final non-appealable determination of Liabilities (or a settlement between the parties) with respect to any claim for indemnification made by any of the Buyer Indemnitee that pursuant to this Article VIII is to be satisfied from the Escrow Fund, (a “Final Claim Amount”) either (i) Seller Parent and Buyer Parent shall provide joint written instructions to Escrow Agent to disburse to the applicable Buyer Indemnitee such Final Claim Amount, or (ii) Seller or Buyer may present the final non-appealable determination of Liabilities to the Escrow Agent for distribution of such Final Claim Amount which shall be distributed pursuant to the Escrow Agreement.

(c) On the twelve (12) month anniversary of the Closing, Seller Parent and Buyer Parent shall provide a joint written instruction to the Escrow Agent directing the Escrow Agent to distribute to Seller Parent to the accounts designated in such joint written instruction an amount equal to fifty percent (50%) of the difference between the then remaining balance in the Escrow Account and the aggregate amount of all unsatisfied bona fide claims for indemnification that the Buyer Indemnitees have made on or before the date of such twelve (12) month anniversary pursuant to this Article and which, under this Article, shall be satisfied by the Escrow Amount.

(d) Upon the expiration of the twenty-four (24) month term of the Escrow Agreement, Buyer Parent and Seller Parent shall instruct the Escrow Agent to release to Seller Parent the difference between the then-remaining Escrow Amount and the aggregate amount of all unsatisfied bona fide claims for indemnification that the Buyer Indemnitees have made on or before the date of such twenty-four (24) month anniversary date pursuant to this Article VIII and which, under this Article VIII, shall be satisfied by the Escrow Amount. Should any claim for indemnification be brought prior to the expiration of the term of the Escrow Agreement, then such amount in dispute shall remain in the Escrow Account until either (i) Seller Parent and Buyer Parent provide joint written instructions to the Escrow Agent to disburse to the applicable Indemnified Party such disputed amount, or (ii) Seller Parent or Buyer Parent may present a final non-appealable determination of Liabilities to the Escrow Agent for distribution of such disputed amount which shall be distributed pursuant to the Escrow Agreement.

Section 8.10 Setoff and Recoupment.

(a) Following the Closing Date, Buyer Parent and the other Buyer Indemnitees shall each have the right to (i) setoff any amounts or obligations that are due and owing from time to time by Buyer Parent or any of the other Buyer Indemnitees to Seller Parent under any of the Transaction Documents against any amounts or obligations that are due and owing from time to time by Seller Parent to Buyer Parent or any of the other Buyer Indemnitees under any of the Transaction Documents; and (ii) recoup any amounts or obligations that are due and owing from time to time by Sellers to Buyer Parent or any of the other Buyer Indemnitees under any of the Transaction Documents from any amounts or obligations that are become due and owing from time to time by Buyer Parent or any of the other Buyer Indemnitees to Sellers under any of the Transaction Documents.

(b) Following the Closing Date, Seller Parent and the other Seller Indemnities shall each have the right to (i) setoff any amounts or obligations that are due and owing from time to time by Seller Parent or any of the other Seller Indemnities to Buyer Parent under any of the Transaction Documents against any amounts or obligations that are due and owing from time to time by Buyer Parent to Seller Parent or any of the other Seller Indemnities under any of the Transaction Documents; and (ii) recoup any amounts or obligations that are due and owing from time to time by Buyers or any of the other Buyer Indemnities to Seller Parent under any of the Transaction Documents from any amounts or obligations that are due and owing from time to time by Seller Parent or any of the other Seller Indemnitees to Buyers under any of the Transaction Documents.

(c) Within three (3) Business Days of effectuating a setoff or recoupment pursuant to Section 8.10(a) or (b), as the case may be, the party effectuating the setoff or recoupment shall send written notice to the party against whom it was effectuated that the setoff or recoupment has occurred. Such notice shall be sent in accordance with section 10.02 of this Agreement and shall contain reasonably sufficient detail regarding the basis for the setoff or recoupment and the specific amounts or obligations affected thereby. If the party against whom the setoff or recoupment is effectuated disputes the legitimacy of the amounts or obligations that were setoff or recouped, then such party shall notify the other of the dispute in writing within five (5) Business Days of receiving notice of the setoff or recoupment. The

notice shall be sent in accordance with section 10.02 of this Agreement and shall contain reasonably sufficient detail regarding the basis for the dispute. The parties shall use their best efforts to resolve the dispute.

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(d) Neither the exercise nor the failure to exercise any right of setoff or recoupment hereunder will constitute an election of remedies or limit in any manner the enforcement of any other remedies by Buyer, any other Buyer Indemnitee, Seller or any other Seller Indemnitee, as the case may be, that may be available to it.

ARTICLE IX

TERMINATION

Section 9.01 Termination. This Agreement may be terminated at any time prior to the Closing:

- (a) by the mutual written consent of Seller Parent and Buyer Parent;
- (b) by Buyer Parent by written notice to Seller Parent if:
  - (i) any Buyer is not then in material breach of any provision of this Agreement and there has been a breach, inaccuracy in or failure to perform any representation, warranty, covenant or agreement made by Sellers pursuant to this Agreement that would give rise to the failure of any of the conditions specified in Article VII and such breach, inaccuracy or failure has not been cured by Seller Parent or its Subsidiary within ten days of Seller Parent's receipt of written notice of such breach from Buyer Parent; or
  - (ii) any of the conditions set forth in Section 7.01 or Section 7.02 shall not have been, or if it becomes apparent that any of such conditions will not be, fulfilled by July 1, 2012, unless such failure shall be due to the failure of any Buyer to perform or comply with any of the covenants, agreements or conditions hereof to be performed or complied with by it prior to the Closing;
- (c) by Seller Parent by written notice to Buyer Parent if:
  - (i) any Seller is not then in material breach of any provision of this Agreement and there has been a breach, inaccuracy in or failure to perform any representation, warranty, covenant or agreement made by Buyers pursuant to this Agreement that would give rise to the failure of any of the conditions specified in Article VII and such breach, inaccuracy or failure has not been cured by Buyer Parent or its Subsidiary within ten days of Buyer Parent's receipt of written notice of such breach from Seller Parent; or
  - (ii) any of the conditions set forth in Section 7.01 or Section 7.03 shall not have been, or if it becomes apparent that any of such conditions will not be, fulfilled by July 1, 2012, unless such failure shall be due to the failure of any Seller to perform or comply with any of the covenants, agreements or conditions hereof to be performed or complied with by it prior to the Closing;
- (d) by the Seller Parent in the event that the Board of Directors of Seller Parent determines in good faith, after consultation with outside legal counsel, that in light of a Superior Proposal with respect to which Seller Parent has provided to Buyer Parent a Seller Parent's Notice in accordance with Section 6.03(c) of this Agreement, it is necessary to terminate this Agreement in order to comply with its fiduciary duties to Seller Parent's stockholders under applicable Law, subject to and provided that Seller Parent complies with each of the following requirements in effecting such termination:
  - (i) By no later than one (1) Business Day after the last day of the Superior Proposal Period for such Superior Proposal, Seller Parent shall have received an executed definitive asset purchase agreement or other similar agreement from the person making the Superior Proposal and be prepared to enter into and publicly announce such agreement in connection with such Superior Proposal, subject to Buyer Parent's negotiation rights under Section 9.01(d)(iii) below and Buyer Parent's termination fee rights under Sections 9.01(d)(iv) and 9.3 below;

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- (ii) Seller Parent shall provide written notice to Buyer Parent of Seller Parent's Board of Directors' determination to terminate this Agreement pursuant to this Section 9.01(d) by no later than one (1) Business Day after the last day of the Superior Proposal Period for such Superior Proposal (the "Section 9.01(d) Termination Notice");
- (iii) During the period of five (5) Business Days following Buyer Parent's receipt of the Section 9.01(d) Termination Notice (the "Negotiation Period"), Buyer Parent has the right, but not the obligation, to elect to negotiate in good faith with Seller Parent with respect to proposed modifications of the terms and conditions of this Agreement so as to enable Buyer Parent to proceed with the transactions contemplated herein on such proposed modified terms and conditions, and if Buyer Parent so elects Seller Parent shall negotiate in good faith with Buyer Parent with respect to such proposed modifications; and
- (iv) Unless Buyer Parent and Seller Parent agree in writing otherwise, this Agreement shall be terminated effective at 5:00 p.m. (Pacific Time) on the last day of the Negotiation Period (the "Termination Time"), provided that prior to or concurrently with the Termination Time, Seller Parent has paid to Buyer Parent by wire transfer in immediately available funds and Buyer Parent has received the termination fee amount specified in Section 9.03 of this Agreement.
- (e) by Buyer Parent or Seller Parent in the event that (i) there shall be any Law that makes consummation of the transactions contemplated by this Agreement illegal or otherwise prohibited or (ii) any Governmental Authority shall have issued a Governmental Order restraining or enjoining the transactions contemplated by this Agreement, and such Governmental Order shall have become final and non-appealable.

Section 9.02 Effect of Termination. In the event of the termination of this Agreement in accordance with this Article, this Agreement shall forthwith become void and there shall be no liability on the part of any party hereto except:

- (a) as set forth in this Article IX and Section 6.06 and Article X hereof; and
  - (b) that nothing herein shall relieve any party hereto from liability for any willful breach of any provision hereof.
- Section 9.03 Termination Fee. If the Seller Parent intends to terminate this Agreement pursuant to Section 9.1(d) hereof, the Seller Parent shall pay to Buyer Parent a termination fee of \$800,000 by wire transfer of same day immediately available funds on the date of termination, and the termination pursuant to Section 9.01(d) shall become effective only upon receipt of such termination fee by Buyer Parent. Seller Parent and Buyer Parent agree that the agreement contained in this Section 9.03 is an integral part of the transactions contemplated by this Agreement and constitutes liquidated damages and not a penalty.

ARTICLE X  
MISCELLANEOUS

Section 10.01 Expenses. Except as otherwise expressly provided herein, all costs and expenses, including, without limitation, fees and disbursements of counsel, financial advisors and accountants, incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such costs and expenses, whether or not the Closing shall have occurred; provided, however, Buyer Parent and Seller Parent shall be equally responsible for all filing and other similar fees payable in connection with a joint voluntary notice to CFIUS pursuant to FINSA.

Section 10.02 Notices. All notices, requests, consents, claims, demands, waivers and other communications hereunder shall be in writing and shall be deemed to have been given (a) when delivered by hand (with written confirmation of receipt); (b) when received by the addressee if sent by a nationally recognized overnight courier (receipt requested); (c) on the date sent by facsimile or e-mail of a PDF document (with confirmation of transmission) if sent during normal business hours of the recipient, and on the next Business Day if sent after normal business hours of the recipient or (d) on the third day after the date mailed, by certified or registered mail, return receipt requested, postage prepaid. Such communications must be sent to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section 10.02):

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|                     |   |
|---------------------|---|
| If to Seller Parent | EMCORE Corporation<br>10420 Research Road, SE<br>Albuquerque, NM 87123<br>Facsimile: 510-323-3402<br>E-mail: hong_hou@emcore.com<br>Attention: Chief Executive Officer  |
| with a copy to:     | Stradling Yocca Carlson & Rauth<br>Facsimile: 949-725-4100<br>E-mail: MSkaist@sycr.com<br>Attention: Mark Skaist  |
| If to Buyer Parent: | Sumitomo Electric Industries, Ltd.<br>1 Taya-cho, Sakae-ku<br>Yokohama 244-8588<br>Japan<br>Facsimile: 81-(45) 851-1709<br>E-mail: htakada@sei.co.jp<br>Attention: Hisashi Takada, Executive Officer Network Sales and Marketing Unit |
| With a copy to:     | Squire Sanders (US) LLP<br>275 Battery Street, Suite 2600<br>San Francisco, CA 94111<br>Facsimile: (415) 393-9887<br>E-mail: Noriyuki.Shimoda@squiresanders.com<br>Attention: Noriyuki Shimoda, Esq.                                  |

Section 10.03 Interpretation. For purposes of this Agreement, (a) the words “include,” “includes” and “including” shall be deemed to be followed by the words “without limitation”; (b) the word “or” is not exclusive; and (c) the words “herein,” “hereof,” “hereby,” “hereto” and “hereunder” refer to this Agreement as a whole. Unless the context otherwise requires, references herein: (x) to Articles, Sections, Disclosure Schedules and Exhibits mean the Articles and Sections of, and Disclosure Schedules and Exhibits attached to, this Agreement; (y) to an agreement, instrument or other document means such agreement, instrument or other document as amended, supplemented and modified from time to time to the extent permitted by the provisions thereof and (z) to a statute means such statute as amended from time to time and includes any successor legislation thereto and any regulations promulgated thereunder. This Agreement shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting an instrument or causing any instrument to be drafted. The Disclosure Schedules and Exhibits referred to herein shall be construed with, and as an integral part of, this Agreement to the same extent as if they were set forth verbatim herein.

Section 10.04 Performance of Obligations by Subsidiaries. Any obligation of a Seller under or pursuant to this Agreement may be satisfied, met or fulfilled, in whole or in part, at Seller Parent’s sole and exclusive option, either by Seller Parent directly or by any Subsidiary or designee of Seller Parent that Seller Parent causes to satisfy, meet or fulfill such obligation, in whole or in part. Any obligation of Buyer Parent under or pursuant to this Agreement may be satisfied, met or fulfilled, in whole or in part, at Buyer Parent’s sole and exclusive option, either by Buyer Parent directly or by any Subsidiary or designee of Buyer Parent that Buyer Parent causes to satisfy, meet or fulfill such obligation, in whole or in part. With respect to any particular action, the use of the words “Seller Parent shall,” “Seller Parent agrees to,” “Sellers shall,” a “Seller shall,” and any similar variation with respect to any action, also means “Seller Parent shall cause” the particular action to be performed, and the use of the words “Buyer Parent shall,” “Buyer Parent

agrees to,” “Buyers shall,” a “Buyer shall,” and any similar variation with respect to any action, also means “Buyer Parent shall cause” the particular action to be performed, because Seller Parent and Buyer Parent each understand, agree and acknowledge that they are entering into this Agreement on behalf of themselves and certain of their respective Subsidiaries. Seller Parent guarantees the performance of all actions, agreements and obligations to be performed by any Subsidiaries of Seller Parent under the terms and conditions of this Agreement and any applicable Transaction Document, and Buyer Parent guarantees the performance of all actions, agreements and obligations to be performed by any Subsidiary of Buyer Parent under the terms and conditions of this Agreement and any applicable Transaction Document, regardless of whether or not Buyer Parent and/or Seller Parent are a party thereto.

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Section 10.05 Headings. The headings in this Agreement are for reference only and shall not affect the interpretation of this Agreement.

Section 10.06 Severability. If any term or provision of this Agreement is invalid, illegal or unenforceable in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other term or provision of this Agreement or invalidate or render unenforceable such term or provision in any other jurisdiction. Except as provided in Section 6.07(d), upon such determination that any term or other provision is invalid, illegal or unenforceable, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the greatest extent possible.

Section 10.07 Entire Agreement. This Agreement the other Transaction Documents, and the Confidentiality Agreement constitute the sole and entire agreement of the parties to this Agreement with respect to the subject matter contained herein and therein, and supersede all prior and contemporaneous understandings and agreements, both written and oral, with respect to such subject matter. For the avoidance of doubt, the parties hereto confirm that Section 10 of the Letter of Intent between Buyer Parent and Seller Parent dated as of December 23, 2011, as amended, shall remain in effect pursuant to the terms thereof. In the event of any inconsistency between the statements in the body of this Agreement and those in the other Transaction Documents, the Exhibits and Disclosure Schedules (other than an exception expressly set forth as such in the Disclosure Schedules), the statements in the body of this Agreement will control.

Section 10.08 Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns. Neither party may assign its rights or obligations hereunder without the prior written consent of the other party, which consent shall not be unreasonably withheld or delayed; provided, however, that prior to the Closing Date, Buyer Parent may, without the prior written consent of Seller Parent, assign all or any portion of its rights under this Agreement or delegate any of its obligations under this Agreement to an Affiliate, which is a wholly-owned indirect or direct subsidiary of Buyer Parent. No assignment shall relieve the assigning party of any of its obligations hereunder.

Section 10.09 No Third-party Beneficiaries. Except as provided in Article VIII, this Agreement is for the sole benefit of the parties hereto and their respective successors and permitted assigns and, to the extent set forth herein, the parties' respective Subsidiaries and nothing herein, express or implied, is intended to or shall confer upon any other Person or entity any legal or equitable right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

Section 10.10 Amendment and Modification; Waiver. This Agreement may only be amended, modified or supplemented by an agreement in writing signed by each party hereto. No waiver by any party of any of the provisions hereof shall be effective unless explicitly set forth in writing and signed by the party so waiving. No waiver by any party shall operate or be construed as a waiver in respect of any failure, breach or default not expressly identified by such written waiver, whether of a similar or different character, and whether occurring before or after that waiver. No failure to exercise, or delay in exercising, any right, remedy, power or privilege arising from this Agreement shall operate or be construed as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

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Section 10.11 Governing Law; Dispute Resolution. The formation, construction, and performance of this Agreement, including the rights and duties of the parties hereunder, shall be construed, interpreted, governed, applied and enforced in accordance with the laws of the State of California applicable to agreements entered into and performed entirely in the State of California by residents thereof, without regard to any provisions thereof relating to conflicts of laws among different jurisdictions; provided, however, that this Section 10.11 shall be governed by and interpreted in accordance with the Federal Arbitration Act of the United States, 9 U.S.C. §§ 1 et seq. Any dispute, claim, controversy or difference regarding the interpretation or validity or performance of, or otherwise arising out of or relating to, this Agreement, the other Transaction Documents or the transactions contemplated hereby or thereby (“Dispute”), shall be finally and conclusively decided by binding arbitration in accordance with the Rules of Arbitration of the ICC by an Arbitral Tribunal consisting of three arbitrators appointed in accordance with those Rules. The language of the arbitration shall be English. The venue for the hearings of the arbitration shall be San Francisco, California. The parties shall bear in equal shares any fees and expenses of the Arbitral Tribunal and of the ICC; provided that the Arbitral Tribunal shall have the authority to award, as part of the Arbitral Tribunal’s decision, to the prevailing party its costs and expenses of the arbitration proceeding, including reasonable attorneys’ and experts’ fees. The Arbitral Tribunal shall render its award based on the explicit terms of this Agreement or any of the other Transaction Documents, as applicable; and in instances where it is silent, on the basis of strict principles consistent with the terms of this Agreement or any of the other Transaction Documents. The Arbitral Tribunal shall be bound by strict rules of law in making its decision, and may not pronounce judgment on equitable principles or the basis of ex aequo et bono. The Arbitral Tribunal shall have the authority to include in its award a decision binding upon the parties enjoining them to take or refrain from taking specific action with respect to the Dispute or declaring their rights, responsibilities and liabilities as to the Dispute. The Arbitral Tribunal shall state the reasons for its decision in writing in the award it issues. Judgment on the award rendered by the Arbitral Tribunal may be entered by any court having jurisdiction. Each of the parties hereby irrevocably submits to the personal jurisdiction of, and irrevocably waives objection to the laying of venue (including a waiver of any argument of forum non convenience or other principles of like effect) in, the state and federal courts located in San Francisco, California, USA for the purposes of any action commenced in aid of an arbitration hereunder, or for entry of judgment upon the Arbitral Tribunal’s award. Each of the parties consents that all service of process may be made by delivery of the summons and complaint by certified or registered mail, return receipt requested, or by messenger, directed to it at its address for notices set forth in Section 10.02 hereof, and that service so made shall be deemed to have been made as of the date of the receipt indicated in the certification, signed and returned postal receipt, or other proof of service applicable to the method of service employed.

Section 10.12 Specific Performance. The parties agree that irreparable damage would occur if any provision of this Agreement were not performed in accordance with the terms hereof and that the parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy to which they are entitled at law or in equity.

Section 10.13 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same agreement. A signed copy of this Agreement delivered by facsimile, e-mail or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

[SIGNATURE PAGE FOLLOWS]



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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

EMCORE CORPORATION

By: /s/ Hong Hou

Name: Hong Q. Hou, Ph.D

Title: CEO

SUMITOMO ELECTRIC INDUSTRIES, LTD.

By: /s/ Hisashi Takada

Name: Hisashi Takada

Title: Executive Officer

Network Products Sales and Marketing Unit

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Exhibit 31.1

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

I, Hong Q. Hou, Ph.D. certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of EMCORE Corporation ("Report");

Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;

Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Report;

The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and

d. Disclosed in this Report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and

report financial information; and

- b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:

May 3, 2012

By: /s/ Hong Hou  
Hong Q. Hou, Ph.D.  
Chief Executive Officer  
(Principal Executive Officer)

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Exhibit 31.2

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

I, Mark B. Weinswig, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of EMCORE Corporation ("Report");

Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;

Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Report;

The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and

d. Disclosed in this Report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and

report financial information; and

- b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:

May 3, 2012

By: /s/ Mark Weinswig

Mark B. Weinswig

Chief Financial Officer

(Principal Financial and Accounting Officer)

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Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of EMCORE Corporation (the "Company") for the quarterly period ended March 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Hong Q. Hou, Ph.D., Chief Executive Officer (Principal Executive Officer) of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 3, 2012

By: /s/ Hong Hou  
Hong Q. Hou, Ph.D.  
Chief Executive Officer  
(Principal Executive Officer)

A signed original of this written statement required by Section 906 has been provided to EMCORE Corporation and will be retained by EMCORE Corporation and furnished to the Securities and Exchange Commission or its staff upon request. This certification has not been, and shall not be deemed to be, filed with the Securities and Exchange Commission.

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Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of EMCORE Corporation (the "Company") for the quarterly period ended March 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark B. Weinswig, Chief Financial Officer (Principal Financial and Accounting Officer) of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 3, 2012

By: /s/ Mark Weinswig  
Mark B. Weinswig  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to EMCORE Corporation and will be retained by EMCORE Corporation and furnished to the Securities and Exchange Commission or its staff upon request. This certification has not been, and shall not be deemed to be, filed with the Securities and Exchange Commission.

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

FORM 8-K

CURRENT REPORT

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

May 3, 2012  
Date of Report (Date of earliest event reported)

EMCORE CORPORATION  
Exact Name of Registrant as Specified in its Charter

|                        |                        |                                    |
|------------------------|------------------------|------------------------------------|
| New Jersey             | 0-22175                | 22-2746503                         |
| State of Incorporation | Commission File Number | IRS Employer Identification Number |

10420 Research Road, SE, Albuquerque, NM 87123  
Address of principal executive offices, including zip code

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02 Results of Operations and Financial Condition.

On May 3, 2012, EMCORE Corporation (the “Registrant”) issued a press release disclosing its unaudited financial results for its second quarter ended March 31, 2012. A copy of this press release is attached as Exhibit 99.1 to this Current Report.

The information in this Current Report, including Exhibit 99.1 hereto, shall not be incorporated by reference into any filing of the Registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing, unless expressly incorporated by specific reference to such filing. Furthermore, the information in this Current Report, including Exhibit 99.1 hereto, shall not be deemed to be “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise be subject to the liabilities of that section or Sections 11 and 12(a)(2) of the Securities Act of 1933, as amended.

The information set forth above is intended to be furnished under this ITEM 2.02, “Results of Operations and Financial Condition” and under ITEM 7.01, “Regulation FD Disclosure”.

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Forward-Looking Statements

The information provided herein may include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act of 1934. These forward-looking statements are largely based on our current expectations and projections about future events and financial trends affecting the financial condition of our business. Such forward-looking statements include, in particular, projections about our future results included in our Exchange Act reports, statements about our plans, strategies, business prospects, changes and trends in our business and the markets in which we operate. Such forward-looking statements also include statements regarding the ability of our contract manufacturer to resume production, the expected impact of the flooding on our supply chain, and our ability to meet customer demand for our fiber optics products.

These forward-looking statements may be identified by the use of terms and phrases such as “anticipates”, “believes”, “can”, “could”, “estimates”, “expects”, “forecasts”, “intends”, “may”, “plans”, “projects”, “targets”, “will”, and similar expressions or these terms and similar phrases. Additionally, statements concerning future matters such as the development of new products, enhancements or technologies, sales levels, expense levels and other statements regarding matters that are not historical are forward-looking statements. We caution that these forward-looking statements relate to future events or our future financial performance and are subject to business, economic, and other risks and uncertainties, both known and unknown, that may cause actual results, levels of activity, performance or achievements of our business or our industry to be materially different from those expressed or implied by any forward-looking statements.

These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected, including without limitation, the following: (a) the impact on the Company, our customers and our suppliers from the effects of the floods in Thailand; (b) consummating the asset sale transaction with SEI, including the likelihood of obtaining regulatory and other necessary approvals; (c) delays and other difficulties in commercializing new products; (d) the failure of new products (i) to perform as expected without material defects, (ii) to be manufactured at acceptable volumes, yields, and cost, (iii) to be qualified and accepted by our customers, and, (iv) to successfully compete with products offered by our competitors; (e) we may not be successful in undertaking the steps currently planned in order to increase our liquidity; (f) uncertainties concerning the extent of our insurance recovery from damage to our contract manufacturer's facilities and the Company's and our contract manufacturer's equipment; restoration of operations and associated costs with such restoration related to flood-damaged facilities; uncertainties concerning the availability and cost of commodity materials and specialized product components that we

do not make internally; actions by competitors; and (g) other risks and uncertainties described in our 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.

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Neither management nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. All forward-looking statements are made as of the date hereof, based on information available to us as of the date hereof, and subsequent facts or circumstances may contradict, obviate, undermine, or otherwise fail to support or substantiate such statements. We caution you not to rely on these statements without also considering the risks and uncertainties associated with these statements and our business that are addressed in our filings with the SEC that are available on the SEC's web site located at [www.sec.gov](http://www.sec.gov), including the sections entitled "Risk Factors" in our Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q. Certain information included in this press release may supersede or supplement forward-looking statements in our other Exchange Act reports filed with the SEC. We assume no obligation to update any forward-looking statement to conform such statements to actual results or to changes in our expectations, except as required by applicable law or regulation.

Item 7.01 Regulation FD Disclosure.

See ITEM 2.02, "Results of Operations and Financial Condition" above.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

Exhibit Number Exhibit Description

99.1 Press Release, dated May 3, 2012, issued by EMCORE Corporation.

SIGNATURE

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

EMCORE CORPORATION

By: /s/ Mark B. Weinswig

Dated: May 3, 2012

Name: Mark B. Weinswig  
Title: Chief Financial Officer

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Exhibit 99.1

PRESS RELEASE

EMCORE Corporation Announces Financial Results for Its Second Quarter Ended March 31, 2012

- Revenues from Fiber Optics segment in Q2 increased 20% sequentially
- Rebuilding of flood-damaged production infrastructure on schedule
- Expects to close the sale of VCSEL-related product lines to Sumitomo next week
- Anticipates Q3 revenue of \$38 to \$41 million, representing 10-20% sequential growth when taking into account the sale of the VCSEL-related product lines

ALBUQUERQUE, New Mexico, May 3, 2012 - EMCORE Corporation (NASDAQ: EMKR - News), a leading provider of compound semiconductor-based components, subsystems, and systems for the fiber optics and solar power markets, today announced its financial results for its fiscal second quarter ended March 31, 2012.

Financial Results

Revenue:

Consolidated revenue for the second quarter ended March 31, 2012 was \$37.8 million, which represents a 20% decrease compared to the prior year and approximately 1% increase from the immediate preceding quarter.

On a segment basis, revenue for our Fiber Optics segment was \$21.9 million, which represents a 27% decrease compared to the prior year and approximately 20% increase compared to the immediate preceding quarter. As previously reported, in October 2011 our primary contract manufacturer announced that as a result of flooding in Thailand, it had suspended operations at its facility that was used to manufacture certain of our fiber optics products. Rising water penetrated the facility and submerged most of our process and test equipment as well as our inventory materials. The impact from this flooding has had a significant adverse impact on our operations and our ability to meet customer demand for certain of our fiber optics products. As discussed below, we are currently on schedule and focused on rebuilding the manufacturing infrastructure for our impacted product lines.

Our Photovoltaics segment was not affected by the Thailand floods. Revenue for our Photovoltaics segment was \$15.8 million, which represents approximately an 8% decrease compared to the prior year and a 17% decrease compared to the immediate preceding quarter. Historically, revenue has fluctuated significantly in our Photovoltaics segment due to timing of program completions and product shipments of major orders. During the second quarter, our Photovoltaics segment experienced a delay in shipping a large satellite solar cell order to an international customer. This resulted in a push out of product revenue from this quarter.

Gross Profit:

Consolidated gross profit was \$5.4 million, which represents a 49% decrease compared to the prior year and a 55% increase compared to the immediate preceding quarter. Consolidated gross margin was 14.2%, which represents a decrease from the 22.4% gross margin reported in the prior year and an increase from the 9.3% gross margin reported in the immediate preceding quarter. On a segment basis, Fiber Optics gross margin was 9.4%, which represents a decrease from the 18.0% gross margin reported in the prior year and an increase from the (4.8)% gross margin reported in the immediate preceding quarter. Photovoltaics gross margin was 20.9%, which represents a decrease from the 30.2% gross margin reported in the prior year and a decrease from the 22.7% gross margin reported in the immediate preceding quarter.



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During fiscal 2012, lower fiber optics-related revenues due to the impact from the Thailand flood resulted in higher manufacturing overhead as a percentage of revenue. Manufacturing of certain fiber optics-related components was moved to Company-owned facilities in the U.S., which involved higher labor and other related costs. Instead of completely rebuilding all flood damaged manufacturing lines, management has decided to realign the Company's fiber optics product portfolio and focus on business areas with strong technology differentiation and growth opportunities. During the three and six months ended March 31, 2012, management identified \$0.4 million and \$1.3 million, respectively, of inventory on order related to manufacturing product lines that were destroyed by the Thailand flood and will not be replaced. This expense was recorded within cost of revenues on our statement of operations.

### Operating Loss:

The consolidated operating loss was \$8.9 million, which represents approximately a \$4.7 million increase in operating loss when compared to the prior year and a \$2.8 million decrease in operating loss when compared to the immediate preceding quarter. The quarter-over-quarter variance in operating loss was primarily related to improved gross margins as well as a decrease in net flood-related losses and insurance proceeds. During the three and six months ended March 31, 2012, we recorded estimated flood-related losses associated with damaged inventory and equipment of approximately \$0.1 million and \$5.8 million, respectively. Additionally, last quarter we claimed damages and received proceeds of \$5.0 million under our own comprehensive insurance policy relating to business interruption and recorded this amount as flood-related insurance proceeds.

### Adjusted Operating Income (Loss):

After excluding certain non-cash and other infrequent transactions as set forth in the attached non-GAAP table, adjusted operating loss for the second quarter ended March 31, 2012 was approximately \$3.4 million, which represents an additional operating loss of approximately \$1.4 million when compared to the prior year and a reduction of operating loss of \$1.7 million from the loss reported for the immediate preceding quarter. On a segment basis, Fiber Optics adjusted operating loss was \$3.8 million which represents no change in operating loss when compared to the prior year and a reduction of approximately \$2.7 million from the loss reported for the immediate preceding quarter. Photovoltaics adjusted operating income was \$0.4 million which represents a reduction in operating income of approximately \$1.4 million when compared to the prior year and a reduction of approximately \$1.0 million from the income reported for the immediate preceding quarter.

### Suncore:

For the three months ended March 31, 2012, we recorded approximately a \$0.2 million loss related to our Suncore joint venture. As of March 31, 2012, our cumulative proportionate loss in Suncore has exceeded our net investment in Suncore. Since we have no obligation or intent to fund the deficit, we will resume applying the equity method only after our share of net income in Suncore equals the share of net losses not recognized during the period we suspended using the equity method.

### Net loss:

The consolidated net loss was \$9.3 million, which represents approximately a \$4.1 million increase in net loss when compared to the prior year and a decrease in net loss of \$4.9 million when compared to the immediate preceding quarter. The consolidated net loss per share was \$0.40, which represents a \$0.16 increase in net loss per share when compared to the prior year and a reduction of \$0.21 in net loss per share when compared to the immediate preceding quarter.

### Order Backlog

As of March 31, 2012, order backlog for our Photovoltaics segment totaled \$55.7 million, approximately an 8% increase from \$51.7 million reported as of December 31, 2011, in part driven by an increase in satellite solar cell orders. The backlog as of March 31, 2012 includes \$10.1 million of terrestrial solar cell orders from our Suncore joint

venture. Order backlog is defined as purchase orders or supply agreements accepted by us with expected product delivery and/or services to be performed within the next twelve months.

Product sales from our Fiber Optics segment are made pursuant to purchase orders, often with short lead times, and our revenues in this segment are still limited by the rebuilding of our production capacity.

#### Liquidity Update

As of March 31, 2012, cash, cash equivalents, and restricted cash totaled \$25.4 million and working capital totaled \$13.5 million. For the six months ended March 31, 2012, net cash provided by operating activities totaled \$11.0 million which was primarily due to an increase in customer deposits and a decrease in accounts receivable.



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### Reverse Stock Split

On January 27, 2012, we announced that our Board of Directors approved a four-to-one reverse stock split of our common stock. Our stockholders had previously authorized our Board of Directors to approve a reverse stock split at the 2011 Annual Meeting held on June 14, 2011. Our common stock began trading on the NASDAQ Global Market on a split adjusted basis on February 16, 2012. The reverse stock split reduced the number of issued and outstanding shares of our common stock from approximately 94.2 million to approximately 23.5 million. No fractional shares were issued in connection with the reverse stock split; all share amounts were rounded up. The change in the number of shares has been applied retroactively to all share and per share amounts presented in our consolidated financial statements.

### Pending Sale of Fiber Optics-related Assets

On March 27, 2012, we entered into a Master Purchase Agreement with Sumitomo Electric Industries, Ltd. pursuant to which we have agreed to sell certain assets and transfer certain obligations associated with VCSEL-related product lines in our Fiber Optics segment for \$17 million, subject to certain customary purchase adjustments. The assets to be sold include inventory, fixed assets, and intellectual property which enabled approximately \$4.3 million and \$7.4 million of revenue during the three and six months ended March 31, 2012, respectively. The carrying value of these assets totaled \$6.2 million as of March 31, 2012 which is classified as "assets held for sale" on our balance sheet. We expect to record a gain of approximately \$7.0 to \$9.0 million, subject to certain closing adjustments, before tax, upon completion of this asset sale. We expect to consummate the transaction next week.

### Business Outlook and Commentary

As previously discussed, the October 2011 flood in Thailand destroyed the manufacturing infrastructure that supports approximately 50% of our Fiber Optics segment revenue. This has had a significant impact on our operations and our ability to meet customer demand for certain fiber optics products. We have developed and implemented a solid plan to rebuild the impacted production lines at another location associated with our contractor manufacturer in Thailand as well as at our own manufacturing facility in China. We are making significant progress and the rebuild plan is on schedule. Our new CATV production line in China is online and manufacturing products to meet our customers' needs. The production line at our contract manufacturer in Thailand for our narrow-linewidth lasers for coherent 40 and 100 gigabit transmission applications has been up and running since early March, ahead of the original schedule. The products manufactured by the new line have passed Telcordia qualification requirements. Customers are completing their qualification and starting to take shipments.

On a consolidated basis, we expect revenue for our third quarter ended June 30, 2012 to be in the range of \$38 to \$41 million, which excludes revenues associated with the product lines being sold to Sumitomo.

### Conference Call

We will discuss our financial results today at 4:30 p.m. ET. The call will be webcast via our website at <http://www.emcore.com>. Please go to this site beforehand to download any necessary software. To participate in the conference call, U.S. and international callers should dial (224) 357-2194. The conference call ID is 72981103.

### Conferences

Management will present at the 13th Annual B. Riley & Co. Investor Conference at the Loews Santa Monica Beach Hotel in Santa Monica, CA on Tuesday, May 22, 2012 at 11:00am P.T.

About EMCORE

EMCORE Corporation offers a broad portfolio of compound semiconductor-based products for the fiber optics and solar power markets. EMCORE's Fiber Optics business segment provides optical components, subsystems and systems for high-speed telecommunications, Cable Television (CATV) and Fiber-To-The-Premise (FTTP) networks, as well as products for satellite communications, video transport and specialty photonics technologies for defense and homeland security applications. EMCORE's Solar Photovoltaics business segment provides products for both space and terrestrial solar power applications. For space applications, EMCORE offers high-efficiency multi-junction solar cells, Covered Interconnect Cells (CICs) and complete satellite solar panels. For terrestrial applications, EMCORE offers a broad portfolio of Concentrator Photovoltaic (CPV) multi-junction solar cells and components, as well as commercial rooftop solar concentrator systems. For further information about EMCORE, visit <http://www.emcore.com>.

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### Use of Non-GAAP Financial Measure

We provide a non-GAAP adjusted operating loss disclosure as a supplemental measure to U.S. GAAP regarding our operational performance. This financial measure excludes the impact of certain items; therefore, it has not been calculated in accordance with U.S. GAAP.

We believe that the additional non-GAAP financial measure is useful to investors in assessing our operating performance. We also use this measure internally to evaluate our operating performance and this measure is used for planning and forecasting of future periods. In addition, financial analysts that follow us may focus on and publish both historical results and future projections based on our non-GAAP financial measure. We also believe that it is in the best interest of our investors to provide this non-GAAP information.

While we believe that this non-GAAP financial measure provides useful supplemental information to investors, there are limitations associated with the use of this non-GAAP financial measure. Our non-GAAP financial measure may not be reported by all of our competitors and it may not be directly comparable to similarly titled measures of other companies due to potential differences in calculation. We compensate for these limitations by using this non-GAAP financial measure as a supplement to U.S. GAAP and by providing a reconciliation of the non-GAAP financial measure to its most comparable U.S. GAAP financial measure.

Non-GAAP financial measures are not in accordance with or an alternative for U.S. GAAP. Our non-GAAP financial measure is not meant to be considered in isolation or as a substitute for comparable U.S. GAAP financial measures and it should be read only in conjunction with our consolidated financial statements prepared in accordance with U.S. GAAP.

### Forward-Looking Statements

The information provided herein may include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act of 1934. These forward-looking statements are largely based on our current expectations and projections about future events and financial trends affecting the financial condition of our business. Such forward-looking statements include, in particular, projections about our future results included in our Exchange Act reports, statements about our plans, strategies, business prospects, changes and trends in our business and the markets in which we operate. Such forward-looking statements also include statements regarding the ability of our contract manufacturer to resume production, the expected impact of the flooding on our supply chain, and our ability to meet customer demand for our fiber optics products.

These forward-looking statements may be identified by the use of terms and phrases such as “anticipates”, “believes”, “can”, “could”, “estimates”, “expects”, “forecasts”, “intends”, “may”, “plans”, “projects”, “targets”, “will”, and similar expressions or these terms and similar phrases. Additionally, statements concerning future matters such as the development of new products, enhancements or technologies, sales levels, expense levels and other statements regarding matters that are not historical are forward-looking statements. We caution that these forward-looking statements relate to future events or our future financial performance and are subject to business, economic, and other risks and uncertainties, both known and unknown, that may cause actual results, levels of activity, performance or achievements of our business or our industry to be materially different from those expressed or implied by any forward-looking statements.

These forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those projected, including without limitation, the following: (a) the impact on the Company, our customers and our suppliers from the effects of the floods in Thailand; (b) consummating the asset sale transaction with SEI, including the likelihood of obtaining regulatory and other necessary approvals; (c) delays and other difficulties in commercializing new products; (d) the failure of new products (i) to perform as expected without material defects, (ii) to be manufactured at acceptable volumes, yields, and cost, (iii) to be qualified and accepted by our customers, and,

(iv) to successfully compete with products offered by our competitors; (e) we may not be successful in undertaking the steps currently planned in order to increase our liquidity; (f) uncertainties concerning the extent of our insurance recovery from damage to our contract manufacturer's facilities and the Company's and our contract manufacturer's equipment; restoration of operations and associated costs with such restoration related to flood-damaged facilities; uncertainties concerning the availability and cost of commodity materials and specialized product components that we do not make internally; actions by competitors; and (g) other risks and uncertainties described in our 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.

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Neither management nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. All forward-looking statements in this press release are made as of the date hereof, based on information available to us as of the date hereof, and subsequent facts or circumstances may contradict, obviate, undermine, or otherwise fail to support or substantiate such statements. We caution you not to rely on these statements without also considering the risks and uncertainties associated with these statements and our business that are addressed in our filings with the SEC that are available on the SEC's web site located at [www.sec.gov](http://www.sec.gov), including the sections entitled "Risk Factors" in our Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q. Certain information included in this press release may supersede or supplement forward-looking statements in our other Exchange Act reports filed with the SEC. We assume no obligation to update any forward-looking statement to conform such statements to actual results or to changes in our expectations, except as required by applicable law or regulation.

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## EMCORE CORPORATION

## Condensed Consolidated Statements of Operations

(in thousands, except loss per share)

(unaudited)

|   | For the Three Months Ended |                      |                   | For the Six Months Ended |                   |
|---|----------------------------|----------------------|-------------------|--------------------------|-------------------|
|   | March 31,<br>2012          | December 31,<br>2011 | March 31,<br>2011 | March 31,<br>2012        | March 31,<br>2011 |
| Revenue   | \$37,780                   | \$37,451             | \$47,218          | \$75,231                 | \$99,325          |
| Cost of revenue   | 32,404                     | 33,983               | 36,638            | 66,387                   | 76,065            |
| Gross profit  | 5,376                      | 3,468                | 10,580            | 8,844                    | 23,260            |
| Operating expense (income):                                     |                            |                      |                   |                          |                   |
| Selling, general, and administrative                            | 8,365                      | 7,480                | 9,380             | 15,845                   | 17,644            |
| Research and development  | 5,781                      | 6,980                | 7,984             | 12,761                   | 15,175            |
| Litigation settlement   | —                          | —                    | (2,590)           | —                        | (2,590)           |
| Flood-related losses  | 114                        | 5,698                | —                 | 5,812                    | —                 |
| Flood-related insurance proceeds                                | —                          | (5,000)              | —                 | (5,000)                  | —                 |
| Total operating expense   | 14,260                     | 15,158               | 14,774            | 29,418                   | 30,229            |
| Operating loss  | (8,884)                    | (11,690)             | (4,194)           | (20,574)                 | (6,969)           |
| Other income (expense):   |                            |                      |                   |                          |                   |
| Interest income   | 1                          | 1                    | —                 | 2                        | —                 |
| Interest expense  | (122)                      | (130)                | (130)             | (252)                    | (388)             |
| Foreign exchange gain   | 167                        | 89                   | 749               | 256                      | 414               |
| Loss from equity method investment                              | (241)                      | (960)                | (587)             | (1,201)                  | (587)             |
| Change in fair value of financial instruments                   | (256)                      | 105                  | (1,038)           | (151)                    | (1,310)           |
| Other expense   | —                          | —                    | (5)               | —                        | (10)              |
| Total other expense   | (451)                      | (895)                | (1,011)           | (1,346)                  | (1,881)           |
| Loss before income tax expense                                  | (9,335)                    | (12,585)             | (5,205)           | (21,920)                 | (8,850)           |
| Foreign income tax expense on capital distributions             | —                          | (1,644)              | —                 | (1,644)                  | —                 |
| Net loss  | \$(9,335)                  | \$(14,229)           | \$(5,205)         | \$(23,564)               | \$(8,850)         |
| Per share data:   |                            |                      |                   |                          |                   |
| Net loss per basic and diluted share                            | \$(0.40)                   | \$(0.61)             | \$(0.24)          | \$(1.00)                 | \$(0.41)          |
| Weighted-average number of basic and diluted shares outstanding | 23,529                     | 23,476               | 21,804            | 23,577                   | 21,556            |

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## EMCORE CORPORATION

## Condensed Consolidated Balance Sheets

As of March 31, 2012 and September 30, 2011

(in thousands, except per share data)

(unaudited)

|  | As of<br>March 31,<br>2012 | As of<br>September 30,<br>2011 |
|--|----------------------------|--------------------------------|
| <b>ASSETS</b>                                  |                            |                                |
| Current assets:                                |                            |                                |
| Cash and cash equivalents                      | \$24,112                   | \$15,598                       |
| Restricted cash                                | 1,242                      | 544                            |
| Accounts receivable, net                       | 28,111                     | 34,875                         |
| Inventory                                      | 32,746                     | 33,166                         |
| Prepaid expenses and other current assets      | 8,191                      | 7,168                          |
| Assets held for sale                           | 6,192                      | —                              |
| Total current assets                           | 100,594                    | 91,351                         |
| Property, plant, and equipment, net            | 42,571                     | 46,786                         |
| Goodwill                                       | 20,384                     | 20,384                         |
| Other intangible assets, net                   | 4,422                      | 5,866                          |
| Equity method investment                       | —                          | 2,374                          |
| Other non-current assets                       | 5,222                      | 3,537                          |
| Total assets                                   | \$173,193                  | \$170,298                      |
| <b>LIABILITIES and SHAREHOLDERS' EQUITY</b>    |                            |                                |
| Current liabilities:                           |                            |                                |
| Borrowings from credit facility                | \$21,000                   | \$17,557                       |
| Accounts payable                               | 34,981                     | 26,581                         |
| Warrant liability                              | 752                        | 601                            |
| Accrued expenses and other current liabilities | 30,316                     | 22,319                         |
| Total current liabilities                      | 87,049                     | 67,058                         |
| Asset retirement obligations                   | 4,902                      | 4,800                          |
| Other long-term liabilities                    | 734                        | 4                              |
| Total liabilities                              | 92,685                     | 71,862                         |
| Commitments and contingencies                  |                            |                                |
| Shareholders' equity:                          |                            |                                |
| Preferred stock                                | —                          | —                              |
| Common stock                                   | 718,274                    | 713,063                        |
| Treasury stock                                 | (2,083                     | ) (2,083                       |
| Accumulated other comprehensive income         | 1,337                      | 912                            |
| Accumulated deficit                            | (637,020                   | ) (613,456                     |
| Total shareholders' equity                     | 80,508                     | 98,436                         |
| Total liabilities and shareholders' equity     | \$173,193                  | \$170,298                      |





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We have provided a reconciliation of our non-GAAP operating loss financial measure to its most directly comparable U.S. GAAP financial measure as indicated in the table below:

## Non-GAAP Table

## Adjusted Operating Loss

## Unaudited

(in thousands)

|   | For the Three Months |                      |                   | For the Six Months |                   |
|---|----------------------|----------------------|-------------------|--------------------|-------------------|
|   | March 31,<br>2012    | December 31,<br>2011 | March 31,<br>2011 | March 31,<br>2012  | March 31,<br>2011 |
| Operating Loss - US GAAP                  | \$(8,884 )           | \$(11,690 )          | \$(4,194 )        | \$(20,574 )        | \$(6,969 )        |
| Adjustments:                              |                      |                      |                   |                    |                   |
| Depreciation, amortization, and accretion | 2,377                | 2,775                | 2,963             | 5,152              | 5,970             |
| Stock-based compensation expense          | 2,542                | 2,180                | 1,488             | 4,722              | 2,611             |
| Corporate legal expense                   | —                    | —                    | 296               | —                  | 396               |
| Flood-related losses                      | 114                  | 5,698                | —                 | 5,812              | —                 |
| Flood-related insurance proceeds          | —                    | (5,000 )             | —                 | (5,000 )           | —                 |
| Loss on inventory purchase commitments    | 435                  | 908                  | —                 | 1,343              | —                 |
| Litigation settlement adjustments         | —                    | —                    | (2,590 )          | —                  | (2,590 )          |
| Total adjustments                         | 5,468                | 6,561                | 2,157             | 12,029             | 6,387             |
| Adjusted Operating Loss - Non-GAAP        | \$(3,416 )           | \$(5,129 )           | \$(2,037 )        | \$(8,545 )         | \$(582 )          |
| Adjusted Operating Income (Loss)          |                      |                      |                   |                    |                   |
| - by Segment:                             |                      |                      |                   |                    |                   |
| Fiber Optics                              | \$(3,857 )           | \$(6,536 )           | \$(3,874 )        | \$(10,393 )        | \$(6,055 )        |
| Photovoltaics                             | 441                  | 1,407                | 1,837             | 1,848              | 5,473             |
| Adjusted Operating Loss - Non-GAAP        | \$(3,416 )           | \$(5,129 )           | \$(2,037 )        | \$(8,545 )         | \$(582 )          |

## Stock-based compensation

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

## Stock-based Compensation Expense

(in thousands, except loss per share)

|  | For the Three Months |                      |                   | For the Six Months |                   |
|--|----------------------|----------------------|-------------------|--------------------|-------------------|
|  | March 31,<br>2012    | December 31,<br>2011 | March 31,<br>2011 | March 31,<br>2012  | March 31,<br>2011 |
| Cost of revenue                                    | \$593                | \$476                | \$236             | \$1,069            | \$453             |
| Selling, general, and administrative               | 1,233                | 1,013                | 925               | 2,246              | 1,556             |
| Research and development                           | 716                  | 691                  | 327               | 1,407              | 602               |
| Total stock-based compensation expense             | \$2,542              | \$2,180              | \$1,488           | \$4,722            | \$2,611           |
| Net effect on net loss per basic and diluted share | \$(0.11 )            | \$(0.09 )            | \$(0.07 )         | \$(0.20 )          | \$(0.12 )         |

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