

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

FORM 10-Q

(Mark one):

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

For the quarterly period ended March 31, 1998

OR

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

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

Commission File Number: 0-22175

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

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

22-2746503  
(IRS Employer Identification No.)

394 Elizabeth Avenue  
Somerset, NJ 08873  
(Address of principal executive offices) (zip code)

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

NO CHANGE  
(Former name or former address, if changed since last report)

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:

As of May 7, 1998 there were 9,345,350 shares of the registrant's no par value common stock outstanding.

This quarterly report of Form 10-Q contains 18 pages, of which this is page 1.

Part I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

EMCORE CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(In Thousands Except Per Share Data)  
(Unaudited)

<TABLE>  
<CAPTION>

	Three Months Ended March 31,		Six Months Ended March 31,	
	1998	1997	1998	1997
1997				
<S>	<C>	<C>	<C>	<C>
Revenue.....	\$13,808	\$12,929	\$26,165	
\$21,520				
Cost of sales.....	7,534	8,855	13,910	
15,579				

Gross profit..... \$5,941	\$6,274	\$4,074	\$12,255
-----			
Operating expenses:			
Selling, general, and administrative..... \$4,142	\$2,901	\$1,940	\$5,708
Goodwill amortization.....	284		355
Research and development:			
One-time acquired in-process.....			29,294
Recurring.....	2,889	1,987	5,921
4,237			
-----			
Total operating expenses..... \$8,379	\$6,074	\$3,927	\$41,278
-----			
Operating income (loss)..... (\$2,438)	\$200	\$147	(\$29,023)
-----			
Other expense:			
Stated interest expense, net..... \$445	\$47	\$249	\$117
Imputed warrant interest expense, non-cash.....	96	2,792	192
Provision for income taxes.....	20		20
3,809			
-----			
Total other expense..... \$4,254	\$163	\$3,041	\$329
-----			
Income (loss) before extraordinary item..... (\$6,692)	\$37	(\$2,894)	(\$29,352)
Extraordinary loss..... 256	-	256	
-----			
Net income (loss)..... (\$6,948)	\$37	(\$3,150)	(\$29,352)
=====			
Per share data:			
Income (loss) before extraordinary item..... (\$1.62)	\$0.00	(\$0.76)	(\$3.58)
Extraordinary loss..... (0.06)	-	(0.06)	-
-----			
Net income (loss) per share..... (\$1.68)	\$0.00	(\$0.82)	(\$3.58)
=====			
Shares used in per share data calculations..... 4,127	10,548	3,825	8,189
=====			

</TABLE>

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

EMCORE CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEET  
(In Thousands)

<TABLE>  
<CAPTION>

September 30, 1997	At March 31, 1998	At -----
-----------------------	----------------------	-------------

ASSETS	(unaudited)	
<S>	<C>	<C>
Cash and cash equivalents.....	\$2,592	
\$3,653		
Restricted cash.....	188	
313		
Accounts receivable, net of allowance for doubtful accounts of \$616 and \$697 at March 31, 1998 and September 30, 1997, respectively.....	11,197	
8,439		
Accounts receivable, related party.....	2,500	
2,500		
Inventories, net.....	9,899	
7,186		
Other current assets.....	421	
120		
-----		
Total current assets.....	\$26,797	
\$22,211.		
Property and equipment, net.....	21,223	
16,798		
Goodwill.....	3,025	
Other assets.....	877	
454		
-----		
Total assets.....	\$51,922	
\$39,463		
=====		
LIABILITIES & SHAREHOLDERS' EQUITY		
Accounts payable.....	\$5,501	
\$4,050		
Accrued expenses.....	3,897	
3,868		
Short-term debt.....	7,950	
Advanced billings.....	86	
1,998		
Capital lease obligations, current portion.....	624	
15		
Other current liabilities.....	30	
124		
-----		
Total current liabilities.....	\$18,088	
\$10,055		
Subordinated debt.....	7,619	
7,499		
Capital lease obligation, net of current portion.....	1,105	
78		
-----		
Total liabilities.....	\$26,812	
\$17,632		
-----		
Shareholders' Equity:		
Common stock, no par value, 23,529,411 shares authorized, 9,336,498 shares issued and outstanding March 31, 1998, 6,000,391 shares issued and outstanding September 30, 1997.....	\$85,907	
\$45,817		
Accumulated deficit.....	(53,130)	
(23,777)		
Notes receivable from warrant issuances and stock sales.....	(7,667)	
(209)		
-----		
Total shareholders' equity.....	\$25,110	
\$21,831		
-----		
Total liabilities and shareholders' equity.....	\$51,922	
\$39,463		
=====		

</TABLE>

The accompanying notes are an integral part of these condensed consolidated

financial statements.

EMCORE CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In Thousands)  
(Unaudited)

<TABLE>  
<CAPTION>

	Six Months Ended March 31,	
---	----- 1998 -----	----- 1997 -----
<S>	<C>	<C>
Operating activities:		
Net loss.....	(\$29,352)	
(\$6,948)		
---		
Adjustments to reconcile net loss to net cash (used in)		
provided by operating activities:		
Depreciation and amortization.....	3,000	
1,996		
Acquired in-process research and development, non-cash.....	29,294	
Compensatory stock issuances.....	170	
Provision for doubtful accounts.....	(80)	
70		
Detachable warrant accretion and valuation.....	193	
3,809		
Extraordinary loss on early debt extinguishment.....		
256		
Provision for inventory valuation.....	60	
60		
Change in assets and liabilities:		
Accounts receivable.....	(2,561)	
(3,540)		
Inventories.....	(2,637)	
(2,320)		
Other current assets.....	(278)	
(90)		
Other assets.....	(168)	
141		
Accounts payable.....	1,413	
3,069		
Accrued expenses.....	(1,255)	
868		
Advanced billings.....	(1,912)	
1,087		
Other current liabilities.....	(94)	
31		
---		
Total adjustments.....	\$25,145	
\$5,437		
---		
Net cash used in operating activities.....	(\$4,207)	
(\$1,511)		
---		
Investing activities:		
Purchase of property, plant, and equipment.....	(4,996)	
(6,935)		
Acquisition, cash acquired.....	193	
Payments (Funding) of restricted cash.....	125	
(438)		
---		
Net cash used in investing activities.....	(\$4,678)	
(\$7,373)		
---		
Financing activities:		
Proceeds from short-term debt borrowings.....	7,950	
8,000		
Payments on subordinated notes and short-term debt.....		
(10,000)		
Net proceeds from public offering.....		
22,765		

Payments on capital lease obligations.....	(187)	
Reduction in subordinated debt and related notes receivable from shareholders.....		
210		
Net proceeds from stock options exercise.....	42	
Proceeds from exercise of stock warrants.....	19	
---		
Net cash provided by financing activities.....	\$7,824	
\$20,975		
---		
Net (decrease) increase in cash and cash equivalents.....	(\$1,061)	
\$12,091		
Cash and cash equivalents, beginning.....	3,653	
1,367		
---		
Cash and cash equivalents, ending.....	\$2,592	
\$13,458		
=====		

</TABLE>

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

EMCORE CORPORATION  
STATEMENT OF STOCKHOLDERS' EQUITY  
from September 30, 1996, through March 31, 1998  
(Amounts In Thousands)  
(Unaudited)

<TABLE>  
<CAPTION>

Total	Common Stock		Accumulated	Shareholders'	
Shareholders'	Shares	Amount	Deficit	Notes	
Equity				Receivable	
-----					
<S>	<C>	<C>	<C>	<C>	<C>
Balance at September 30, 1995.....	2,994	\$16,638	(\$14,982)	(\$146)	
\$1,510					
Issuance of common stock purchase warrants.....		2,340			
2,340					
Notes receivable due from shareholders in connection with issuance of detachable warrants.....				(152)	
(152)					
Net loss.....			(3,176)		
(3,176)					
-----					
Balance at September 30, 1996.....	2,994	\$18,978	(\$18,158)	(\$298)	
\$522					
Issuance of common stock purchase warrants.....		3,601			
3,601					
Issuance of common stock from initial public offering, net of issuance costs of \$3,110.....	2,875	22,765			
22,765					
Warrant exercise by conversion of sub-debt.....	94	384			
384					
Stock option exercise.....	35	54			
54					
Redemption of notes receivable from shareholders.....				32	
32					
Forgiveness of note receivable from shareholder.....				57	
57					
Compensatory stock issuances.....	2	35			
35					
Net loss.....			(5,620)		
(5,620)					
-----					
Balance at September 30, 1997.....	6,000	\$45,817	(\$23,778)	(\$209)	

\$21,830					
Warrant exercise by conversion of sub-debt.....	22	91			
91					
Warrant exercise in exchange for note receivable.....	1,828	7,458			(\$7,458)
-					
Issuance of common stock in connection with the acquisition of MODE.....	1,462	32,329			
32,329					
Compensatory stock issuances.....	11	170			
170					
Stock option exercise.....	13	42			
42					
Net loss.....					(29,352)
(29,352)					
-----					
Balance at March 31, 1998	(unaudited)	9,336	\$85,907	(\$53,130)	(\$7,667)
\$25,110					
=====					
=====					

</TABLE>

EMCORE CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. INTERIM FINANCIAL INFORMATION

The accompanying unaudited condensed consolidated financial statements of EMCORE Corporation (the "Company") reflect all adjustments considered necessary by management to present fairly the Company's consolidated financial position as of March 31, 1998 and March 31, 1997, and the consolidated results of operations and the consolidated cash flows for the periods ended March 31, 1998, and March 31, 1997. All adjustments reflected in the accompanying unaudited condensed consolidated financial statements are of a normal recurring nature unless otherwise noted. The results of operations for the three months ended March 31, 1998, are not necessarily indicative of the results for the fiscal year ending September 30, 1998, or any future interim period.

NOTE 2. ACQUISITION

On December 5, 1997, the Company acquired all of the outstanding capital stock of MicroOptical Devices, Inc. ("MODE") in exchange for 1,461,866 shares of EMCORE common stock, 200,966 common stock purchase options (exercise prices ranging from \$0.43 to \$0.59), and 47,188 common stock purchase warrants (exercise prices ranging from \$4.32 to \$5.92). The purchase price was approximately \$32,829,000 including direct acquisition costs of approximately \$500,000. The acquisition of MODE was recorded using the purchase method of accounting. Accordingly, the results of operations of the acquired business and the fair values of the acquired tangible and intangible assets and assumed liabilities are included in the Company financial statements as of the effective date. The allocation of the fair value of the net assets acquired is as follows:

Net tangible assets	\$ 707,000
Goodwill	2,828,000
Acquired in-process research and development	29,294,000
	-----
Total purchase price	\$32,829,000
	=====

The amount allocated to acquired in-process research and development was determined through an independent valuation. Amounts allocated to acquired in-process research and development were immediately written off in the period of acquisition. Goodwill is being amortized over a period of three years.

The following unaudited pro forma basis financial information reflects the combined results of operations of the Company and MODE (in thousands), as if MODE had been acquired as of October 1, 1996 and October 1, 1997. The summary includes the impact of certain adjustments, such as goodwill amortization and the number of shares outstanding.

	(Unaudited) Year ended September 30, 1997	(Unaudited) Six months ended March 31, 1998
	-----	-----
Revenue	\$48,313	\$26,265
Net loss before extraordinary item	8,769	954
Net loss	9,055	954
Net loss, per share	\$1.35	\$0.12

The unaudited pro forma results of operations are not necessarily indicative of what actually would have occurred if the acquisition had occurred on October 1, 1996 or October 1, 1997. In addition, the unaudited pro forma results of operations are not intended to be a projection of future results that might be achieved from the combined entity. The foregoing pro forma results of operations does not reflect the non-recurring write-off of acquired in-process research and development.

NOTE 3. DEBT

On March 31, 1997, the Company entered into a \$10.0 million revolving loan agreement (the "Agreement"). The Agreement bears interest at the rate of Prime plus 50 basis points, subject to periodic quarterly decreases, and has a revolving loan maturity date and expires on September 30, 1998. As of March 31, 1998, the Company had borrowed approximately \$8.0 million at an interest rate of 8.25% under the Agreement.

NOTE 4. INVENTORIES

The components of inventories consisted of the following (in thousands):

	As of March 31, 1998	As of September 30, 1997
Raw materials.....	\$9,413	\$6,514
Work-in-process.....	486	672
Total.....	\$9,899	\$7,186

NOTE 5. EARNINGS PER SHARE

Basic earnings per common share was calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per share was calculated by dividing net income by the sum of the weighted average number of common shares outstanding plus all additional common shares that would have been outstanding if potentially dilutive common shares had been issued. The following table reconciles the number of shares utilized in the earnings per share calculations for the three-month and six-month period ending March 31, 1998 and 1997, respectively.

<TABLE>  
<CAPTION>

	Three Months Ended March 31,		Six Months Ended March 31,	
	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
Net income (loss).....	\$37	(\$3,150)	(\$29,352)	(\$6,948)
Earnings per common share - basic.....	\$0.00	(\$0.82)	(\$3.58)	(\$2.04)
Earnings per common share - diluted.....	\$0.00	(\$0.82)	(\$3.58)	(\$1.68)
Common Share - basic .....	9,328	3,825	8,189	3,405
Effect of dilutive securities:				
Stock options and warrants.....	1,220	-	-	-
Other.....	-	-	-	722
Common shares - diluted .....	10,548	3,825	8,189	4,127

</TABLE>

Under the provisions of Securities and Exchange Commission Staff Bulletin No. 64 ("SAB" No. 64), common stock and common stock equivalents issued by the Company within one year or in contemplation of the Company's initial public offering (the "IPO") are treated as if they were outstanding for all periods presented prior to the Company's IPO. After the IPO is effective, the determination of common stock and equivalents has been determined on a basis consistent with FAS 128, which states "EPS shall not assume conversion exercise or contingent issuance of securities that would have an anti-dilutive effect on earnings per share."

NOTE 6. RELATED PARTIES

In fiscal 1997, the Company entered into a non-exclusive and non-refundable technology licensing and royalty agreement with Uniroyal Technology Corporation ("UTC") for the process technology to develop and manufacture of high brightness light emitting diodes ("LEDs"). Effective January 1998, UTC's Chairman/CEO and his son resigned from the Company's Board of Directors.

During the quarter ended March 31, 1998, the Company executed a Memorandum of Understanding (the "Memorandum") to enter into an amended and restated distribution agreement with Hakuto Co., Ltd. ("Hakuto"), with respect to the distribution of certain EMCORE products in Japan and other Asian countries. The

Memorandum sets forth the conditions for fees, commissions, and territories (both exclusive and non-exclusive) and contemplates the establishment of a product pricing strategy. Hakuto, whose CEO is a member of the Company's Board of Directors, has distributed the Company's Turbo-Disc products since 1988.

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

OVERVIEW

EMCORE, founded in 1984, designs and develops compound semiconductor materials and process technology and is a leading manufacturer of production systems used to fabricate compound semiconductor wafers. Compound semiconductors are used in a broad range of applications in wireless communications, telecommunications, computers, and consumer and automotive electronics. The Company provides its customers, both in the US and internationally, with materials science expertise, process technology and compound semiconductor production systems that enable the manufacture of commercial volumes of high-performance electronic and optoelectronic devices. In response to the growing need of its customers to cost effectively get to market faster with higher volumes of new and improved high performance products, the Company has expanded its product offerings to include the design, development and production of compound semiconductor wafers and package-ready devices.

On December 5, 1997, the Company purchased MicroOptical Devices, Inc. ("MODE"). MODE is one of the market leaders in the design and development of high-quality optical components and subsystems based on vertical cavity surface emitting laser ("VCSEL") technology, which offers superior performance at lower cost over conventional semiconductor laser technologies. MODE's microlasers and optical subsystems provide design, performance and significant cost advantages over their technical predecessors such as edge-emitting solid state lasers. Through the integration of VCSELs with leading OEM systems design, VCSELs are expected to provide enhanced performance benefits to market applications such as Internet access, onboard photonics, gigabit ethernet, local area networks, microarea networks, DVD and fiberoptic switching. MODE's Gigalase™ and Gigarray™ technology developments to date are currently being evaluated by a variety of domestic and international OEM customers in the areas of data communications, telecommunications, optical storage and sensing.

RESULTS OF OPERATIONS:

REVENUES The Company's second quarter revenue increased 7.0% from \$12.9 million for the quarter ended March 31, 1997, to \$13.8 million for the quarter ended March 31, 1998. The revenue increase in the three month period was attributable to the increased revenue from the Company's materials-related product lines. Revenues relating to systems and materials-related products accounted for 55.8% and 44.2% for the three months ended March 31, 1998 and 80.0% and 20.0% for the three months ended March 31, 1997. Revenues relating to systems and materials-related products accounted for 55.2% and 44.8% for the six months ended March 31, 1998 and 86.0% and 14.0% for the six months ended March 31, 1997. Systems revenue includes production systems, service and components. Materials revenues include wafers, devices and payments for product development technology under licensing. International sales accounted for approximately 42.4% and 35.3% of revenues for the three months ended March 31, 1998 and 1997, respectively, and approximately 43.5% and 46.9% of revenues for the six months ended March 31, 1998 and 1997, respectively.

During Fiscal 1997, the Company expanded its product offerings to include epitaxial wafers and devices. Prior to this, most of the Company's revenues were derived from sales of its Turbo-Disc™ ("T-D") MOCVD equipment. With the economic downturn in the Asian markets, bookings of the Company's T-D equipment have decreased. Accordingly, revenues from equipment sales are expected to decrease during the next two quarters.

The Company believes that in the future, its systems and material-related revenues and, consequentially, its results of operations on a quarterly basis could be impacted by the timing of customer development projects and related purchase orders for the Company's varied products, new product announcements and releases by the Company, and global economic conditions, generally, and the compound semiconductor industry environment, specifically.

COST OF SALES/GROSS PROFIT Cost of sales includes direct material and labor costs, allocated manufacturing and service overhead, and installation and warranty costs. Gross profit increased from 31.5% of revenue for the quarter ended March 31, 1997, to 45.4% of revenue for the quarter ended March 31, 1998. The gross profit percentage increase was primarily attributable to higher margins on materials related revenues.

SELLING, GENERAL AND ADMINISTRATIVE Selling, general and administrative expenses increased by 49.5% from \$1.9 million for the quarter ended March 31, 1997, to



\$2.9 million in the quarter ended March 31, 1998. The increase was largely due to increases in sales personnel headcount to support both domestic and foreign markets and general headcount additions to sustain the internal administrative support necessary for the Company's increased business, as well as higher variable expenses attributable to increased revenues. As a percentage of revenue, selling, general and administrative expenses increased from 15.0% for the second quarter of the prior year to 21.0% for the second quarter of the current year.

**GOODWILL AMORTIZATION** The Company recognized approximately \$284,000 of goodwill amortization for the quarter ended March 31, 1998 in connection with the acquisition of MODE on December 5, 1997. The Company has approximately \$3.0 million of Goodwill which will be fully amortized by October 31, 2000.

**RESEARCH AND DEVELOPMENT** Research and development expenses increased 45% from \$2.0 million in the quarter ended March 31, 1997, to \$2.9 million in the quarter ended March 31, 1998. As a percentage of revenue, recurring research and development expenses increased from 15.4% for the second quarter of the prior year to 20.9% for the second quarter of the current year. For the six months ended, March 31 1998, the \$29.3 million one-time non-cash charge for acquired in-process research and development pertained to the Company's December 5, 1997 purchase of MODE. To maintain growth and market leadership in materials science technology, the Company expects to continue to invest a significant amount of its resources in research and development.

**OPERATING INCOME (LOSS)** Operating income increased 36.1% from \$147,000 for the quarter ended March 31, 1997, to income of \$200,000 for the quarter ended March 31, 1998. The change in operating income is primarily due to increased revenues and higher materials-related gross margins.

**OTHER EXPENSE** During fiscal 1996, the Company issued detachable warrants along with subordinated notes to certain of its existing shareholders. In the first quarter of fiscal year 1997, the Company also issued detachable warrants in return for a \$10.0 million demand note facility (the "Facility") guarantee by a director of the Company, affiliated with the Company's majority shareholder, who provided collateral for the Facility. The Company subsequently assigned a value to these detachable warrants using the Black-Scholes Option Pricing Model. The Company recorded the subordinated notes at a carrying value that is subject to periodic accretions, using the interest method, and reflected the Facility detachable option value as a debt issuance cost. The consequent expense of these warrant accretion amounts and the now terminated Facility debt issuance cost is charged to "Imputed warrant interest, non-cash," and amounted to approximately \$96,000 and \$2.8 million for the quarters ended March 31, 1998 and March 31, 1997, respectively.

As of December 31, 1996, the Company had borrowed \$6.0 million under the Facility which was repaid on March 31, 1997. The interest expense under the Facility resulted in higher stated interest expense for the quarter ended March 31, 1997. Additionally, the Company receives offsetting interest income from notes secured by stock pledge agreements from shareholders who exercised warrants in a cash-free transaction on December 2, 1997.

**NET INCOME/LOSS** Net income increased approximately \$3.2 million from a net loss of \$3.2 million in the quarter ended March 31, 1997, to net income of \$37,000 for the quarter ended March 31, 1998. The year-to-date loss increased \$22.5 million from \$6.9 million for the six months ended 1997 to \$29.4 million for 1998. This year-to-date loss increase was attributable to the \$29.3 million write-off of acquired in-process research and development in connection with the acquisition of MODE on December 5, 1997.

#### BACKLOG:

The Company's order backlog decreased 33.1% from \$21.8 million as of March 31, 1997, to \$14.6 million as of March 31, 1998. The reason for this backlog downturn is the decrease in equipment orders, most of which appears to be a result of the economic slump in the Asian economy. The Company includes in backlog only customer purchase orders which have been accepted by the Company and for which shipment dates have been assigned within the 12 months to follow and research contracts that are in process or awarded. Wafer and device contract agreements extending longer than one year in duration are included in backlog only for the ensuing 12 months with respect to wafers and 3 months with respect to devices. Some of these agreements currently extend over 12 months. The Company receives partial advance payments or irrevocable letters of credit on most production system orders and has never experienced an order cancellation. Although the Company has increased its capacity to meet continued increased production needs for epitaxial wafers and devices, there can be no assurance that the Company will be consistently able to increase its capacity to meet its scheduled needs.

#### LIQUIDITY AND CAPITAL RESOURCES:

Cash and cash equivalents decreased by \$1.1 million from \$3.7 million at September 30, 1997, to \$2.6 million at March 31, 1998. For the six months ended March 31, 1998, net cash used by operations amounted to \$4.2 million, primarily due to the Company's increase in inventories and accounts receivable and

decrease in advanced billings and accrued expenses, which was partially offset by the Company's net losses excluding one-time charges, non-cash depreciation and amortization charges, and its increase in accounts payable. The increase in accounts receivable at March 31, 1998, was due to the fact that most of the Company's equipment orders for the quarter were not shipped until late March. In April 1998, the Company's received approximately \$8.4 million of these receivables.

For the six months ended March 31, 1998, net cash used in investment activities amounted to \$4.7 million primarily due to purchase and manufacture of new equipment for the facilitation of the Company's wafer and package ready device product lines and clean room modifications and enhancements.

On March 31, 1997, the Company entered into a \$10.0 million revolving loan (the "Agreement"). The Agreement bears interest at the rate of Prime plus 50 basis points, subject to periodic quarterly decreases, and has a revolving loan maturity date and expires on September 30, 1998. Net cash provided by financing activities for the six months ended March 31, 1998 amounted to \$7.8 million, due to the Company's proceeds from borrowings under this Agreement. These borrowings bear interest at a rate of 8.25%.

The Company believes that its current liquidity, together with the Agreement, should be sufficient to meet its cash needs for working capital through fiscal 1998. However, if cash generated from operations is insufficient to satisfy the Company's liquidity requirements, the Company may be required to raise funds through equity or debt offerings or obtain additional credit facilities if possible. Additional funding may not be available when needed or on terms acceptable to the Company, which could have a material adverse effect on the Company's business financial conditions or operations.

At March 31, 1998, the Company employed 310 full-time employees, up 35.4% from 229 as of March 31, 1997 and up 123.0% from the 139 employees at March 31, 1996. The increase in the number of employees since 1996 is a direct result of the Company's increased manufacturing needs to meet the demand for its compound semiconductor materials and, to a lesser extent, production systems. None of the Company's employees are covered by a collective bargaining agreement. The Company considers its relationship with its employees to be good.

#### OUTLOOK:

Historically the Company has generated significant revenues from its TurboDisc™ ("T-D") product line from Asian customers. Continued economic and currency-related uncertainty in the region has impacted the Company's T-D sales in this market. Accordingly, T-D backlog has decreased significantly from the backlog at March 31, 1997. Shipments of T-D systems will continue to trend lower for the next two quarters versus 1997.

On December 5, 1997, the Company purchased MODE. MODE is one of the market leaders in the design and development of high-quality components and subsystems based on VCSEL technology, which is expected to offer superior performance and higher efficiency over conventional compound semiconductor technologies.

MODE's microlasers and optical subsystems provide design, performance and significant cost advantages over their technical predecessors such as edge-emitting solid state lasers. Through the integration of VCSELS with leading OEM systems design, VCSELS are expected to provide enhanced performance benefits to market applications such as Internet access, onboard photonics, gigabit ethernet, local area networks, microarea networks such as chip-to-chip and board-to-board applications, DVD and fiberoptic switching. MODE's Gigalase™ and Gigarray™ technology developments to date are currently being evaluated by a variety of domestic and international OEM customers in the areas of data communications, telecommunications, optical storage and sensing.

The Company believes that VCSEL technology may address a number of technical bandwidth challenges applicable to the high-speed computing and communications markets, allowing optoelectronic applications to perform their functions at higher speeds with lower costs than traditional optoelectronic systems. The Company believes that with the acquisition of MODE, it will be well positioned to actively participate in the development of the next-generation optoelectronic laser market which is estimated to grow to one billion dollars by the year 2000.

The Company believes it possess the technological "know how" to capitalize on all of these market opportunities. However, there can be no assurance that the Company will maintain sufficient growth in sales levels to support the associated labor, equipment and facility costs.

#### INFORMATION RELATING TO FORWARD LOOKING STATEMENTS:

Management's Discussion and Analysis of Financial Condition and Results of Operations includes forward-looking statements that reflect the Company's current expectations or beliefs concerning future results and events. The words "expects", "intends", "believes", "anticipates", "likely", "will", and similar expressions identify forward-looking statements. These forward-looking statements are subject to certain risks and uncertainties which could cause actual results and events to differ materially from those anticipated in the

forward-looking statements. Factors that might cause such a difference include, but are not limited to, statements about future financial performance of the Company and MODE and the effect of the acquisition on the Company's business; continued acceptance of the Company's MOCVD technologies, as well as the market success of VCSEL technologies; the Company's ability to achieve and implement the planned enhancements of products and services on a timely and cost-effective basis and customer acceptance of those product introductions; product obsolescence due to advances in technology and shifts in market demand; competition and resulting price pressures; business conditions; economic and stock market conditions, particularly in the U.S., Europe and Japan, and their impact on sales of the Company's products and services; risks associated with foreign operations, including currency and political risks; and such other risk factors as may have been or may be included from time to time in the Company's reports filed with the Securities and Exchange Commission.

## PART II. OTHER INFORMATION

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

#### (a) List of Exhibits:

- 10 - Memorandum of Understanding dated as of March 31, 1998 between the Company and Hakuto & Co., Ltd. Confidential treatment has been requested by the Company for portions of this document. Such portions are indicated by "[\*]".
- 11 - Statement of Computation of Per Share Amounts
- 27 - Financial Data Schedule

#### (b) Reports on Form 8-K:

No reports on Form 8-K were filed during the quarter ended March 31, 1998

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 12, 1998

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

-----  
Reuben F. Richards, Jr.  
President and Chief Executive Officer

Date: May 12, 1998

By: /s/ Thomas G. Werthan

-----  
Thomas G. Werthan  
Vice President, Finance and Administration

#### EXHIBIT INDEX

Exhibit	Description
-----	-----
10	Memorandum of Understanding dated as of March 31, 1998, between the Company and Hakuto & Co., Ltd. Confidential treatment has been requested by the Company for portions of this document. Such portions are indicated by "[*]".
11	Statement of computation of per share amounts for the three and six months ended March 31, 1998.
27	Financial Data Schedule

Confidential treatment has been requested with respect to portions of this document. Such portions are indicated by "[\*]".

MEMORANDUM OF UNDERSTANDING

THIS MEMORANDUM OF UNDERSTANDING, dated March 31, 1998 (this "Memorandum"), sets forth certain understandings of Hakuto Co. Ltd., a Japanese corporation (together with its controlled subsidiaries, "Hakuto") and Emcore Corporation, a New Jersey corporation ("Emcore").

WHEREAS, Hakuto and Emcore have entered into various distributorship agreements, as listed on Exhibit A hereto, with respect to the distribution of products of Emcore in Japan and other Asian countries (collectively, the "Distributorship Agreements"); and

WHEREAS, Hakuto and Emcore have agreed to amend and restate the existing Distributorship Agreements to cover the distribution by Hakuto of the Emcore products listed on Exhibit B hereto (collectively, the "Products") in certain defined markets (such amended and restated agreements, collectively, the "Definitive Restated Agreements").

NOW, THEREFORE, this Memorandum sets forth the understandings of Hakuto and Emcore with respect thereto.

1. Products in Japan. Under the Definitive Restated Agreements:

(a) Exclusive Distribution Rights. Hakuto would have exclusive distribution rights for the Products in Japan.

(b) Term. Hakuto would have such exclusive distribution rights for the Products in Japan for 10 years from the date of this Memorandum.

(c) MODE Commissions. The commissions that would be received by Hakuto for sales of MODE Items in Japan would be a minimum of 12% of the total amount invoiced to any customer. (As used herein, the term "MODE Items" has the meaning given to such term in Exhibit B hereto.)

(d) Pegasus and E2M Commissions. The commissions that would be received by Hakuto for sales of Pegasus and E2M Items in Japan will be determined. (As used herein, the term "Pegasus and E2M Items" has the meaning given to such term in Exhibit B hereto.)

(e) No Minimum Purchase Requirement. There would be no minimum purchase requirement with respect to the Products in Japan.

2. Products in Territories Other Than Japan. Under the Definitive Restated Agreements:

(a) Non-Exclusive Distribution Rights; Right of First Refusal. Hakuto would have non-exclusive distribution rights for the Products in the territories, other than Japan, specified in the Distributorship Agreements (the "Non-Japan Territories"). Hakuto would have a right of first refusal for exclusive distribution rights for the Products in the Non-Japan Territories.

(b) Term. Hakuto would have the rights described in Paragraph 2(a) above for a period of 10 years from the date of this Memorandum.

(c) Commissions. The commissions that would be receivable by Hakuto for sales of the Products in the Non-Japan Territories will be determined.

(d) No Minimum Purchase Requirement. There would be no minimum purchase requirement with respect to the Products in the Non-Japan Territories.

3. License Royalties. Under the Definitive Restated Agreements, Hakuto would be entitled to 10% of license royalties for MODE Items which are designed in by any parties in Japan or by any customers procured by Hakuto in the Non-Japan Territories and later licensed to such party or customer.

4. Transfer of Production. Under the Definitive Restated Agreements, Emcore would pay to Hakuto a commission of 10% of the total invoice amount of all sales of Products that are designed in Japan by any party or in the Non-Japan Territories by customers procured by Hakuto but produced or further designed outside of Hakuto's Territory.

5. Review of Commissions. Under the Definitive Restated Agreements, Hakuto and Emcore would: (1) review commissions and licensing royalties on the second anniversary of the date of this Memorandum and on every other anniversary thereafter; and (2) alter such commissions and licensing royalties, if agreed to

by both Hakuto and Emcore.

6. Extension of Distributorship Agreements. The term of the Japan Distributorship Agreement is extended for a period of 10 years from the date of this Memorandum.

7. Payment Terms. Hakuto will pay, and Emcore will earn, [\*] in fees as follows: (1) [\*] upon execution of this Memorandum, such payment being a one-time, non-refundable payment for the distribution rights to the Products and not contingent upon any future performance by Emcore or delivery of any Products under this Memorandum; and (2) an additional [\*] will be due in four equal installments, such installments equaling [\*] for each \$2,000,000 in sales orders generated in Japan and in the Non-Japan territories.

8. Emcore Warranty. Under the Definitive Restated Agreements, Emcore would make standard and customary representations and warranties for the type of distributorship arrangement contemplated hereby, and the Products would be covered by Emcore's standard warranty policy.

9. Hakuto's Organization. Upon the execution of this Memorandum, Hakuto would assign a full time sales manager and, 60 days thereafter, Hakuto would appoint an additional sales person to specialize in the distribution of the Products. Within one year from the execution of this Memorandum, Hakuto would form a group to specialize in the distribution of the Products.

10. Change of Ownership. If a "change of control" (as such term will be defined in the Definitive Restated Agreements) occurs with respect to Emcore or its MODE or Pegasus Divisions, then Emcore would have the option: (1) to refund on a pre-determined proportionate basis (as specified in the Definitive Restated Agreements) payments made by Hakuto as described in Paragraph 7 above or (2) transfer and delegate the Definitive Restated Agreements and all obligations and liabilities of Emcore thereunder to, and have such obligations and liabilities assumed by, the party who is taking control of Emcore or its MODE or Pegasus Division. For purposes of establishing such proportionate basis, the payments would be allocated as follows: 50% to MODE Items, 25% to Pegasus Items and 25% to E2M Items.

11. Definitive Restated Agreements. Hakuto and Emcore will finalize and enter into the Definitive Restated Agreements by June 30, 1998 or sooner. The Definitive Restated Agreements will be dated as of March 31, 1998.

12. Confidentiality. Except as legally required, neither Emcore nor Hakuto shall make any public announcement relating to the transaction contemplated by this Memorandum without the prior agreement thereto by the other. To the extent permitted, Emcore shall cooperate with Hakuto with respect to any legally required disclosure.

13. Exclusive Dealing. At least and until June 30, 1998, Emcore will not enter into any agreement, discussion, or negotiation with, or provide information to, any other corporation, firm or other person, or solicit, encourage, entertain or consider any inquiries or proposals, with respect to distribution rights of the Products in Japan or in the Non-Japan Territories.

14. Waiver of Right to Jury Trial. Each of the undersigned irrevocably, willingly and voluntarily waives any right of trial by jury in any judicial proceeding involving, directly or indirectly, any matter in any way arising out of, related to or connected with the proposed transactions contemplated by this Memorandum.

[Remainder of page left intentionally blank.]

THIS MEMORANDUM OF UNDERSTANDING sets forth the understandings of the undersigned with respect to the above mentioned Definitive Restated Agreements.

HAKUTO CO. LTD.

EMCORE CORPORATION

By: /s/ Shigeo Takayama  
Name: Mr. Shigeo Takayama  
Title: President

By: /s/ Thomas G. Werthan  
Name: Thomas G. Werthan  
Title: Vice President, Finance  
and Administration

Exhibit A

Current Distributorship Agreements

1. Amended and Restated Distributorship Agreement, dated January 20, 1998, by and between Emcore and Hakuto (the "Japan Distributorship Agreement").
2. Agreement, dated as of January 20, 1998, by and between Emcore and S&T Enterprises Ltd., a corporation of Hong Kong.

3. Agreement, dated as of January 20, 1998, by and between Emcore and S&T Enterprises (Singapore) Pte. Ltd., a corporation of Singapore.

Exhibit B

Emcore Products

1. The term "MODE Items" shall refer to all Vertical Cavity Surface Emitting Lasers and all other Products of Emcore's MODE Division and all Improvements thereon.
2. The term "Pegasus and E2M Items" shall refer to all MR Sensors and all other Products of Emcore's Pegasus Division and all Epitaxial Wafers and all other Products of the Emcore Electronic Materials Division and all Improvements thereon.
3. As used above, the term "Improvements" means any and all alterations, whether patentable or not, to the Products or of the method of manufacture, design, construction, installation, maintenance or sale of the Products.

EMCORE CORPORATION  
STATEMENT OF COMPUTATION OF PER SHARE AMOUNTS  
(In Thousands, Except Per Share Amounts)  
(Unaudited)

<TABLE>  
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	Three Months Ended March 31,		Six Months Ended March 31,	
	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
Income (loss) before extraordinary item.....	\$37	(\$2,894)	(\$29,352)	(\$6,692)
Extraordinary loss.....		(256)		(256)
Net income (loss).....	\$37	(\$3,150)	(\$29,352)	(\$6,948)
Basic earnings per share calculation:				
Weighted average shares outstanding:				
Common stock.....	9,328	3,825	8,189	3,405
Common stock equivalents (1).....				
Basic weighted average common shares and equivalents.....	9,328	3,825	8,189	3,405
Income (loss) before extraordinary item.....	\$0.00	(\$0.76)	(\$3.58)	(\$1.97)
Extraordinary loss.....		(0.06)		(0.07)
Net income (loss) per share.....	\$0.00	(\$0.82)	(\$3.58)	(\$2.04)
Fully diluted earnings per share calculation:				
Weighted average shares outstanding:				
Common stock.....	9,328	3,825	8,189	3,405
Common stock equivalents (1).....	1,220			722
Fully-diluted weighted average common shares and equivalents.....	10,548	3,825	8,189	4,127
Income (loss) before extraordinary item.....	\$0.00	(\$0.76)	(\$3.58)	(\$1.62)
Extraordinary loss.....		(0.06)		(0.06)
Net income (loss) per share.....	\$0.00	(\$0.82)	(\$3.58)	(\$1.68)

</TABLE>

(1) Under the provisions of Securities and Exchange Commission Staff Bulletin No. 64 ("SAB" No. 64), common stock and common stock equivalents issued by the company within one year or in contemplation of the Company's offering are treated as if they were outstanding for all periods presented prior to the Company's IPO. After the IPO is effective, the determination of common stock and equivalents has been determined on a basis consistent with FAS 128, which states "EPS shall not assume conversion exercise or contingent issuance of securities that would have an anti-dilutive effect on earnings per share."

<TABLE> <S> <C>

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF EMCORE CORPORATION FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1998, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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