

EMCORE CORP
Form 10-Q
May 03, 2018
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, 2018
or

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

For the transition period from ___ to ___

Commission File Number 001-36632

EMCORE Corporation
(Exact name of registrant as specified in its charter)
New Jersey 22-2746503
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

2015 W. Chestnut Street, Alhambra, California, 91803
(Address of principal executive offices) (Zip Code)

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2018, the number of shares outstanding of our no par value common stock totaled 27,457,560.

CAUTIONARY STATEMENT
REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on our current expectations and projections about future events and financial trends affecting the financial condition of our business. Such forward-looking statements include, in particular, projections about our future results included in our Exchange Act reports and statements about our plans, strategies, business prospects, changes and trends in our business and the markets in which we operate. These forward-looking statements may be identified by the use of terms and phrases such as “anticipates,” “believes,” “can,” “could,” “estimates,” “expects,” “forecasts,” “intends,” “may,” “plans,” “projects,” “shall,” “will,” “would,” and similar expressions or variations of these terms and similar phrases. Additionally, statements concerning future matters such as our expected liquidity, development of new products, enhancements or technologies, sales levels, expense levels and other statements regarding matters that are not historical are forward-looking statements. Management cautions that these forward-looking statements relate to future events or our future financial performance and are subject to business, economic, and other risks and uncertainties, both known and unknown, that may cause actual results, levels of activity, performance, or achievements of our business or our industry to be materially different from those expressed or implied by any forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include without limitation the following: (a) the rapidly evolving markets for the Company's products and uncertainty regarding the development of these markets; (b) the Company's historical dependence on sales to a limited number of customers and fluctuations in the mix of products and customers in any period; (c) delays and other difficulties in commercializing new products; (d) the failure of new products: (i) to perform as expected without material defects, (ii) to be manufactured at acceptable volumes, yields, and cost, (iii) to be qualified and accepted by our customers, and (iv) to successfully compete with products offered by our competitors; (e) uncertainties concerning the availability and cost of commodity materials and specialized product components that we do not make internally; (f) actions by competitors; (g) risks and uncertainties related to applicable laws and regulations, including the impact of changes to applicable tax laws, and (h) other risks and uncertainties discussed in Part I, Item 1A, Risk Factors in our Annual Report on Form 10-K for the fiscal year ended September 30, 2017, as updated by our subsequent periodic reports we file with the Securities and Exchange Commission (“SEC”). These cautionary statements apply to all forward-looking statements wherever they appear in this Quarterly Report.

Forward-looking statements are based on certain assumptions and analysis made in light of our experience and perception of historical trends, current conditions and expected future developments as well as other factors that we believe are appropriate under the circumstances. While these statements represent our judgment on what the future may hold, and we believe these judgments are reasonable, these statements are not guarantees of any events or financial results. All forward-looking statements in this Quarterly Report are made as of the date hereof, based on information available to us as of the date hereof, and subsequent facts or circumstances may contradict, obviate, undermine, or otherwise fail to support or substantiate such statements. We caution you not to rely on these statements without also considering the risks and uncertainties associated with these statements and our business that are addressed in this Quarterly Report and our Annual Report on Form 10-K for the fiscal year ended September 30, 2017. Certain information included in this Quarterly Report may supersede or supplement forward-looking statements in our other 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.

EMCORE Corporation
 FORM 10-Q
 For The Quarterly Period Ended March 31, 2018

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PART I. Financial Information.

ITEM 1. Financial Statements

EMCORE CORPORATION

Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income

For the three and six months ended March 31, 2018 and 2017

(in thousands, except per share data)

(unaudited)

	For the three months ended March 31,		For the six months ended March 31,	
	2018	2017	2018	2017
Revenue	\$18,623	\$32,591	\$42,659	\$62,767
Cost of revenue	13,676	21,553	29,798	41,686
Gross profit	4,947	11,038	12,861	21,081
Operating expense:				
Selling, general, and administrative	5,644	5,672	10,463	11,250
Research and development	3,300	3,141	7,100	5,340
Impairments	—	468	—	468
(Gain) loss on sale of assets	(68)	—	39	—
Total operating expense	8,876	9,281	17,602	17,058
Operating (loss) income	(3,929)	1,757	(4,741)	4,023
Other income (expense):				
Interest income, net	163	46	274	69
Foreign exchange gain (loss)	526	44	812	(359)
Total other income (expense)	689	90	1,086	(290)
(Loss) income from continuing operations before income tax benefit (expense)	(3,240)	1,847	(3,655)	3,733
Income tax benefit (expense)	169	8	502	(112)
(Loss) income from continuing operations	(3,071)	1,855	(3,153)	3,621
Loss from discontinued operations, net of tax	—	(7)	—	(16)
Net (loss) income	\$(3,071)	\$1,848	\$(3,153)	\$3,605
Foreign exchange translation adjustment	121	276	374	16
Comprehensive (loss) income	\$(2,950)	\$2,124	\$(2,779)	\$3,621
Per share data:				
Net (loss) income per basic share:				
Continuing operations	\$(0.11)	\$0.07	\$(0.12)	\$0.14
Discontinued operations	—	(0.00)	—	(0.00)
Net (loss) income per basic share	\$(0.11)	\$0.07	\$(0.12)	\$0.14
Net (loss) income per diluted share:				
Continuing operations	\$(0.11)	\$0.07	\$(0.12)	\$0.13
Discontinued operations	—	(0.00)	—	(0.00)
Net (loss) income per diluted share	\$(0.11)	\$0.07	\$(0.12)	\$0.13
Weighted-average number of basic shares outstanding	27,197	26,622	27,113	26,449
Weighted-average number of diluted shares outstanding	27,197	27,585	27,113	27,366

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, 2018 and September 30, 2017

(in thousands)

(unaudited)

	As of March 31, 2018	As of September 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$65,477	\$ 68,333
Restricted cash	52	421
Accounts receivable, net of allowance of \$95 and \$22, respectively	17,767	22,265
Inventory	23,726	25,139
Prepaid expenses and other current assets	10,985	8,527
Total current assets	118,007	124,685
Property, plant, and equipment, net	16,728	16,635
Non-current inventory	2,779	2,686
Other non-current assets	791	78
Total assets	\$138,305	\$ 144,084
LIABILITIES and SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$6,848	\$ 11,818
Accrued expenses and other current liabilities	10,626	9,825
Total current liabilities	17,474	21,643
Asset retirement obligations	1,631	1,638
Other long-term liabilities	56	29
Total liabilities	19,161	23,310
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Common stock, no par value, 50,000 shares authorized; 34,368 shares issued and 27,458 shares outstanding as of March 31, 2018; 33,938 shares issued and 27,028 shares outstanding as of September 30, 2017	732,055	730,906
Treasury stock at cost; 6,910 shares	(47,721)	(47,721)
Accumulated other comprehensive income	935	561
Accumulated deficit	(566,125)	(562,972)
Total shareholders' equity	119,144	120,774
Total liabilities and shareholders' equity	\$138,305	\$ 144,084

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, 2018 and 2017

(in thousands)

(unaudited)

	For the six months ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net (loss) income	\$(3,153)	\$3,605
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	2,605	1,685
Stock-based compensation expense	1,848	1,581
Provision adjustments related to doubtful accounts	75	7
Provision adjustments related to product warranty	282	303
Impairments of equipment	—	468
Net loss on disposal of equipment	39	—
Other	(643)	574
Total non-cash adjustments	4,206	4,618
Changes in operating assets and liabilities:		
Accounts receivable	4,422	975
Inventory	2,041	(2,357)
Other assets	(2,812)	(1,582)
Accounts payable	(4,923)	1,489
Accrued expenses and other current liabilities	304	1,035
Total change in operating assets and liabilities	(968)	(440)
Net cash provided by operating activities	85	7,783
Cash flows from investing activities:		
Purchase of equipment	(2,735)	(4,567)
Proceeds from disposal of property, plant and equipment	77	—
Net cash used in investing activities	(2,658)	(4,567)
Cash flows from financing activities:		
Proceeds from stock plans	442	779
Tax withholding paid on behalf of employees for stock-based awards	(1,139)	—
Net cash (used in) provided by financing activities	(697)	779
Effect of exchange rate changes on foreign currency	45	(67)
Net (decrease) increase in cash, cash equivalents and restricted cash	(3,225)	3,928
Cash, cash equivalents and restricted cash at beginning of period	68,754	64,870
Cash, cash equivalents and restricted cash at end of period	\$65,529	\$68,798
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest	\$31	\$38
Cash paid during the period for income taxes	\$130	\$79
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Changes in accounts payable related to purchases of equipment	\$(235)	\$(255)

Issuance of common stock to Board of Directors \$— \$410

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

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EMCORE Corporation

Notes to our Condensed Consolidated Financial Statements

For the three and six months ended March 31, 2018

(unaudited)

NOTE 1. Description of Business

Business Overview

EMCORE Corporation (referred to herein, together with its subsidiaries, as the “Company,” “we,” “our,” or “EMCORE”) was established in 1984 as a New Jersey corporation. The Company became publicly traded in 1997 and is listed on the Nasdaq stock exchange under the ticker symbol EMKR. EMCORE pioneered the linear fiber optic transmission technology that enabled the world’s first delivery of Cable TV directly on fiber, and today is a leading provider of advanced Mixed-Signal Optics products that enable communications systems and service providers to meet growing demand for increased bandwidth and connectivity. The Mixed-Signal Optics technology at the heart of our broadband communications products is shared with our fiber optic gyros and inertial sensors to provide the aerospace and defense markets with state-of-the-art navigation systems technology. With both analog and digital circuits on multiple chips, or even a single chip, the value of Mixed-Signal device solutions is often far greater than traditional digital applications and requires a specialized expertise held by EMCORE which is unique in the optics industry.

We currently have one reporting segment: Fiber Optics. This segment is comprised of three product lines: Broadband, Chip Devices and Navigation 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 promulgated by the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and notes required by U.S. GAAP for annual financial statements. In our opinion, the interim financial statements reflect all normal adjustments that are necessary to provide a fair presentation of the financial results for the interim periods presented. Operating results for interim periods are not necessarily indicative of results that may be expected for an entire fiscal year. The condensed consolidated balance sheet as of September 30, 2017 has been derived from the audited consolidated financial statements as of such date as adjusted for discontinued operations. 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, 2017.

NOTE 2. Recent Accounting Pronouncements and U.S. Tax Reform

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

In May 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-09, Compensation — Stock Compensation (Topic 718): Scope of Modification Accounting. ASU 2017-09 clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The new guidance is intended to reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as a modification. Under ASU 2017-09, an entity will not apply modification accounting to a share-based payment award if the award’s fair value, vesting conditions and classification as an equity or liability instrument are the same immediately before and after the change. ASU 2017-09 will be applied prospectively to awards modified on or after the adoption date. The new guidance is effective for annual periods, beginning after

December 15, 2017 and interim periods within those annual periods. The Company does not expect the adoption of ASU 2017-09 will have a material impact on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13 Financial Instruments - Credit Losses, Measurement of Credit Losses on Financial Instruments, which changes the way entities measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net earnings. This standard will be effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The new standard will be effective for our fiscal year beginning October 1, 2020 and early adoption is permitted. We are evaluating the impact the adoption of the new standard will have on our Condensed Consolidated Financial Statements and related disclosures.

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In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). ASU 2016-02 introduces a lessee model that requires recognition of assets and liabilities arising from qualified leases on the consolidated balance sheets and disclosure of qualitative and quantitative information about lease transactions. This guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those years. The new standard will be effective for our fiscal year beginning October 1, 2019 and early adoption is permitted.

This update will be applied using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company's operating lease obligations at March 31, 2018 were approximately \$3.9 million. Assuming an average discounted rate of 4% applied to these remaining lease payments, we estimate that the impact to our balance sheet as of October 1, 2019 upon adoption would be within the range of \$2.0 million to \$3.0 million due to recognition of the right-of-use asset and lease liability related to current operating leases. The Company is continuing to evaluate the effect of this update on its consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities. This ASU amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments, and supersedes the guidance to classify equity securities with readily determinable fair values into different categories (that is, trading or available-for-sale) and requires equity securities to be measured at fair value with changes in the fair value recognized through net income. This ASU is effective for annual and interim periods beginning after December 15, 2017. The new standard will be effective for our fiscal year beginning October 1, 2018. The Company does not anticipate the adoption will have a material impact on our consolidated condensed financial statements and related disclosures.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This standard requires inventory to be measured at the lower of cost and net realizable value. The guidance clarifies that net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This guidance was effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. The new standard was effective for our fiscal year beginning October 1, 2017, but there was no significant impact on our condensed consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers which will supersede most current U.S. GAAP guidance on this topic.