EMCORE CORP
Form 10-Q
May 06, 2015

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2015
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. x 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). x 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 x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company

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

As of May 1, 2015, the number of shares outstanding of our no par value common stock totaled 32,296,486.

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 (the Securities Act) and Section 21E of the Securities and 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 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 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”, “pla "should", “targets”, “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; and (g) other risks and uncertainties discussed under Item 1A - Risk Factors in our Annual Report on Form 10-K for the fiscal year ended September 30, 2014, as updated by our subsequent periodic reports. 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, 2014. 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.

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EMCORE Corporation
FORM 10-Q
For The Quarterly Period Ended March 31, 2015

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PART I. Financial Information
ITEM 1. Financial Statements

EMCORE CORPORATION
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)
For the Three and Six Months Ended March 31, 2015 and 2014
(in thousands, except net income (loss) per share)
(unaudited)

	For the three months ended March 31,		For the six months ended March 31,	
	2015	2014	2015	2014
Revenue	$19,057	$12,953	$37,473	$27,616
Cost of revenue	12,678	10,055	25,915	22,327
Gross profit	6,379	2,898	11,558	5,289
Operating expense:				
Selling, general, and administrative	5,954	4,328	14,581	9,984
Research and development	2,022	2,676	4,196	4,500
Gain from change in estimate on ARO obligation	—	—	(845)	—
Loss on sale of assets	—	—	228	—
Total operating expense	7,976	7,004	18,160	14,484
Operating loss	(1,597)	(4,106)	(6,602)	(9,195)
Other income (expense):				
Interest income (expense), net	165	(117)	35	(243)
Foreign exchange (loss) gain	(6)	(90)	51	10
Gain on sale of investment	—	17	—	307
Change in fair value of financial instruments	86	7	122	(71)
Total other income (expense)	245	(183)	208	3
Loss from continuing operations before income tax expense	(1,352)	(4,289)	(6,394)	(9,192)
Income tax benefit (expense)	396	(433)	2,308	647
Loss from continuing operations	(956)	(4,722)	(4,086)	$(8,545)
Income (loss) from discontinued operations, net of tax	4,008	(710)	63,266	1,059
Net income (loss)	$3,052	$(5,432)	$59,180	$(7,486)
Other comprehensive income (net of tax):				
Foreign exchange translation adjustment	(8)	(43)	(719)	2
Other comprehensive (loss) income	(8)	(43)	(719)	2
Comprehensive income (loss)	$3,044	$(5,475)	$58,461	$(7,484)
Per share data:				
Net income (loss) per basic and diluted share:				
Continuing operations	$(0.03)	$(0.16)	$(0.13)	$(0.28)
Discontinued operations	0.13	(0.02)	2.00	0.03
Net income (loss) per basic and diluted share	$0.10	$(0.18)	$1.87	$(0.25)
Weighted-average number of basic and diluted shares outstanding	32,077	30,392	31,640	30,162

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, 2015 and September 30, 2014
(in thousands, except per share data)
(unaudited)

	As of March 31, 2015	As of September 30, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$140,965	$20,687
Restricted cash	168	1,482
Accounts receivable, net of allowance of $413 and $116, respectively	17,110	12,769
Inventory	15,501	15,644
Deferred income taxes, net	—	3,908
Prepaid expenses and other current assets	6,236	5,336
Current assets of discontinued operations	—	44,065
Total current assets	179,980	103,891
Property, plant, and equipment, net	7,976	10,446
Other intangible assets, net	70	82
Note receivable	15,482	—
Deferred income taxes, net	—	20,172
Other non-current assets, net of allowance of $3,561 and $3,561, respectively	320	512
Non-current assets of discontinued operations	—	56,239
Total assets	$203,828	$191,342
LIABILITIES and SHAREHOLDERS' EQUITY		
Current liabilities:		
Borrowings from credit facility	$—	$26,518
Accounts payable	6,819	6,804
Deferred gain associated with sale of assets	3,400	3,400
Warrant liability	—	122
Accrued expenses and other current liabilities	15,976	15,209
Current liabilities of discontinued operations	—	20,924
Total current liabilities	26,195	72,977
Asset retirement obligations	1,731	4,543
Other long-term liabilities	415	755
Non-current liabilities of discontinued operations	—	720
Total liabilities	28,341	78,995
Commitments and contingencies (Note 12)		
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; 32,303 shares issued and 32,263 shares outstanding as of March 31, 2015; 31,149 shares issued and 31,109 shares outstanding as of September 30, 2014	760,047	755,368
Treasury stock, at cost; 40 shares	(2,071)	(2,071)
Accumulated other comprehensive income	1,118	1,837
Accumulated deficit	(583,607)	(642,787)

Total shareholders’ equity	175,487	112,347
Total liabilities and shareholders’ equity	$203,828	$191,342

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, 2015 and 2014
(in thousands)
(unaudited)

	For the six months ended March 31,	
	2015	2014
Cash flows from operating activities:		
Net income (loss)	$59,180	$(7,486)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation, amortization, and accretion expense	1,803	4,163
Stock-based compensation expense	3,760	2,239
Deferred income taxes	24,080	—
Gain on sale of Photovoltaics Business	(87,022)	—
Gain on sale of Digital Products Business	(1,994)	—
Gain on sale of an investment	—	(307)
Provision adjustments related to doubtful accounts	463	361
Provision adjustments related to product warranty	515	1,562
Change in fair value of financial instruments	(122)	71
Gain from change in estimate on ARO obligation	(845)	—
Reclassification of foreign currency translation adjustment	(744)	—
Net loss on disposal of equipment	237	—
Settlement of customer related warranty claim	(280)	—
Total non-cash adjustments	(60,149)	8,089
Changes in operating assets and liabilities:		
Accounts receivable	3,859	4,003
Inventory	(1,541)	3,526
Other assets	(913)	2,496
Accounts payable	(3,151)	(630)
Accrued expenses and other current liabilities	(3,012)	(2,698)
Total change in operating assets and liabilities	(4,758)	6,697
Net cash (used in) provided by operating activities	(5,727)	7,300
Cash flows from investing activities:		
Proceeds from sale of Photovoltaics Business	150,000	—
Proceeds from sale of Digital Products Business	1,500	—
Cash proceeds from sale of investment	—	307
Purchase of equipment	(1,150)	(1,039)
Decrease (increase) in restricted cash	1,314	(1,178)
Proceeds from disposal of property, plant and equipment	50	—
Net cash provided by (used in) investing activities	151,714	(1,910)
Cash flows from financing activities:		
Payments on credit facilities	(26,518)	(4,106)
Proceeds from stock plans	834	659
Net cash used in financing activities	(25,684)	(3,447)

Effect of exchange rate changes on foreign currency	(25)	128
Net increase in cash and cash equivalents	120,278	2,071
Cash and cash equivalents at beginning of period	20,687	16,104
Cash and cash equivalents at end of period	$140,965	$18,175
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for interest	$139	$272
Cash paid during the period for income taxes	$25	$4
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Sale of Digital Products assets to NeoPhotonics for note receivable	$15,482	$—

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, 2015
(unaudited)

NOTE 1. Description of Business

Business Overview

EMCORE Corporation and its subsidiaries (referred to herein as the “Company”, “we”, “our”, or “EMCORE”) offers a broad portfolio of compound semiconductor-based products for the fiber optics market. We were established in 1984 as a New Jersey corporation and we have one reporting segment: Fiber Optics. EMCORE's Fiber Optics business provides optical components, subsystems and systems for high-speed telecommunications, Cable Television (CATV), Wireless and Fiber-To-The-Premises (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, which was sold in December 2014, provided products for space power applications including high-efficiency multi-junction solar cells, Covered Interconnect Cells (CICs) and complete satellite solar panels. EMCORE sold certain assets, and transfered certain liabilities, of the Company's telecommunications business, including the ITLA, micro-ITLA, T-TOSA and T-XFP product lines within the Company’s telecommunications business in January 2015. In addition to organic growth and development of our existing Fiber Optics market, we intend to pursue other strategies to enhance shareholder value, which may include acquisitions, investments in joint ventures, partnerships, and other strategic alternatives, such as dispositions, reorganizations, recapitalizations or other similar transactions. Accordingly, the Strategy Committee of the Board and our management may from time to time be engaged in evaluating potential strategic opportunities and may enter into definitive agreements with respect to, such transactions or other strategic alternatives.

Basis of Presentation

On September 17, 2014, EMCORE entered into an Asset Purchase Agreement (the “Photovoltaics Agreement”) with SolAero Technologies Corporation ("SolAero") (formerly known as Photon Acquisition Corporation) pursuant to which the Company agreed to sell the Photovoltaics Business ("Photovoltaics Asset Sale") for $150.0 million in cash, subject to a working capital adjustment pursuant to the Photovoltaics Agreement. On December 10, 2014, EMCORE completed the Photovoltaics Asset Sale.

On October 22, 2014, EMCORE entered into an Asset Purchase Agreement (the "Digital Products Agreement") with NeoPhotonics Corporation, a Delaware corporation ("NeoPhotonics"), pursuant to which the Company agreed to sell certain assets, and transfer certain liabilities, of the Company's telecommunications business (collectively, the "Digital Products Business" and, the sale of the Digital Products Business, the "Digital Products Assets Sale") to NeoPhotonics for an aggregate purchase price of $17.5 million, subject to certain adjustments, consisting of $1.5 million in cash at closing and a promissory note in the principal amount of $16.0 million (the "Promissory Note").

On January 2, 2015, EMCORE and NeoPhotonics entered into Amendment No. 1 (the "APA Amendment") to the Digital Products Agreement dated October 22, 2014. Among other things, the APA Amendment revised the nature and timing of the financial deliverable requirements of the Company to NeoPhotonics under the original Digital Products Agreement. The assets sold pursuant to the Digital Products Agreement included certain fixed assets, inventory and intellectual property for the ITLA, micro-ITLA, T-TOSA and T-XFP product lines within the Company’s telecommunications business. On January 2, 2015, EMCORE completed the sale of the Digital Products

Business. On April 16, 2015, EMCORE and NeoPhotonics entered into an agreement to adjust the purchase price resulting in an adjusted balance of the Promissory Note of $15.5 million. On April 17, 2015, NeoPhotonics prepaid the outstanding balance of the Promissory Note, including accrued interest, in the amount of $15.7 million.

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The Photovoltaics Asset Sale and Digital Products Asset Sale are reported as discontinued operations, which require retrospective restatement of prior periods to classify the results of operations as discontinued operations. We have also reclassified the assets and liabilities that were sold within the descriptions "assets of discontinued operations" and "liabilities of discontinued operations" within current and non-current assets and liabilities, respectively, on the condensed consolidated balance sheet as of September 30, 2014. No Photovoltaics or Digital Products assets or liabilities remain on the condensed consolidated balance sheet as of March 31, 2015. The financial results of the Photovoltaics Business and the Digital Products Business are presented as "discontinued operations" on the Condensed Consolidated Statements of Operations and Comprehensive income (loss) for the three and six months ended March 31, 2015 and 2014. See also Note 3 - Discontinued Operations. The notes to our condensed consolidated financial statements relate to our continuing operations only, unless otherwise indicated.

Beginning in the first quarter of fiscal year 2015, the Company operates as a single reportable segment.

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 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, 2014 has been derived from the audited consolidated financial statements as of such date as adjusted for discontinued operations. Also see Note 3 - 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, 2014.

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. We have evaluated subsequent events through the date that the financial statements were issued.

Sale of Fiber Optics-related Assets

On March 27, 2012, we entered into a Master Purchase Agreement with a subsidiary of Sumitomo Electric Industries, LTD (SEI), pursuant to which we agreed to sell certain assets and transfer certain obligations associated with our Fiber Optics segment. On May 7, 2012, we completed the sale of these assets to SEI and recorded a gain of approximately $2.8 million. Under the terms of the Master Purchase Agreement, we have agreed to indemnify SEI for up to $3.4 million of potential claims and expenses for the two-year period following the sale and we have recorded this amount as a deferred gain on our balance sheet as of March 31, 2015 and September 30, 2014 as a result of these contingencies. SEI paid $13.1 million in cash and deposited approximately $2.6 million into escrow as security for indemnification obligations and any purchase price adjustments. During the fiscal year ended September 30, 2013, we resolved the purchase price contingencies resulting in the reduction of the purchase price by $1.1 million. The reduced purchase price is recorded as an offset to the escrow receivable of $2.6 million. There remains a deferred gain of $3.4 million related to our indemnification obligation to SEI and an escrow receivable of $1.5 million as of March 31, 2015 as claims have been made under the Master Purchase Agreement against these balances prior to the end of the indemnification period in May 2014. We are not able to determine at this time the outcome of any potential settlements associated with the remaining claims and as a result have not recorded any related adjustments to the deferred gain amount.

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 from our credit facility, capital markets transactions, and the sale of assets.

As of March 31, 2015, cash and cash equivalents totaled $141.0 million and net working capital totaled approximately $153.8 million. Net working capital, calculated as current assets minus current liabilities, is a financial metric we use which represents available operating liquidity. For the six months ended March 31, 2015, we earned net income of $59.2 million.

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With respect to measures taken to improve liquidity:

- Sale of Photovoltaics Business: On December 10, 2014, we completed the sale of our Photovoltaics Business for$150.0 million in cash. These proceeds will provide us with working capital for fiscal year 2015 and beyond.

- Sale of Digital Products Business: On January 2, 2015, we completed the sale of our Digital Products Business for $1.5 million in cash and an adjusted Promissory Note balance of $15.5 million. On April 17, 2015, NeoPhotonics prepaid the outstanding balance of the Promissory Note, including accrued interest, in the amount of $15.7 million. The Promissory Note proceeds are not reflected in the cash balances at March 31, 2015.

- Credit Facility: On November 11, 2010, we entered into a Credit and Security Agreement (credit facility) with Wells Fargo Bank, National Association ("Wells Fargo"). The credit facility, as it has been amended through its sixth amendment, currently provides us with a revolving credit of up to $15.0 million through November 2015 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 is subject to a borrowing base formula based on the Company's eligible accounts receivable, inventory, and machinery and equipment accounts.

On December 3, 2014, we entered into a Sixth Amendment to the credit facility, pursuant to which Wells Fargo agrees, to automatically release all encumbrances covering certain of the Company’s assets to be sold pursuant to the Photovoltaics Agreement and the Digital Products Agreement. In addition, on December 10, 2014 upon notice to Wells Fargo of the closing of the transaction contemplated by the Photovoltaics Agreement, the maximum borrowing allowed under the credit facility was reduced from $35 million to $15.0 million, and certain other changes to the borrowing base calculations went into effect.

- On May 6, 2015, the Company announced that it expects to commence a "Dutch Auction" tender offer to purchase up to approximately $45.0 million of shares of its outstanding common stock. Under the terms of the tender offer, the Company will invite shareholders to tender their shares at prices specified by the tendering shareholders within a range to be specified by the Company in the proposed offer to purchase. The tender offer is expected to commence on May 15, 2015. We expect cash on hand at March 31, 2015 and the proceeds from the Promissory Note to pay for the purchase of the shares.

NOTE 2. Recent Accounting Pronouncements

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 March 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-05, Foreign Currency Matters. This accounting standard update requires an entity to release into net income the entire amount of a cumulative translation adjustment related to its investment in a foreign entity when as a parent it either sells a part or all of its investment in the foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets within the foreign entity. This accounting standard was implemented for our fiscal year beginning on October 1, 2014 and it had no significant impact on the Company.

- In April 2014, the FASB issued ASU 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360) Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This standard changes the criteria for reporting discontinued operations. Under the accounting standard update, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results when either it qualifies as held for sale, disposed of by sale, or disposed of other than by sale. In addition, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. While early adoption is allowed, we have determined that we would not early adopt and as a result this accounting standard update will be effective for our fiscal year beginning on October 1, 2015. We are currently evaluating the impact of this accounting standard update on our Condensed Consolidated Financial Statements.

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- In May 2014, as part of its ongoing efforts to assist in the convergence of U.S. GAAP and International Financial Reporting Standards, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Under the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard will be effective for us beginning October 1, 2017 and early adoption is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. We anticipate this standard will not have a material impact on our Condensed Consolidated Financial Statements.
- In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The standard provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements. In addition, the standard requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year of the date the financial statements are issued. The guidance is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. This accounting standard update will be effective for our fiscal year beginning October 1, 2017. We are currently evaluating the impact of this accounting standard update on our Consolidated Financial Statements.

NOTE 3. Discontinued Operations

Sale of Photovoltaics Business

On September 17, 2014, EMCORE entered into an Asset Purchase Agreement (the “Photovoltaics Agreement”) with SolAero pursuant to which the Company agreed to sell the Photovoltaics Business for $150.0 million in cash, subject to a working capital adjustment pursuant to the Photovoltaics Agreement. On December 10, 2014, EMCORE completed the Photovoltaics Asset Sale.

The financial results of the Photovoltaics Business are reported as discontinued operations for the three and six months ended March 31, 2015 and 2014, respectively. In connection with this transaction, we sold net assets of $60.3 million to SolAero and incurred transaction costs of $2.7 million. During the three months ended December 31, 2014, we recognized a gain of $56.8 million, net of tax on the sale of the Photovoltaics Business which is recorded within discontinued operations in the condensed consolidated statements of operations and comprehensive income (loss).

We have classified the assets and liabilities that were sold as "assets of discontinued operations" and "liabilities of discontinued operations" within current and non-current assets and liabilities, respectively, on the condensed consolidated balance sheet as of September 30, 2014. As of September 30, 2014, the carrying amount of goodwill related to the Photovoltaics Business was $20.4 million and this balance was reclassified to non-current assets of discontinued operations. No Photovoltaics assets and liabilities remain on the condensed consolidated balance sheet as of March 31, 2015.

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The following table presents the aggregate carrying amounts of the major classes of assets and liabilities related to the Photovoltaics business as of March 31, 2015 and September 30, 2014.

(in thousands)	As of March 31, 2015	As of September 30, 2014
Assets of discontinued operations:		
Accounts receivable, net of allowance of $0	$—	$17,827
Inventory	—	7,203
Prepaid expenses and other current assets	—	1,512
Current assets of discontinued operations	—	26,542
Property, plant and equipment, net	—	26,660
Goodwill	—	20,384
Other non-current assets, net	—	254
Non-current assets of discontinued operations	—	47,298
Total assets of discontinued operations	$—	$73,840
Liabilities of discontinued operations:		
Accounts payable	$—	$4,640
Accrued expenses and other current liabilities	—	5,398
Current liabilities of discontinued operations	—	10,038
Asset retirement obligations	—	720
Non-current liabilities of discontinued operations	—	720
Total liabilities of discontinued operations	$—	$10,758

The following table presents the statements of operations for the discontinued operations of the Photovoltaics Business
from October 1, 2014 to December 10, 2014 and for the three and six months ended March 31, 2014.

(in thousands)	For the three months ended March 31,		For the six months ended March 31,	
	2015	2014	2015	2014
Revenue	$—	$18,627	$12,614	$39,546
Cost of revenue	—	13,836	8,245	27,016
Gross profit	—	4,791	4,369	12,530
Operating expense	(272)	1,749	2,431	3,298
Other income	—	—	779	—
Gain on sale of discontinued operations	—	—	87,022	—
Income from discontinued operations before income tax	272	3,042	89,739	9,232
Income tax benefit (expense)	277	(1,154)	(29,926)	(3,501)
Income from discontinued operations, net of tax	$549	$1,888	$59,813	$5,731

During the first quarter of fiscal 2015, in connection with the liquidation of our Netherlands and Spain subsidiaries in October 2014, we recognized other income within discontinued operations of $0.7 million previously recorded in accumulated other comprehensive income.

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Sale of Digital Products Business

On October 22, 2014, EMCORE entered into the Digital Products Agreement with NeoPhotonics pursuant to which the Company agreed to sell certain assets, and transferred certain liabilities of the Company's Digital Products Business to NeoPhotonics for an aggregate purchase price of $17.5 million, subject to certain purchase price adjustments, consisting of $1.5 million in cash at closing and a promissory note in the principal amount of $16.0 million (the "Promissory Note"). The Promissory Note bears interest of 5.0% per annum for the first year and 13.0% per annum for the second year, payable semi-annually in cash, and matures two years from the closing of the transaction. In addition, the promissory note is subject to prepayments under certain circumstances, and is secured by certain of the assets sold to NeoPhotonics in the transaction.

On January 2, 2015, EMCORE and NeoPhotonics entered into APA Amendment. Among other things, the APA Amendment revised the nature and timing of the financial deliverable requirements of the Company to NeoPhotonics under the original Digital Products Agreement. The assets sold pursuant to the Digital Products Agreement included certain fixed assets, inventory and intellectual property for the ITLA, micro-ITLA, T-TOSA and T-XFP product lines within the Company’s telecommunications business. On January 2, 2015, EMCORE completed the sale of the Digital Products Business. On April 16, 2015, EMCORE and NeoPhotonics entered into an agreement to adjust the purchase price resulting in an adjusted balance of the Promissory Note of $15.5 million. On April 17, 2015, NeoPhotonics prepaid the outstanding balance of the Promissory Note, including accrued interest, in the amount of $15.7 million.

The financial results of the Digital Products Business are reported as discontinued operations for the three and six months ended March 31, 2015 and 2014. In connection with this transaction, we sold net assets of $13.3 million to NeoPhotonics and incurred transaction costs of $1.6 million. During the three months ended March 31, 2015, we recognized a gain of $2.0 million, on the sale of the Digital Products Business which is recorded within discontinued operations in the condensed consolidated statements of operations and comprehensive income (loss).

We have classified the assets and liabilities that were sold within the descriptions "assets of discontinued operations" and "liabilities of discontinued operations" within current and non-current assets and liabilities, respectively, on the condensed consolidated balance sheet as of September 30, 2014. No Digital Products assets or liabilities remain on the condensed consolidated balance sheet as of March 31, 2015.

The following table presents the aggregate carrying amounts of the major classes of assets and liabilities related to the Digital Products Business as of March 31, 2015 and September 30, 2014.

(in thousands)	As of March 31, 2015	As of September 30, 2014
Assets held for sale:		
Accounts receivable, net of allowance of $0 and $17, respectively	$—	$14,268
Inventory	—	3,225
Prepaid expenses and other current assets	—	30
Current assets of discontinued operations	—	17,523
Property, plant and equipment, net	—	7,881
Other intangible assets, net	—	1,060
Non-current assets of discontinued operations	—	8,941
Total assets of discontinued operations	$—	$26,464
Liabilities held for sale:		
Accounts payable	—	10,848
Accrued expenses and other current liabilities	—	38

Current liabilities of discontinued operations	$—	$10,886

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The following table presents the statements of operations for the discontinued operations of the Digital Products Business
through the three and six months ended March 31, 2015 and for the three and six months ended March 31, 2014.

(in thousands)	For the three months ended March 31,		For the six months ended March 31,	
	2015	2014	2015	2014
Revenue	$ 40	$ 10,667	$ 11,855	$ 19,296
Cost of revenue	(1)	11,490	9,111	20,114
Gross profit	41	(823)	2,744	(818)
Operating expense	446	3,362	3,158	6,708
Other income (expense)	—	—	—	—
Gain on sale of discontinued operations	1,994	—	1,994	—
Income (loss) from discontinued operations before income tax	1,589	(4,185)	1,580	(7,526)
Income tax benefit (expense)	1,870	1,587	1,873	2,854
Income (loss) from discontinued operations	$ 3,459	$ (2,598)	$ 3,453	$ (4,672)

NOTE 4. Fair Value Accounting

ASC 820, Fair Value Measurements, 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.

- 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.

- 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 this hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

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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 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Remaining Inputs	Level 3 Significant Unobservable Inputs	Total
As of March 31, 2015				
Assets:				
Cash and cash equivalents	$140,965	—	—	$140,965
Restricted cash	168	—	—	168
Note receivable	—	—	15,482	15,482
Liabilities:				
Warrant liability	—	—	—	—
As of September 30, 2014				
Assets:				
Cash and cash equivalents	$20,687	—	—	$20,687
Restricted cash	1,482	—	—	1,482
Liabilities:				
Warrant liability	—	122	—	122

Cash consists primarily of bank deposits or, 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.

Note receivable: As partial consideration for the Digital Products Asset Sale pursuant to the Digital Products Agreement, the Company received a promissory note from Neophotonics in the principal amount of $16.0 million. The Promissory Note bears interest of 5.0% per annum for the first year and 13.0% per annum for the second year, payable semi-annually in cash, and matures two years from the closing of the transaction on January 2, 2015. On April 16, 2015, Emcore and NeoPhotonics entered into an agreement to adjust the purchase price resulting in an adjusted balance of the Promissory Note of $15.5 million. On April 17, 2015, NeoPhotonics prepaid the balance outstanding of the Promissory Note, including accrued interest, in the amount of $15.7 million. Also see Note 3 - Discontinued Operations.

As of March 31, 2015 and September 30, 2014, warrants with an expiration date of April 1, 2015 representing the right to purchase 400,001 shares of our common stock were outstanding. All of our warrants met 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 income (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 effect a mandatory exercise of each warrant. The valuation model requires the input of subjective assumptions, including the warrant's expected life and the price volatility of the underlying stock. The change in the fair value of our warrants has been 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 from our credit facility, accounts payable, accrued expenses and other current liabilities approximate fair value because of the short maturity of these instruments.

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NOTE 5. Accounts Receivable

The components of accounts receivable consisted of the following:

(in thousands)	As of March 31, 2015	As of September 30, 2014
Accounts receivable, gross	$17,523	$12,885
Allowance for doubtful accounts	(413)	(116)
Accounts receivable, net	$17,110	$12,769

The allowance for doubtful accounts is based on the age of receivables and a specific identification of receivables considered at risk of collection.

NOTE 6. Inventory

The components of inventory consisted of the following:

(in thousands)	As of March 31, 2015	As of September 30, 2014
Raw materials	$7,092	$7,255
Work in-process	4,577	4,403
Finished goods	3,832	3,986
Inventory	$15,501	$15,644

NOTE 7. Property, Plant, and Equipment, net

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

(in thousands)	As of March 31, 2015	As of September 30, 2014
Equipment	$6,776	$7,328
Furniture and fixtures	34	42
Computer hardware and software	629	749
Leasehold improvements	347	2,278
Construction in progress	190	49
Property, plant, and equipment, net	$7,976	$10,446

During the quarter ended December 31, 2014, as a result of a revision in the estimated amount of cash flows for asset retirement obligations ("ARO") relating to the extension of the Alhambra facility leases and changes in the required restoration efforts, the Company reduced its ARO liability by $2.9 million with an offsetting reduction to leasehold improvements of $2.1 million, and recorded a gain from change in estimate on ARO obligation of $0.8 million. Also see Note 12 - Commitments and Contingencies.

As of March 31, 2015 and September 30, 2014, accumulated depreciation was approximately $22.6 million and $21.5 million, respectively.

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NOTE 8. Intangible Assets

The following table sets forth the carrying value of intangible assets:

(in thousands)