

EMCORE CORP  
Form 10-Q  
February 07, 2011

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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 December 31, 2010

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

10420 Research Road, SE, Albuquerque, New Mexico  
(Address of principal executive offices)

87123  
(Zip Code)

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

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

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

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

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

The number of shares outstanding of the registrant's no par value common stock as of February 2, 2011 was 86,201,720.

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CAUTIONARY STATEMENT  
REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Exchange Act of 1934. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are largely based on our current expectations and projections about future events and financial trends affecting the financial condition of our business. Such forward-looking statements include, in particular, projections about our future results included in our Exchange Act reports, statements about our plans, strategies, business prospects, changes and trends in our business and the markets in which we operate. These forward-looking statements may be identified by the use of terms and phrases such as “anticipates”, “believes”, “can”, “could”, “estimates”, “expects”, “forecasts”, “intends”, “may”, “plans”, “projects”, “targets”, “will”, and similar expressions or variations of these terms and phrases. Additionally, statements concerning future matters such as the development of new products, enhancements or technologies, sales levels, expense levels, and other statements regarding matters that are not historical are forward-looking statements. Management cautions that these forward-looking statements relate to future events or our future financial performance and are subject to business, economic, and other risks and uncertainties, both known and unknown, that may cause actual results, levels of activity, performance, or achievements of our business or our industry to be materially different from those expressed or implied by any forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include without limitation those discussed under Item 1A - Risk Factors in our Annual Report on Form 10-K for the fiscal year ended September 30, 2010, as updated by our subsequent periodic reports. These cautionary statements apply to all forward-looking statements wherever they appear in this Quarterly Report.

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

EMCORE Corporation  
FORM 10-Q  
For The Quarterly Period Ended December 31, 2010

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PART I. FINANCIAL INFORMATION  
ITEM I. Financial Statements

EMCORE CORPORATION  
Condensed Consolidated Statements of Operations and Comprehensive Loss  
For the three months ended December 31, 2010 and 2009  
(in thousands, except loss per share)  
(unaudited)

	Three Months Ended December 31,	
	2010	2009
Revenue	\$52,107	\$42,402
Cost of revenue	39,427	33,089
Gross profit	12,680	9,313
Operating expenses:		
Selling, general, and administrative	8,264	12,227
Research and development	7,191	7,513
Total operating expenses	15,455	19,740
Operating loss	(2,775 )	(10,427 )
Other (income) expense:		
Interest income	-	(2 )
Interest expense	258	116
Foreign exchange loss	335	232
Change in fair value of financial instruments	272	1,132
Cost of financing instruments	5	228
Total other expense	870	1,706
Net loss	\$(3,645 )	\$(12,133 )
Foreign exchange translation adjustment	106	79
Comprehensive loss	\$(3,539 )	\$(12,054 )
Per share data:		
Net loss per basic and diluted share	\$(0.04 )	\$(0.15 )
Weighted-average number of basic and diluted shares outstanding	85,250	81,113

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



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EMCORE CORPORATION  
Condensed Consolidated Balance Sheets  
As of December 31, 2010 and September 30, 2010  
(in thousands)  
(unaudited)

	As of December 31, 2010	As of September 30, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 23,047	\$ 19,944
Restricted cash	2,346	1,298
Accounts receivable, net of allowance of \$8,327 and \$8,399, respectively	34,633	40,125
Inventory	31,756	32,056
Prepaid expenses and other current assets	5,131	5,312
<b>Total current assets</b>	<b>96,913</b>	<b>98,735</b>
Property, plant, and equipment, net	45,676	46,990
Goodwill	20,384	20,384
Other intangible assets, net	10,242	10,738
Other non-current assets, net	1,827	991
<b>Total assets</b>	<b>\$ 175,042</b>	<b>\$ 177,838</b>
<b>LIABILITIES and SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Borrowings from credit facility	\$ 11,756	\$ 10,573
Accounts payable	26,688	26,156
Accrued expenses and other current liabilities	24,823	27,115
<b>Total current liabilities</b>	<b>63,267</b>	<b>63,844</b>
Warrant liability	747	475
Other long-term liabilities	41	87
<b>Total liabilities</b>	<b>64,055</b>	<b>64,406</b>
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, \$0.0001 par, 5,882 shares authorized; no shares outstanding	-	-
Common stock, no par value, 200,000 shares authorized; 85,576 shares issued and 85,417 shares outstanding as of December 31, 2010; 85,346 shares issued and 85,187 shares outstanding as of September 30, 2010	703,091	701,997

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Accumulated deficit	(590,904)	(587,259)
Accumulated other comprehensive income	883	777
Treasury stock, at cost; 159 shares as of December 31, 2010 and September 30, 2010	(2,083)	(2,083)
Total shareholders' equity	110,987	113,432
Total liabilities and shareholders' equity	\$ 175,042	\$ 177,838

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



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EMCORE CORPORATION  
Condensed Consolidated Statements of Cash Flows  
For the three months ended December 31, 2010 and 2009  
(in thousands)  
(unaudited)

	Three Months Ended December 31,	
	2010	2009
Cash flows from operating activities:		
Net loss	\$ (3,645)	\$ (12,133)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	3,007	3,117
Stock-based compensation expense	817	3,186
Provision for doubtful accounts	64	(434)
Provision for product warranty	211	440
Compensatory stock issuances	305	244
Change in fair value of financial instruments	272	1,132
Cost of financing instruments	-	228
Total non-cash adjustments	4,676	7,913
Changes in operating assets and liabilities:		
Accounts receivable	5,343	(1,004)
Inventory	314	1,456
Other assets	(138)	174
Accounts payable	531	3,682
Accrued expenses and other current liabilities	(2,652)	(1,327)
Total change in operating assets and liabilities	3,398	2,981
Net cash provided by (used in) operating activities	4,429	(1,239)
Cash flows from investing activities:		
(Increase) release of restricted cash	(1,049)	1,517
Purchase of plant and equipment	(984)	(87)
Investment in patents	(188)	(158)
Net cash (used in) provided by investing activities	(2,221)	1,272
Cash flows from financing activities:		
Net proceeds from borrowings from credit facilities	1,183	346
Payments on issuance of credit facility agreement	(534)	-
Proceeds from exercise of employee stock options	28	-
Proceeds from employee stock purchase plan	-	505
Net proceeds from borrowings on short-term debt	-	1
Payments on capital lease obligations	(1)	(2)
Proceeds related to common stock	2	-
Net cash provided by financing activities	678	850
Effect of foreign currency	217	227
Net increase in cash and cash equivalents	3,103	1,110

Cash and cash equivalents at beginning of period	19,944	14,028
Cash and cash equivalents at end of period	\$ 23,047	\$ 15,138
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the period for interest	\$ 78	\$ 76
Cash paid during the period for income taxes	\$ -	\$ -
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Issuance of common stock under equity line of credit	\$ -	\$ 228

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

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EMCORE Corporation

Notes to Condensed Consolidated Financial Statements

NOTE 1. Basis of Presentation

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

These statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim information, and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X of the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for annual financial statements. In the opinion of management, 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, 2010 has been derived from the audited consolidated financial statements as of such date. For a more complete understanding of the Company’s financial position, operating results, risk factors, and other matters, please refer to the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2010.

Certain prior period information has been reclassified to conform to this current period’s presentations.

Use of Estimates

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

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

- the valuation of inventory, goodwill, intangible assets, warrants, and stock based compensation;
- assessment of recovery of long-lived assets;
- revenue recognition associated with the percentage of completion method; and,
- the allowance for doubtful accounts and warranty accruals.

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

Liquidity and Capital Resources

As of December 31, 2010, cash and cash equivalents was approximately \$23.0 million and working capital totaled \$33.6 million. For the three months ended December 31, 2010, the Company generated \$3.9 million in cash from operations compared with a consumption of \$1.2 million of cash in the prior year. The improvement in cash flow was due primarily to improved operating performance when compared to the prior year.

With respect to measures taken to improve liquidity, in November 2010, the Company entered into a three-year \$35 million asset-backed revolving credit facility with Wells Fargo Bank, which can be used for working capital, letters of credit, and other general corporate purposes. The credit facility is secured by substantially all of the Company's assets and is subject to a borrowing base formula based on the Company's eligible accounts receivable and inventory accounts, which is in the process of being finalized. The Company expects at least 40% of the total amount of credit under the credit facility to be available for use based on the borrowing base formula during fiscal year 2011.

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

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We believe that our existing balances of cash and cash equivalents, together with the cash expected to be generated from operations and amounts expected to be available under our credit facility with Wells Fargo Bank will provide us with sufficient financial resources to meet our cash requirements for operations, working capital, and capital expenditures for the next 12 months.

However, in the event of unforeseen circumstances, unfavorable market or economic developments, unfavorable results from operations, or if Wells Fargo declares an event of default on the credit facility, the Company may have to raise additional funds by any one or a combination of the following: issuing equity, debt or convertible debt, or selling certain product lines and/or portions of our business. There can be no guarantee that the Company will be able to raise additional funds on terms acceptable to us, or at all. A significant contraction in the capital markets, particularly in the technology sector, may make it difficult for us to raise additional capital if or when it is required, especially if the Company experiences negative operating results. As a result of the delays in filing our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 and our Annual Report on Form 10-K for the fiscal year ended September 30, 2010, we are currently ineligible to register our securities on Form S-3. As a result it may be more difficult and costly for us to access the capital markets until we regain Form S-3 eligibility. If adequate capital is not available to us as required, or is not available on favorable terms, our business, financial condition, and results of operations may be adversely affected.

### Correction of Prior Period Financial Statements.

During the third fiscal quarter ended June 30, 2010, management determined that approximately \$2.5 million of excess and obsolete inventory reserves related to the Company's Fiber Optics segment and \$0.2 million of compensation expense should have been recorded in the quarter ended September 30, 2009. The impact from correcting prior period financial statements resulted in the reduction of cost of revenue of approximately \$1.3 million and \$0.3 million from amounts previously reported in the quarters ended December 31, 2009 and March 31, 2010, respectively which improved profitability in these reporting periods. These corrections had no impact to net cash provided by (used in) operating activities or other subtotals as reported on the condensed consolidated statements of cash flows for the three months ended December 31, 2009. These corrections will be made to applicable prior period financial information in future filings with the SEC.

### NOTE 2. Recent Accounting Pronouncements

#### ASU 2009-13: Revenue Recognition - Multiple Deliverable Revenue Arrangements

In October 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2009-13: Revenue Recognition – Multiple Deliverable Revenue Arrangements. This accounting standard update establishes the accounting and reporting guidance on revenue recognition related to arrangements with multiple deliverables and it became effective for the Company on October 1, 2010. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. The adoption of this guidance did not have an impact on the Company's condensed consolidated financial statements.

#### ASU 2010-17: Revenue Recognition - Milestone Method

In April 2010, the FASB issued ASU No. 2010-17: Revenue Recognition - Milestone Method. This accounting standard update establishes the accounting and reporting guidance on applying the milestone method to milestone payments for achieving specified performance measures when those payments are related to uncertain future events. The scope of ASU 2010-17 is limited to transactions involving research or development. This update further states that the milestone method is not the only acceptable method of revenue recognition for milestone

payments. Accordingly, entities can make an accounting policy election to recognize arrangement consideration received for achieving specified performance measures during the period in which the milestones are achieved, provided certain criteria are met. An entity's policy for recognizing deliverable consideration or unit of accounting consideration contingent upon achievement of a milestone shall be applied consistently to similar deliverables or units of accounting. The Company adopted the provisions of this update on October 1, 2010. The adoption of this guidance did not have an impact on the Company's condensed consolidated financial statements.

**ASU 2010-20: Receivables - Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses**

In July 2010, the FASB issued ASU No. 2010-20: Receivables - Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. This standard requires companies to improve their disclosures about the credit quality of their financing receivables and the credit reserves held against them. The guidance covers trade accounts receivables, financing receivables, loans, loan syndications, factoring arrangements, and standby letters of credit. The Company adopted the provisions of this update on October 1, 2010. The adoption of this guidance did not have an impact on the Company's condensed consolidated financial statements.

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## NOTE 3. Equity

## Stock Options

The Company provides long-term incentives to eligible officers, directors, and employees in the form of stock options. Most of the Company's stock options vest and become exercisable over four to five years and have a contractual life of ten years. Certain stock options awarded by the Company are intended to qualify as incentive stock options pursuant to Section 422A of the Internal Revenue Code. The Company issues new shares of common stock to satisfy the issuance of shares under this stock-based compensation plan. The Company maintains two stock option plans: the 2000 Stock Option Plan (the "2000 Plan") and the 2010 Equity Incentive Plan (the "2010 Equity Plan" and, together with the 2000 Plan, the "Option Plans"). The following table summarizes the activity under the Company's Option Plans:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Life (in years)
Outstanding as of September 30, 2010	8,722,125	\$ 4.70	7.02
Granted	600,500		
Exercised	(22,300)		
Forfeited	(37,150)		
Cancelled	(109,093)		
Outstanding as of December 31, 2010	9,154,082	\$ 4.47	7.02
Exercisable as of December 31, 2010	4,848,037	\$ 5.39	5.93
Vested and expected to vest as of December 31, 2010	6,141,837	\$ 4.89	6.45

As of December 31, 2010, there was approximately \$2.7 million of total unrecognized compensation expense related to non-vested stock-based compensation arrangements granted under the Option Plans. This expense is expected to be recognized over an estimated weighted average life of 2.4 years.

Intrinsic value for stock options represents the "in-the-money" portion or the positive variance between a stock option's exercise price and the underlying stock price. The total intrinsic value related to stock options exercised during the three months ended December 31, 2010 was approximately \$5,000. No stock options were exercised during the three months ended December 31, 2009. The intrinsic value related to fully vested and expected to vest stock options as of December 31, 2010 was approximately \$33,000 and the intrinsic value related to exercisable stock options as of December 31, 2010 was approximately \$4,000. The intrinsic value related to fully vested and expected to vest stock options as of December 31, 2009 was approximately \$11,000 and there was no intrinsic value related to exercisable stock options as of December 31, 2009.

Exercise Price of Stock Options	Number of Stock Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted- Average Remaining	Weighted- Average Exercise	Number Exercisable	Weighted- Average Exercise

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		Contractual Life (years)	Price		Price
\$<5.00	4,991,858	7.34	\$ 1.83	2,104,875	\$ 2.50
>=\$5.00 to <\$10.00	4,131,524	6.64	7.61	2,726,362	7.59
=>\$10.00	30,700	6.55	11.34	16,800	11.22
Total	9,154,082	7.02	\$ 4.47	4,848,037	\$ 5.39



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

(in thousands, except per share data)	Three Months Ended	
	December 31,	
	2010	2009
Stock-based compensation expense by award type:		
Employee stock options	\$ 682	\$ 3,006
Employee stock purchase plan	135	180
Total stock-based compensation expense	\$ 817	\$ 3,186
Net effect on net loss per basic and diluted share	\$ (0.01)	\$ (0.04)

## Valuation Assumptions

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option valuation model and the straight-line attribution approach using the following weighted-average assumptions. The option-pricing model requires the input of highly subjective assumptions, including the option's expected life and the price volatility of the underlying stock. The weighted-average grant date fair value of stock options granted during the three months ended December 31, 2010 and 2009 was \$0.76 and \$1.02, respectively.

Black-Scholes Weighted Average Assumptions	Three Months Ended	
	December 31,	
	2010	2009
Expected dividend yield	- %	- %
Expected stock price volatility	98.1 %	96.7 %
Risk-free interest rate	1.3 %	2.3 %
Expected term (in years)	4.9	4.8
Estimated pre-vesting forfeitures	32.5 %	32.6 %

**Expected Dividend Yield:** The Black-Scholes valuation model calls for a single expected dividend yield as an input. The Company has not issued any dividends.

**Expected Stock Price Volatility:** The fair values of stock-based payments were valued using the Black-Scholes valuation method with a volatility factor based on the Company's historical stock price.

**Risk-Free Interest Rate:** The Company bases the risk-free interest rate used in the Black-Scholes valuation method on the implied yield that was currently available on U.S. Treasury zero-coupon notes with an equivalent remaining term. Where the expected term of stock-based awards do not correspond with the terms for which interest rates are quoted, the Company performed a straight-line interpolation to determine the rate from the available maturities.

**Expected Term:** Expected term represents the period that the Company's stock-based awards are expected to be outstanding and was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior as influenced by changes to the terms of its stock-based awards.

**Estimated Pre-vesting Forfeitures:** When estimating forfeitures, the Company considers voluntary termination behavior as well as workforce reduction programs.

Warrants

As of December 31, 2010 and September 30, 2010, the Company had 3,000,003 warrants outstanding.

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## Employee Stock Purchase Plan

The Company maintains an Employee Stock Purchase Plan (“ESPP”) that provides employees of the Company an opportunity to purchase common stock through payroll deductions. The ESPP is a 6-month duration plan and the purchase price is set at 85% of the average high and low market price of the Company's common stock on either the first or last day of the participation period, whichever is lower, and contributions are limited to the lower of 10% of an employee's compensation or \$25,000. The Company issues new shares of common stock to satisfy the issuance of shares under this stock-based compensation plan.

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

	Number of Common Stock Shares	Purchase Price per Share of Common Stock
Amount of shares reserved for the ESPP	4,500,000	
Number of shares issued for calendar years 2000 through 2007	(1,123,857)	\$ 1.87 - \$40.93
Number of shares issued for calendar year 2008	(592,589)	\$ 0.88 - \$ 5.62
Number of shares issued for calendar year 2009	(1,073,405)	\$ 0.92
Number of shares issued for calendar year 2010	(651,700)	\$ 0.74
Remaining shares reserved for the ESPP	1,058,449	

The ESPP shares associated with the six month period ended December 31, 2010 were not issued until January 2011 as a result of the delay in filing the Company's Annual Report on Form 10-K.

## Future Issuances

As of December 31, 2010, the Company had reserved 16.6 million shares of its common stock for future issuances as follows:

	Number of Common Stock Shares Available for Future Issuances
For exercise of outstanding common stock options	9,154,082
For future issuances to employees under the ESPP	1,058,449
For future common stock option or restricted stock awards under the 2010 Equity Incentive Plan	3,399,500
For future exercise of warrants	3,000,003

Total reserved	16,612,034
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On January 28, 2011, the Company granted 1,665,900 restricted stock awards to employees issued at the closing price of \$1.42 per share.

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## NOTE 4. Receivables

The components of accounts receivable consisted of the following:

(in thousands)	As of December 31, 2010	As of September 30, 2010
Accounts receivable	\$ 34,672	\$ 37,574
Accounts receivable – unbilled	8,288	10,950
Accounts receivable, gross	42,960	48,524
Allowance for doubtful accounts	(8,327 )	(8,399 )
Accounts receivable, net	\$ 34,633	\$ 40,125

The Company records revenue from certain solar panel and solar power systems contracts using the percentage-of-completion method. The term of the contracts associated with this type of receivable usually exceed a period of one year. As of December 31, 2010 and September 30, 2010, the Company had \$16.7 million and \$18.4 million, respectively, of accounts receivable recorded using the percentage of completion method. Of these amounts, \$9.5 million was invoiced and \$7.2 million was unbilled as of December 31, 2010 and \$8.8 million was invoiced and \$9.6 million was unbilled as of September 30, 2010. Unbilled accounts receivable represents revenue recognized but not yet billed or accounts billed after the period ended. Billings on contracts using the percentage-of-completion method usually occur upon completion of predetermined contract milestones or other contract terms, such as customer approval. The allowance for doubtful accounts specifically related to receivables recorded using the percentage-of-completion method totaled \$5.0 million and \$5.1 million as of December 31, 2010 and September 30, 2010, respectively. The allowance is based on the age of receivables and a specific identification of receivables considered at risk of collection.

The following table summarizes the changes in the allowance for doubtful accounts:

(in thousands)	Three Months Ended December 31,	
	2010	2009
Balance at beginning of period	\$ 8,399	\$ 7,125
Expense - charge to provision, net of recoveries	64	(434 )
Write-offs - deductions against receivables	(136 )	(51 )
Balance at end of period	\$ 8,327	\$ 6,640

## NOTE 5. Inventory

The components of inventory consisted of the following:

(in thousands)	As of December 31, 2010	As of September 30, 2010
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Raw materials	\$	19,988	\$	18,701
Work in-process		7,619		7,000
Finished goods		4,149		6,355
Inventory, net	\$	31,756	\$	32,056

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## NOTE 6. Property, Plant, and Equipment

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

(in thousands)	As of December 31, 2010	As of September 30, 2010
Land	\$ 1,502	\$ 1,502
Building and improvements	34,854	34,854
Equipment	102,009	101,310
Furniture and fixtures	3,065	3,065
Computer hardware and software	3,641	3,616
Leasehold improvements	831	854
Construction in progress	1,310	992
Property, plant, and equipment, gross	147,212	146,193
Accumulated depreciation and amortization	(101,536 )	(99,203 )
Property, plant, and equipment, net	\$ 45,676	\$ 46,990

As of December 31, 2010 and September 30, 2010, the Company did not have any significant capital lease agreements.

Depreciation expense was \$2.3 million and \$2.4 million for the three months ended December 31, 2010 and 2009, respectively.

## NOTE 7. Goodwill

As of September 30, 2010, the Company performed an interim impairment test on its goodwill. The impairment test indicated that no impairment existed and that fair value exceeded carrying value by approximately 40%. As of December 31, 2010, the Company performed an annual impairment test on its goodwill and the impairment test indicated that no impairment existed.

The Company will, however, continue to monitor any changes in circumstances or triggering events that might indicate impairment of our goodwill. If there is erosion of the Company's market capitalization or the Photovoltaics reporting unit is unable to achieve its projected cash flows, management may be required to perform additional impairment tests. The outcome of these additional tests may result in the Company recording goodwill impairment charges.

## NOTE 8. Intangible Assets

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

(in thousands)	As of December 31, 2010			As of September 30, 2010		
	Gross Assets	Accumulated Amortization	Net Assets	Gross Assets	Accumulated Amortization	Net Assets

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Core Technology	\$ 15,555	\$ (9,701 )	\$ 5,854	\$ 15,555	\$ (9,275 )	\$ 6,280
Customer Relations	4,381	(1,751 )	2,630	4,381	(1,644 )	2,737
Patents	4,777	(4,083 )	694	4,725	(4,021 )	704
	24,713	(15,535 )	9,178	24,661	(14,940 )	9,721