THE FUTURE OF TECHNOLOGY . . .

WE'RE ALREADY THERE

emcore

2001 ANNUAL REPORT

EMCORE COMPANY PROFILE

EMCORE Corporation is a leading provider of compound semiconductor technologies for global communications and solid state lighting. Compound semiconductors have quickly replaced silicon-based devices in a number of applications, due to their ability to perform functions beyond the physical limits of the electronic properties of silicon. As a result, compound semiconductor devices achieve greater performance than silicon devices: they operate faster, possess superior light gathering and emitting capabilities, and consume less power.

EMCORE offers a diverse portfolio of compound semiconductor products that enable the advancement of data, wireless and satellite communications, and solid state lighting. These products include:

- Optical devices, components and modules for data communications networks and telecommunications equipment
- Electronic materials for wireless and data communications
- Solar cells for satellite communications
- Metal organic chemical vapor deposition production tools for the growth of electronic and optoelectronic materials employed in communications and solid state lighting devices

FINANCIAL HIGHLIGHTS

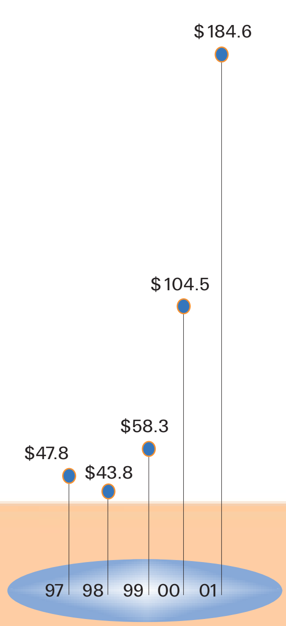
Results of Operations:
Dollars in Millions (except per share data)

	2001	2000	1999
Revenues	$184.6	$104.5	$58.3
Gross Profit	$70.1	$43.2	$25.2
Operating Loss	$(14.3)	$(15.9)	$(14.4)
Net Loss	$(12.3)	$(25.5)	$(22.7)
Net Loss Per Diluted Share	$(0.36)	$(0.82)	$(1.09)

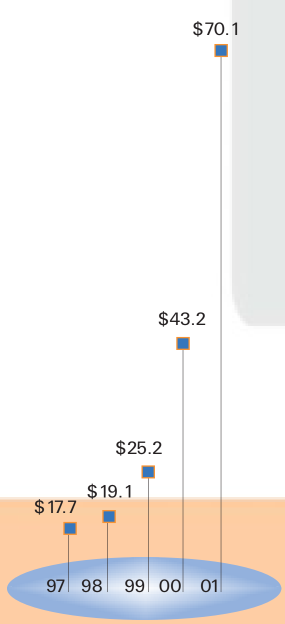
Financial Position:
Dollars in Millions

	2001	2000	1999
Cash, Cash Equivalents & Marketable Securities	$147.7	$101.7	$7.2
Working Capital	$201.2	$111.6	$20.7
Total Assets	$403.6	$243.9	$99.6
Shareholders' Equity	$197.1	$199.3	$61.6

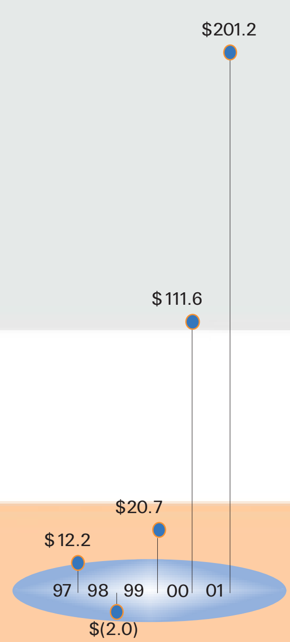
Revenues
Dollars in Millions



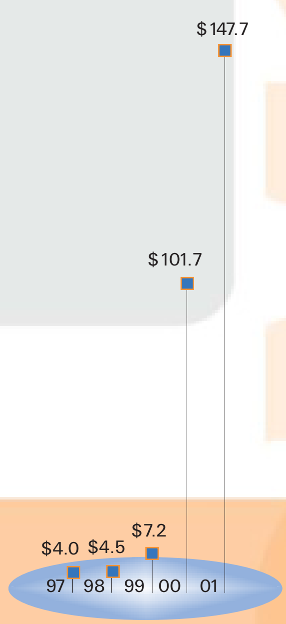
Gross Profit
Dollars in Millions



Working Capital
Dollars in Millions



Cash, Cash Equivalents, and Marketable Securities
Dollars in Millions



TO OUR SHAREHOLDERS

In a year that was challenging for many technology companies because of recent economic shifts and saturated markets, EMCORE's fiscal 2001 was highlighted by several achievements. We accomplished a third consecutive year of record revenues, received two awards for our technological innovation and leadership, and introduced a new family of optical networking products. Our revenues of $185 million, an increase of nearly 80% over fiscal 2000, marked a significant accomplishment during a year beleaguered by economic uncertainty and turbulence. This continued success is directly attributable to the strength of our technology and diversity of our product segments, which enables us to successfully navigate through challenging times and market conditions.

Enabling Our Customers' Success With Innovative Technology

Throughout fiscal 2001, EMCORE continued to demonstrate its capability to drive the success of its customers by offering new technologies that are the catalyst for advancements in data communications, telecommunications and satellite communications, as well as solid state lighting. Our product developments during the year typify EMCORE's ability to anticipate future trends in the industry, while addressing the needs of today. In August, EMCORE announced the commercial production of its new high-speed, cost-effective 12 x 1.25 Gbps parallel optical array transmitter/receiver (transceiver) modules to significantly improve data throughput capability; and in October we announced the commercial availability of a new 300 pin MSA (multi-source agreement) compliant transponder module to provide very short reach interconnections over parallel fiber links at SONET OC-192 data rates. These ambitious and innovative products will be key drivers in expanding network speed and capacity, while significantly reducing costs.

Our commitment to providing the industry with leading-edge solutions was recognized by an award from the highly regarded industry trade publication, *Fiber Optic Product News*, an achievement of which we are very proud in such a competitive industry. EMCORE's VCSEL arrays, which received the award from a field of 2,400 entries, have proven themselves as a cost-effective and reliable way to provide high-speed optical interconnects between switches routing Internet and electronic data. We continue to design and develop materials and devices that are critically enabling components for our customers to achieve technical innovation and success. In March, EMCORE was the first company in the industry to manufacture in high volumes VCSEL-based optical devices operating at an unprecedented speed of 10 Gbps, demonstrating that our technology will continue to drive performance characteristics of optical components and modules. In addition, we expanded our 10 Gbps product offerings in July by developing a gallium arsenide photodetector to provide a matched solution for transmit and receive functionality.

Developing Next Generation Products for Global Communications

Despite a general slowdown in the wireless industry, EMCORE has seen encouraging signs of recovery. We received new orders at the close of fiscal 2001 from several major wireless handset manufacturers who are ramping up to full capacity production and from key device suppliers. The transistor wafers developed at EMCORE, which are the foundation for next generation wireless products, are capable of achieving greater processing power and can be incorporated into multiple digital standard applications. EMCORE is positioned to rapidly ramp up production to satisfy its customers' needs, as we anticipate an increase in wireless product demand in 2002.

Our wireless product line achieved two significant milestones in fiscal 2001: we shipped 15,000 6-inch HBT and pHEMT wafers in just 12 months, and also earned the prestigious QS-9000 certification for our wafer manufacturing program. Ensuring a level of quality that satisfies the unique demands of each of our customers, the QS-9000 program effectively drives EMCORE to include our customers as an integral part of our design and manufacturing approval processes.

Fiscal 2001 also brought success for our PhotoVoltaics division. Greatly improving the economics of satellite communications, EMCORE continues to supply products that increase payload capacities, including triple-junction solar cells with 28% efficiency, the highest in the industry. With sales of EMCORE solar cells increasing 10% over last year, leading satellite manufacturers are turning to our technology to lower launch costs by improving radiation tolerance and significantly reducing the amount of satellite weight and wing area dedicated to power generating devices. EMCORE's reliable, cost-effective solutions will play a major role as satellite applications increase in the coming years. Our repeated improvements in solar cell efficiency will continue to afford us many new opportunities in 2002.

In the area of MOCVD (metal organic chemical vapor deposition) equipment, we doubled our revenues from the previous fiscal year and also signed an agreement with LumiLeds Lighting, a joint venture between Agilent Technologies and Philips Lighting, for the supply of multiple MOCVD tools to be used in the production of high brightness LEDs. Another testament to the strength of our MOCVD tool technology was the receipt of the Thomas Alva Edison award from the R&D Council of New Jersey for our gallium nitride reactor design employed in the growth of blue and green LEDs and lasers. These accomplishments are examples of EMCORE's substantial participation in an LED market that has grown annually at an average rate of 58 percent over the past 5 years (according to Strategies In Light, an independent market research firm).

"Our revenues of $185 million, an increase of nearly 80% over fiscal 2000, marked a significant accomplishment."

Positioned for Success in 2002 and Beyond

In anticipation of fiscal year 2002, which may present further challenges to technology companies, we launched several operational and cost reduction initiatives during fiscal 2001 to maximize operational efficiency. By proportioning our cost structure with our current business requirements and continuing to target high growth communications markets, we have strategically positioned EMCORE to meet the demands for 2002 and beyond. The fiscal changes we have set in motion position EMCORE to capitalize on the opportunities that will arise in 2002. We believe that we will see a positive shift in revenue growth toward the end of the next fiscal year. To this end, we will remain focused on the bottom line, while not sacrificing the ingenuity and resources necessary to continue to provide the marketplace with next generation products.

We would like to extend our appreciation to our shareholders for their continued support and confidence, and to our employees for their contributions and persistence in driving our technology to the forefront of the industry.

Sincerely,

Thomas Russell, Ph.D
Chairman

Reuben F. Richards, Jr.
CEO & President

COMPOUND SEMICONDUCTORS ARE EVERYWHERE...

EMCORE IS PROVIDING THEM

DATA COMMUNICATION NETWORKS

CELL PHONES

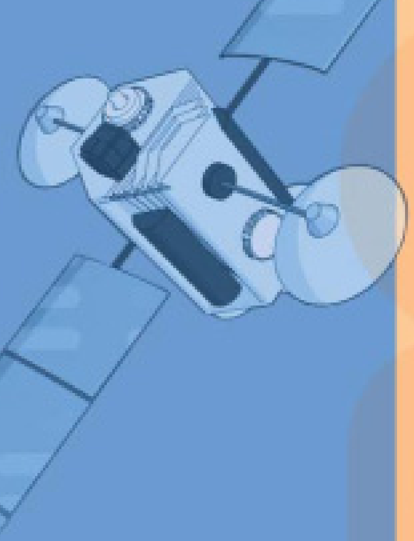
TRAFFIC SIGNALS

SATELLITES

AUTOMOBILES

AND AIRPLANES

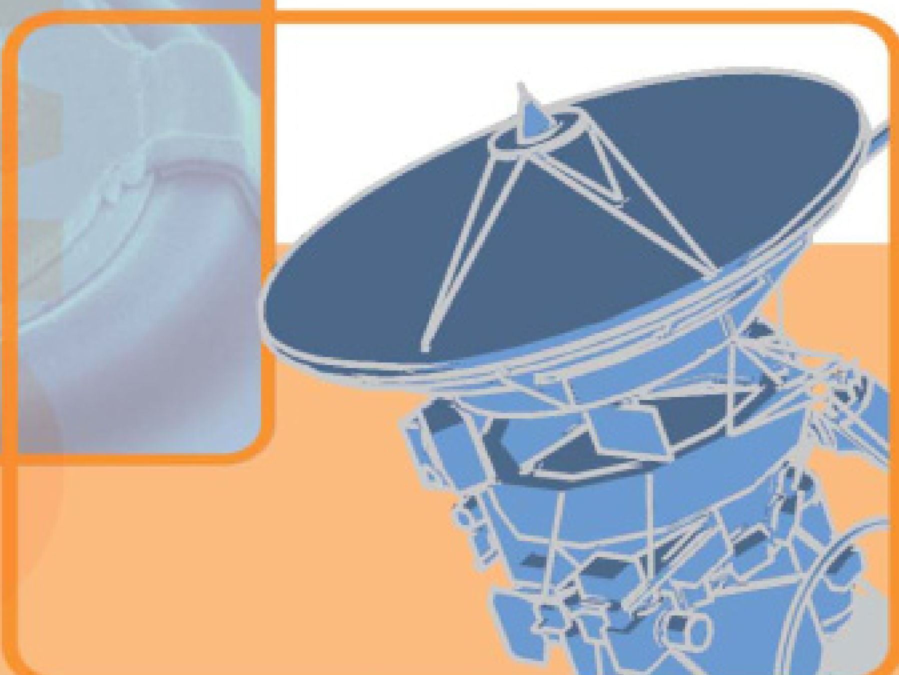
CD AND DVD PLAYERS



THE FUTURE OF TECHNOLOGY...

Since our inception in 1984, EMCORE has consistently developed and mastered new technologies that drive the success of our customers. We endeavor to provide technologies to the marketplace that are applicable today, while also serving as building blocks for next generation products.

The Company's core of compound semiconductor technology allows for the development of several, diverse products that move beyond the confines of competing technologies to enable efficiencies, speeds, and performance levels not formerly possible.



WE'RE ALREADY THERE

The world of communicating information via data channels such as the Internet is growing at an astounding pace and requires the ability to accommodate speed, performance and capacity demands.

- As the first company in the industry to manufacture optical devices and modules operating at speeds ranging from 1 Gbps to 10 Gbps, EMCORE has established its ability to meet the requirements for communications networks in use today, and has also demonstrated its capability to offer customers a solution for future products.

Wireless communications are no longer a novelty afforded by an elite group of business travelers: they have become integrated into our lives as a relied upon means for simple, fast and convenient communication.

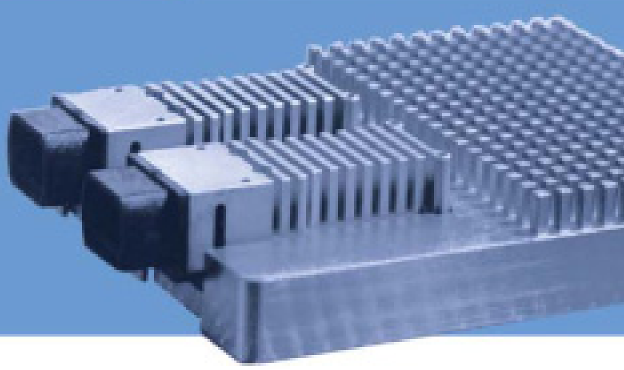
- By providing wireless device manufacturers with the first 6-inch HBT wafer, EMCORE provides the industry with a cost-effective solution that has the performance characteristics required to power cell phones and other wireless components.

With minimizing launch expenses and maximizing the lifetime of satellites essential to satellite manufacturers, high performance, low cost solar cell components are vital to the economic feasibility of global satellite communications.

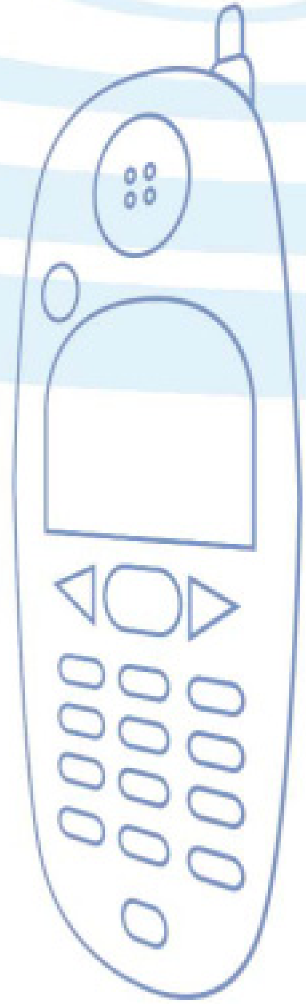
- Featuring an industry-leading efficiency of 28%, EMCORE's triple junction solar cells improve satellite economics by allowing increased payload capacities.

Continuing efforts in the conservation of energy and demands for greater illumination capabilities have led to a rapid transition to the highly efficient and better performing technology of solid state lighting.

- EMCORE's MOCVD tools offer the highest throughput and lowest cost per wafer in the industry, which facilitates the high volume production of light emitting diodes (LEDs) that achieve brighter performance with lower power consumption. These LEDs are used in a variety of lighting applications, including traffic signals, signs, LCD displays, and automotive lighting.



KEY GROWTH AND SUCCESS FACTORS



For a business to succeed in the rapidly evolving world of modern communications technology, it must continuously adapt to new innovations and changing industry trends. Remaining at the forefront of advances in compound semiconductor technology, EMCORE not only keeps pace with competition within the industry, but also plays a major role in shaping the technology of the future. By applying this technology advantage to a wide array of applications, partnering with industry leaders, and pursuing ambitious research and development programs, EMCORE remains positioned for continued success in the years ahead.

- Proven successful core technologies developed by EMCORE enable us to target high-growth sectors in communications markets
- Product offerings across diverse semiconductor sectors provide stability during economic shifts
- Ability to expedite production ramp times for new products provides customers with next generation technologies at an unprecedented pace
- Strategic acquisitions and partnerships with industry leading companies leverage existing capabilities
- A global network of sales and support functions enables EMCORE to pursue opportunities worldwide
- Extensive investment in R&D ensures aggressive product development and deployment of technologies that drive the growth and success of our customers

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

This Annual Report contains forward-looking statements based on our current expectations, estimates, and projections about our industry, management's beliefs and certain assumptions made by us. Words such as "anticipates", "expects", "intends", "plans", "believes", "seeks", "estimates", "may", "will" and variations of these words or similar expressions are intended to identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. These statements are not guarantee of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors, including, but not limited to: our rapid growth, which places a strain on our resources; we expect to continue to incur operating losses; since the technology in the compound semiconductor industry rapidly changes; we must continually improve existing products; design and sell new products and manage the costs of research and development in order to effectively compete; fluctuations in our quarterly operating results, which may negatively impact our stock price; our joint venture partner, who has control of the venture, may make decisions that we do not agree with and that adversely affect our net income; since a large percentage of our revenues are from foreign sales, certain export risks may disproportionately affect our revenues; we will lose sales if we are unable to obtain government authorization to export our products; our products are difficult to manufacture and small manufacturing defects can adversely affect our production yields and our operating results; we face lengthy sales and qualifications cycles for our products and, in many cases, must invest a substantial amount of time and funds before we receive orders; industry demand for skilled employees, particularly scientific and technical personnel with compound semiconductor experience, exceeds the number of skilled personnel available; protecting our trade secrets and obtaining patent protection is critical to our ability to effectively compete for business; we may require licenses to continue to manufacture and sell certain of our compound semiconductor wafers and devices, the expense of which may adversely affect our results of operations; interruptions in our business and a significant loss of sales to Asia may result if our primary distributor in Asia fails to effectively market and service our products; our management's stock ownership gives them the power to control business affairs and prevent a takeover that could be beneficial to unaffiliated shareholders; unsuccessful control of the hazardous raw materials used in our manufacturing process could result in costly remediation fees, penalties or damages under environmental and safety regulations; our business or our stock price could be adversely affected by issuance of preferred stock; certain provisions of New Jersey Law and our charter may make a takeover of our company difficult even if such takeover could be beneficial to some of our shareholders; the price of our common stock has fluctuated widely in the last year and may fluctuate widely in the future. Our Annual Report on Form 10-K and other SEC filings discuss some of the important risk factors that may affect our business, results of operations and financial condition. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

Selected Financial Data

The following selected consolidated financial data for the five most recent fiscal years ended September 30, 2001 of EMCORE is qualified by reference to and should be read in conjunction with the Financial Statements and the Notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this document. The Statement of Operations data set forth below with respect to fiscal years 2001, 2000 and 1999 and the Balance Sheet data as of September 30, 2001 and 2000 are derived from EMCORE's audited financial statements included elsewhere in this document. The Statement of Operations data for fiscal years 1998 and 1997 and the Balance Sheet data as of September 30, 1999, 1998 and 1997 are derived from audited financial statements not included herein. All share amounts have been restated to reflect EMCORE's two-for-one (2:1) common stock split that was effective on September 18, 2000.

On December 5, 1997, EMCORE acquired MicroOptical Devices, Inc. in a stock transaction accounted for under the purchase method of accounting for a purchase price of $32.8 million. In connection with this transaction, EMCORE recorded a non-recurring, non-cash charge of $19.5 million for acquired in-process research and development, which affects the comparability of EMCORE's operating results and financial condition.

Effective October 1, 2000, EMCORE changed its revenue recognition policy to defer the portion of revenue related to installation and final acceptance until such installation and final acceptance are completed. This change was made in accordance with the implementation of U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 101, "*Revenue Recognition in Financial Statements*" (SAB 101). Previously, EMCORE had recognized 100 percent of revenue for products at such time as the product specifications had been met and the title and risks and rewards of ownership had transferred to the customer since EMCORE has historically completed such installation services successfully and since such services have required minimal costs to complete. The effect of this change is reported as the cumulative effect of a change in accounting principle in the year ended September 30, 2001. This net effect reflects the deferral as of October 1, 2000 of $3.6 million of revenue and accrued installation expense previously recognized. EMCORE recognized the revenue included in the cumulative effect adjustment during the year ended September 30, 2001.

(in thousands)	As of September 30,				
Balance Sheet data	**2001**	**2000**	**1999**	**1998**	**1997**
Cash, cash equivalents and marketable securities	**$147,661**	$101,745	$7,165	$4,518	$3,966
Working capital (deficiency)	**201,213**	111,587	20,690	(2,017)	12,156
Total assets	**403,553**	243,902	99,611	73,220	39,463
Long-term liabilities	**175,046**	1,295	9,038	26,514	7,577
Redeemable convertible preferred stock	**-**	-	14,193	-	-
Shareholders' equity	**197,127**	199,322	61,623	19,580	21,831

Statements of Operations data	For the Fiscal Years Ended September 30,				
(in thousands, except per share amounts)	**2001**	**2000**	**1999**	**1998**	**1997**
Revenues	**$184,614**	$104,506	$58,341	$43,760	$47,752
Cost of revenues	**114,509**	61,301	33,158	24,676	30,094
Gross profit	**70,105**	43,205	25,183	19,084	17,658
Operating expenses:					
Selling, general and administrative	**29,851**	21,993	14,433	14,082	9,346
Goodwill amortization	**1,147**	4,392	4,393	3,638	-
Research and development:					
Recurring	**53,391**	32,689	20,713	16,495	9,001
One-time acquired in-process	**-**	-	-	19,516	-
Total operating expenses	**84,389**	59,074	39,539	53,731	18,347
Operating loss	**(14,284)**	(15,869)	(14,356)	(34,647)	(689)
Other (income) expense:					
Stated interest (income) expense, net	**(2,048)**	(4,492)	866	973	520
Imputed warrant interest expense	**-**	843	1,136	601	3,988
Other income	**(15,920)**	-	-	-	-
Equity in net loss of unconsolidated affiliates	**12,326**	13,265	4,997	198	-
Total other (income) expense	**(5,642)**	9,616	6,999	1,772	4,508
Loss before income taxes, extraordinary item and cumulative effect of a change in accounting principle	**(8,642)**	(25,485)	(21,355)	(36,419)	(5,197)
Provision for income taxes	**-**	-	-	-	137
Loss before extraordinary item and cumulative effect of a change in accounting principle	**(8,642)**	(25,485)	(21,355)	(36,419)	(5,334)
Extraordinary item	**-**	-	(1,334)	-	(285)
Cumulative effect of a change in accounting principle	**(3,646)**	-	-	-	-
Net loss	**$(12,288)**	$(25,485)	$(22,689)	$(36,419)	$(5,619)

Per share data					
Weighted average shares used in calculating per share data	**34,438**	31,156	21,180	17,550	9,338
Loss per basic and diluted share before extraordinary item and cumulative effect of a change in accounting principle	**$(0.25)**	$(0.82)	$(1.03)	$(2.08)	$(0.57)
Net loss per basic and diluted share	**$(0.36)**	$(0.82)	$(1.09)	$(2.08)	$(0.60)

Management's Discussion and Analysis of Financial Condition and Results of Operations

EMCORE Corporation designs, develops and manufactures compound semiconductor wafers and devices and is a leading developer and manufacturer of the tools and manufacturing processes used to fabricate compound semiconductor wafers and devices. Compound semiconductors are composed of two or more elements and usually consist of a metal, such as gallium, aluminum or indium, and a non-metal such as arsenic, phosphorus or nitrogen. Many compound semiconductors have unique physical properties that enable electrons to move through them at least four times faster than through silicon-based devices and are therefore well suited to serve the growing need for efficient, high performance electronic systems.

EMCORE offers a comprehensive portfolio of products and systems for the rapidly expanding broadband, wireless communications and solid state lighting markets. We have developed extensive materials science expertise and process technology to address our customers' needs. Customers can take advantage of our vertically integrated solutions approach by purchasing custom-designed wafers and devices from us, or by manufacturing their own devices in-house using one of our metal organic chemical vapor deposition (MOCVD) production systems configured to their specific needs. Our products and systems enable our customers to cost effectively introduce new and improved high performance products to the market faster in high volumes.

The growth in our business is driven by the widespread deployment of fiber optic networks, introduction of new wireless networks and services, rapid build-out of satellite communication systems, increasing use of more power efficient lighting sources, increasing use of electronics in automobiles and emergence of advanced consumer electronic applications. Also, the growing demands for higher volumes of a broad range of higher performance devices has resulted in manufacturers increasingly outsourcing their needs for compound semiconductor wafers and devices. Our expertise in materials science and process technology provides us with a competitive advantage to manufacture compound semiconductor wafers and devices in high volumes. We have increased revenues at a compound annual growth rate (CAGR) of 62% over the three fiscal years ended September 30, 2001, from $43.8 million in fiscal 1998 to $184.6 million in fiscal 2001.

Wafers and Devices

EMCORE offers a broad array of compound semiconductor wafers and devices, including optical components, such as VCSELs and photodetectors for use in high-speed data communications and telecommunications networks, radio frequency materials (RF materials) used in mobile communications products such as wireless modems and handsets, solar cells that power commercial and military satellites, high brightness light-emitting diodes (HB LEDs) for several lighting markets and magneto resistive sensors (MR sensors) for various automotive applications.

- *Optical Components and Modules.* Our family of VCSELs and VCSEL array transceiver and transponder products, as well as our photodiode array components, serve the rapidly growing high-speed data communications network markets, including the Gigabit Ethernet, FibreChannel, Infiniband, and Very Short Reach OC-192, the emerging Very Short Reach OC-768 and related markets. Our strategy is to manufacture high cost optical components and subassemblies in-house, using our proprietary technologies, to reduce the overall cost of our transceiver and transponder modules.

- *RF Materials.* We currently produce 4-inch and 6-inch InGaP HBT and pHEMT materials that are used by our wireless customers for power amplifiers for GSM, TDMA, CDMA and the emerging 3G multiband wireless handsets.

- *Solar Cells.* Solar cells are typically the largest single cost component of a satellite. Our compound semiconductor solar cells, which are used to power commercial and military satellites, have achieved industry-leading efficiencies. Solar cell efficiency dictates the electrical power of the satellite and bears upon the weight and launch costs of the satellite. We began shipping our triple junction solar cells in December 2000.

- *HB LEDs.* Through our joint venture with General Electric Lighting, we provide advanced HB LED technology used in devices and in such applications as traffic lights, miniature lamps, automotive lighting, and flat panel displays.

Production Systems

EMCORE is a leading provider of compound semiconductor technology processes and MOCVD production tools. We believe that our proprietary TurboDisc deposition technology makes possible one of the most cost-effective production processes for the commercial volume manufacture of high-performance compound semiconductor wafers and devices, which are integral to broadband communication applications.

Customers

Our customers include Agilent Technologies Ltd., Anadigics Inc., Boeing-Spectrolab, Corning, Inc., General Motors Corp., Hewlett Packard Co., Honeywell International Inc., Infineon Technologies AG, Loral Space & Communications Ltd., Lucent Technologies, Inc., LumiLeds Lighting, Motorola, Inc., Nortel Networks Corp., Siemens AG's Osram GmbH subsidiary, TriQuint Semiconductor, Inc. and more than a dozen of the largest electronics manufacturers in Japan.

Recent Developments and Highlights

During the first quarter of fiscal 2002, EMCORE signed an agreement with LumiLeds Lighting, a joint venture between Agilent Technologies and Philips Lighting, for the supply of MOCVD tools to be used in the production of high brightness gallium nitride (GaN) LEDs.

In October 2001, EMCORE announced the launch of a new 300 pin MSA (multi source agreement) compliant transponder module to provide very short reach interconnections over parallel fiber links at SONET OC-192 data rates. The new module provides a cost effective alternative to more costly, comparable serial interconnects. EMCORE will also bring to market a "Small Form Factor" (SFF) version of the 300-pin VSR1 OC-192 transponder.

In October 2001, EMCORE announced the assumption of direct sales and marketing responsibility for its 12 X 1.25 Gbps fiber optic transmitter and receiver modules and its VSR OC-192 transponder module from JDS Uniphase. To enable EMCORE to directly market and sell its own branded products, JDS Uniphase and EMCORE agreed to amend their Joint Development, Manufacturing and Marketing Agreement. Under the terms of the amendment, JDS Uniphase will provide transition marketing and sales services to EMCORE. JDS Uniphase also will designate EMCORE the primary vendor of VCSEL products for JDS Uniphase's VCSEL-based optical products and will, subject to certain terms and conditions, enter into a supply agreement with EMCORE. This amendment will have the effect of changing the current JDS Uniphase-EMCORE relationship from a distributorship arrangement to a customer-vendor relationship. Both companies believe that the change will better achieve their respective economic objectives.

In August 2001, EMCORE sold its minority ownership position in the UOE joint venture to Uniroyal Technology Corporation (UTCI) in exchange for approximately 2.0 million shares of UTCI common stock. EMCORE recorded a net gain on the disposition of its interest in UOE of approximately $10.0 million in its fourth quarter of fiscal year 2001. The gain was recorded as a component of other income and expense

In August 2001, EMCORE announced the commercial production of its new 15 Gbps parallel optical interconnect for high-speed data links, very short reach OC-192 optical links, and board-to-board and shelf-to-shelf high-speed interconnects for optical backplanes. This technology from EMCORE exemplifies the new age of optical interconnects for switches and routers for datacom and telecom equipment manufacturers.

In July 2001, EMCORE announced the expansion of its optical device product offerings with its new 850 nm, 10 Gbps gallium arsenide (GaAs) photodetector to meet the ongoing challenges for speed, reliability and performance for multi-mode fiber optic applications. The new photodetector, introduced at the National Fiber Optic Engineers Conference in Baltimore, MD is available with EMCORE's recently introduced 10 Gbps oxide VCSEL. This combination enables EMCORE to provide a matched solution for transmit and receive functionality. By working in conjunction with its 10 Gbps VCSEL, the new device has been designed for high-speed applications over multi-mode fiber. EMCORE has developed the photodetector for Very Short Reach (VSR) applications, which include serial links, Local Area Networks (LANs) for Gigabit Ethernet and FibreChannel, Infiniband(SM) and OC-192.

Results of Operations

The following table sets forth the condensed consolidated Statements of Operations of EMCORE expressed as a percentage of total revenues for the fiscal years ended September 30, 2001, 2000 and 1999:

Statements of Operations Data	**Fiscal Years Ended September 30,**		
	2001	**2000**	**1999**
Revenues	**100.0%**	100.0%	100.0%
Cost of revenues	**62.0%**	58.7%	56.8%
Gross profit	**38.0%**	41.3%	43.2%
Operating expenses:			
Selling, general and administrative	**16.2%**	21.0%	24.7%
Goodwill amortization	**0.6%**	4.2%	7.5%
Research and development	**28.9%**	31.3%	35.5%
Total operating expenses	**45.7%**	56.5%	67.7%
Operating loss	**(7.7%)**	(15.2%)	(24.5%)
Other (income) expense:			
Stated interest (income) expense, net	**(1.1%)**	(4.3%)	1.5%
Imputed warrant interest expense	**-**	0.8%	1.9%
Other income	**(8.6%)**	-	-
Equity in net loss of unconsolidated affiliates	**6.7%**	12.7%	8.6%
Total other (income) expense	**(3.0%)**	9.2%	12.0%
Loss before extraordinary item and cumulative effect of a change in accounting principle	**(4.7%)**	(24.4%)	(36.6%)
Extraordinary item		-	(2.3%)
Cumulative effect of a change in accounting principle	**(2.0%)**	-	-
Net loss	**(6.7%)**	(24.4%)	(38.9%)

EMCORE has generated a significant portion of its sales to customers outside the United States. In fiscal 2001, 2000 and 1999, international sales constituted 47.7%, 38.6% and 52.5%, respectively, of revenues. EMCORE anticipates that international sales will continue to account for a significant portion of revenues. Historically, EMCORE has received substantially all payments for products and services in U.S. dollars and thus does not anticipate that fluctuations in any currency will have a material effect on its financial condition or results of operations. The following chart contains a breakdown of EMCORE's consolidated revenues by geographic region.

For the fiscal years ended September 30,

(in thousands)	**2001**		**2000**		**1999**	
Region	Revenue	% of revenue	Revenue	% of revenue	Revenue	% of revenue
North America	$96,551	52%	64,174	62%	$27,698	48%
Asia	76,848	42%	34,656	33%	28,211	48%
Europe	11,215	6%	5,676	5%	2,432	4%
Total	$184,614	100%	$104,506	100%	$58,341	100%

EMCORE has two reportable operating segments: the systems-related business unit and the materials-related business unit. The systems-related business unit designs, develops and manufactures tools and manufacturing processes used to fabricate compound semiconductor wafers and devices. This business unit assists customers with device design, process development and optimal configuration of TurboDisc production systems. Revenues for the systems-related business unit consist of sales of EMCORE's TurboDisc production systems as well as spare parts and services related to these systems. The materials-related business unit designs, develops and manufactures compound semiconductor materials. Revenues for the materials-related business unit include sales of semiconductor wafers, devices, packaged devices, modules and process development technology. EMCORE's vertically-integrated product offering allows it to provide a complete compound semiconductor solution to its customers. The segments reported are the segments of EMCORE for which separate financial information is available and for which gross profit amounts are evaluated regularly by executive management in deciding how to allocate resources and in assessing performance. EMCORE does not allocate assets or operating expenses to the individual operating segments. There are no intercompany sales transactions between the two operating segments.

Comparison of Fiscal Years Ended September 30, 2001 and 2000

Revenues. EMCORE's revenues increased 76.7% or $80.1 million from $104.5 million for the fiscal year ended September 30, 2000 to $184.6 million for the fiscal year ended September 30, 2001. This increase in revenues was attributable to both systems- and materials-related product lines. Systems-related revenues increased 99.3% or $65.4 million from $65.8 million to $131.1 million. The number of MOCVD production systems shipped increased 89.4% from 47 in fiscal year 2000 to 89 in fiscal year 2001. Materials-related revenues increased 38.1% or $14.8 million from $38.7 million to $53.5 million. On an annual basis, sales of solar cells increased 10%, pHEMT and HBT epitaxial wafers increased 27% and VCSELs increased 302%, respectively, from the prior year. As a percentage of revenues, systems- and materials-related revenues accounted for 71.0% and 29.0%, respectively, for the fiscal year ended September 30, 2001 and 63.0% and 37.0%, respectively, for the fiscal year ended September 30, 2000. EMCORE expects the product mix between systems and materials to continue to approach 50% as other new products are introduced and production of commercial volumes of these materials commences. International sales accounted for 47.7% of revenues for the fiscal year ended September 30, 2001 and 38.6% of revenues for the fiscal year ended September 30, 2000. The dollar increase in domestic sales is a direct result of significant materials-related design wins at several large U.S. semiconductor and telecommunication companies.

Effective October 1, 2000, EMCORE changed its revenue recognition policy to defer the portion of revenue related to installation and final acceptance until such installation and final acceptance are completed. This change was made in accordance with the implementation of U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 101, "*Revenue Recognition in Financial Statements*" (SAB 101). Previously, EMCORE had recognized 100 percent of revenue for products upon shipment as the product specifications had been met and the title and risks and rewards of ownership had transferred to the customer since EMCORE has historically completed such installation services successfully and since such services have required minimal costs to complete. The effect of this change is reported as the cumulative effect of a change in accounting principle in the year ended September 30, 2001. This net effect reflects the deferral as of October 1, 2000 of $3.6 million of revenue and accrued installation expense previously recognized. EMCORE recognized the revenue included in the cumulative effect adjustment during the year ended September 30, 2001.

Gross Profit. EMCORE's gross profit increased 62.3% or $26.9 million from $43.2 million for the fiscal year ended September 30, 2000 to $70.1 million for the fiscal year ended September 30, 2001. Gross profit earned on systems-related revenues increased 108.5% or $30.4 million from $28.0 million to $58.4 million. This increase is due primarily to the rise in production system sales, discussed above, as well as, improved manufacturing efficiencies. Component and service related revenues continue to increase as EMCORE's production system installed base now exceeds 400 MOCVD systems. Gross profit earned on materials-related revenues decreased 23.1% or $3.5 million from $15.2 million to $11.7 million. EMCORE has a significant amount of fixed expenses relating to capital equipment and manufacturing overhead in its new facilities. EMCORE experienced a reduction in materials-related revenues during the third and fourth quarters of fiscal year 2001, which caused these fixed expenses to be allocated across reduced production volumes, which adversely affected gross profit.

Selling, General and Administrative. Selling, general and administrative expenses increased by 35.7% or $7.9 million from $22.0 million for the fiscal year ended September 30, 2000 to $29.9 million for the fiscal year ended September 30, 2001. A significant portion of the increase was due to increased commission payments as a result of higher sales as well as headcount increases in marketing and sales personnel to support domestic and foreign markets and new product lines. As a percentage of revenue, selling, general and administrative expenses decreased from 21.0% for the fiscal year ended September 30, 2000 to 16.2% for the fiscal year ended September 30, 2001.

Goodwill Amortization. Goodwill of $13.2 million was recorded in connection with our acquisition of MODE in December 1997. EMCORE recognized $4.4 million of goodwill amortization for the fiscal year ended September 30, 2000, which reflected a full year of amortization. During the three months ended December 31, 2000, EMCORE amortized $0.7 million, the remaining portion of this goodwill. In January 2001, EMCORE purchased Analytical Solutions, Inc. and Training Solutions, Inc. and allocated approximately $3.1 million to goodwill, which is being amortized using the straight-line method over a period of five years, or $155,000 per quarter. As of September 30, 2001, EMCORE had approximately $2.7 million of net goodwill remaining. In June 2001, SFAS No. 142, "Goodwill and Other Intangible Assets" was approved by the FASB. Amortization of goodwill, including goodwill recorded in past business combinations and indefinite lived intangible assets, will cease upon adoption of this statement. EMCORE is planning to early adopt SFAS No. 142 in the first quarter of fiscal year 2002.

Research and Development. Research and development expenses increased 63.3% or $20.7 million from $32.7 million in the fiscal year ended September 30, 2000 to $53.4 million in the fiscal year ended September 30, 2001. As a percentage of revenue, recurring research and development expenses decreased from 31.3% for the fiscal year ended September 30, 2000 to 28.9% for the fiscal year ended September 30, 2001. To maintain growth and to continue to pursue market leadership in materials science technology, management expects to continue to invest a significant amount of its resources in research and development. In fiscal year 2002, management expects research and development expenses to decrease approximately 25%, due to the deferral or elimination of certain non-critical projects.

Interest Income/Expense. For the fiscal year ended September 30, 2001, net interest changed $2.4 million from net interest income of $4.5 million to net interest income of $2.0 million. The decrease in interest income is a result of additional interest expense being incurred from the 5% convertible subordinated notes due in 2006 coupled with lower interest rates on investments in marketable securities.

Other Income. In March 2001, a net gain of $5.9 million was recorded related to the settlement of litigation. In August 2001, EMCORE sold its minority ownership position in the Uniroyal joint venture to Uniroyal Technology Corporation (UTCI) and received approximately 2.0 million shares of UTCI common stock as consideration for this transaction. The net gain from the sale approximated $10.0 million.

Equity in Unconsolidated Affiliates. Because EMCORE does not have a controlling economic and voting interest in its joint ventures, EMCORE accounts for these joint ventures under the equity method of accounting. For the fiscal year ended September 30, 2001, EMCORE incurred a net loss of $7.4 million related to the Uniroyal joint venture and a $4.9 million net loss related to the GELcore joint venture. For the fiscal year ended September 30, 2000, EMCORE incurred a net loss of $7.8 million related to the Uniroyal joint venture and a $5.4 million net loss related to the GELcore joint venture.

Income Taxes. As a result of its losses, EMCORE did not incur any income tax expense in both fiscal years 2000 and 2001. As of September 30, 2001, EMCORE has net operating loss carryforwards for tax purposes of approximately $62.0 million that expire in the years 2003 through 2021. EMCORE believes that the consummation of certain equity transactions and a significant change in the ownership during fiscal years 1995, 1998 and 1999 have constituted a change in control under Section 382 of the Internal Revenue Code (IRC). Due to the change in control, EMCORE's ability to use its federal net operating loss carryovers and federal research credit carryovers to offset future income and income taxes, respectively, are subject to annual limitations under IRC Sections 382 and 383.

Comparison of Fiscal Years Ended September 30, 2000 and 1999

Revenues. EMCORE's revenues increased 79.1% or $46.2 million from $58.3 million for the fiscal year ended September 30, 1999 to $104.5 million for the fiscal year ended September 30, 2000. This increase in revenues was attributable to both systems- and materials-related product lines. Systems-related revenues increased 47.9% or $21.3 million from $44.5 million to $65.8 million. The number of MOCVD production systems shipped increased 51.6% from 31 in fiscal year 1999 to 47 in fiscal year 2000. Materials-related revenues increased 179.3% or $24.9 million from $13.9 million to $38.7 million. This revenue growth was primarily related to sales of solar cells and sales of pHEMT and HBT epitaxial wafers to wireless communication companies, which increased 1,760.6% and 802.0%, respectively, from the prior year. As a percentage of revenues, systems- and materials-related revenues accounted for 76.2% and 23.8%, respectively, for the fiscal year ended September 30, 1999 and 63.0% and 37.0%, respectively, for the fiscal year ended September 30, 2000. International sales accounted for 52.5% of revenues for the fiscal year ended September 30, 1999 and 38.6% of revenues for the fiscal year ended September 30, 2000.

Gross Profit. EMCORE's gross profit increased 71.6% or $18.0 million from $25.2 million for the fiscal year ended September 30, 1999 to $43.2 million for the fiscal year ended September 30, 2000. Gross profit earned on systems-related revenues increased 56.0% or $10.0 million from $18.0 million to $28.0 million. This increase is due primarily to the rise in production system sales, discussed above, as well as, improved manufacturing efficiencies. Component and service related revenues continued to increase as EMCORE's production system installed base exceeded 300 MOCVD systems. Gross profit earned on materials-related revenues increased 110.2% or $8.0 million from $7.2 million to $15.2 million.

Selling, General and Administrative. Selling, general and administrative expenses increased by 52.4% or $7.6 million from $14.4 million for the fiscal year ended September 30, 1999 to $22.0 million for the fiscal year ended September 30, 2000. A significant portion of the increase was due to headcount increases in marketing and sales personnel to support domestic and foreign markets and other administrative headcount additions to sustain internal support. As a percentage of revenue, selling, general and administrative expenses decreased from 24.7% for the fiscal year ended September 30, 1999 to 21.0% for the fiscal year ended September 30, 2000.

Goodwill Amortization. Goodwill of $13.2 million was recorded in connection with our acquisition of MODE in December 1997. EMCORE recognized $4.4 million of goodwill amortization for the fiscal years ended September 30, 1999 and 2000, each reflecting a full year of amortization. As of September 30, 2000, EMCORE had approximately $0.7 million of net goodwill remaining, which was fully amortized by December 2000.

Research and Development. Recurring research and development expenses increased 57.8% or $12.0 million from $20.7 million in the fiscal year ended September 30, 1999 to $32.7 million in the fiscal year ended September 30, 2000. As a percentage of revenue, recurring research and development expenses decreased from 35.5% for the fiscal year ended September 30, 1999 to 31.3% for the fiscal year ended September 30, 2000. During the quarter ended September 30, 2000, EMCORE incurred $7.0 million of additional research and development expenses in connection with EMCORE's array transceiver program, manufacturing process development and transponder development. In addition, EMCORE accelerated certain fiber optic and wireless programs to meet customer driven market windows.

Interest Income/Expense. For the fiscal year ended September 30, 2000, net interest changed $5.4 million from net interest expense of $0.9 million to net interest income of $4.5 million. In March 2000, EMCORE completed the issuance of an additional 2.0 million common stock shares (adjusted for 2:1 stock split) through a public offering, which resulted in proceeds of $127.5 million, net of issuance costs. A portion of the proceeds was used to repay all outstanding bank loans, thereby reducing interest expense and generating interest income on the retained proceeds. Higher interest rates in fiscal year 2000 also contributed to increased interest income.

Imputed Warrant Interest Expense, non-cash. In 1999, EMCORE's Chairman personally guaranteed EMCORE's bank facility and extended a line of credit to EMCORE. In recognition of these services during 2000, the Board of Directors granted a warrant for 600,000 shares (adjusted for 2:1 stock split) of common stock to the Chairman. The warrant was immediately exercisable at $6.47 per share. As the warrant related to past services, the fair value was charged as an expense in the Statement of Operations. EMCORE assigned a fair value of $689,000 to the warrants, which was based upon EMCORE's application of the Black-Scholes option-pricing model. The consequent expense was charged to imputed warrant interest expense, non-cash.

Equity in Unconsolidated Affiliates. Because EMCORE does not have a controlling economic and voting interest in its joint ventures, EMCORE accounts for these joint ventures under the equity method of accounting. For the fiscal year ended September 30, 2000, EMCORE incurred a net loss of $7.8 million related to the Uniroyal joint venture and a $5.4 million net loss related to the GELcore joint venture. For the fiscal year ended September 30, 1999, EMCORE incurred a net loss of $2.2 million related to the Uniroyal joint venture and a $2.5 million net loss related to the GELcore joint venture.

Income Taxes. As a result of its losses, EMCORE did not incur any income tax expense in both fiscal years 1999 and 2000. As of September 30, 2000, EMCORE had net operating loss carryforwards for tax purposes of approximately $44.0 million that expire in the years 2003 through 2020.

Quarterly Results of Operations

The following tables present EMCORE's unaudited results of operations expressed in dollars and as a percentage of revenues for the eight most recently ended quarters. EMCORE believes that all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts below to present fairly the selected quarterly information when read in conjunction with the consolidated financial statements and notes included elsewhere in this document. EMCORE's results from operations may vary substantially from quarter to quarter. Accordingly, the operating results for a quarter are not necessarily indicative of results for any subsequent quarter or for the full year.

Effective October 1, 2000, EMCORE changed its revenue recognition policy to defer the portion of revenue related to installation and final acceptance until such installation and final acceptance are completed. This change was made in accordance with the implementation of U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 101, "*Revenue Recognition in Financial Statements*" (SAB 101). Previously, EMCORE had recognized 100 percent of revenue for products at such time as the product specifications had been met and the title and risks and rewards of ownership had transferred to the customer since EMCORE has historically completed such installation services successfully and since such services have required minimal costs to complete. The effect of this change is reported as the cumulative effect of a change in accounting principle in the year ended September 30, 2001. This net effect reflects the deferral as of October 1, 2000 of $3.6 million of revenue and accrued installation expense previously recognized. EMCORE recognized the $3.6 million in revenue included in the cumulative effect adjustment during the year ended September 30, 2001. The quarters ended December 31, 2000, March 31, 2001 and June 30, 2001 have been restated to reflect the adoption of SAB 101.

EMCORE has experienced and expects to continue to experience significant fluctuations in quarterly results. Factors which have had an influence on and may continue to influence EMCORE's operating results in a particular quarter include, but are not limited to, the timing of receipt of orders, cancellations, rescheduling or delay in product shipment or supply deliveries, product mix, competitive pricing pressures, EMCORE's ability to design, manufacture and ship products on a cost effective and timely basis, including the ability of EMCORE to achieve and maintain acceptable production yields for wafers and devices, regional economic conditions and the announcement and introduction of new products by EMCORE and by its competitors. The timing of sales of EMCORE's TurboDisc production systems may cause substantial fluctuations in quarterly operating results due to the substantially higher per unit price of these products relative to EMCORE's other products. If the compound semiconductor industry experiences downturns or slowdowns, EMCORE's business, financial condition and results of operations may be materially and adversely affected.

Statements of Operations

(in thousands)	Dec. 31, 1999	Mar. 31, 2000	Jun. 30, 2000	Sept. 30, 2000	Dec. 31, 2000	Mar. 31, 2001	Jun. 30, 2001	Sept. 30, 2001
Revenues	$16,501	$23,925	$30,023	$34,057	$39,090	$44,825	$52,652	$48,047
Cost of revenues	9,778	13,989	17,537	19,997	23,352	28,049	30,626	32,482
Gross profit	6,723	9,936	12,486	14,060	15,738	16,776	22,026	15,565
Operating expenses:								
Selling, general and administrative	4,724	5,271	5,919	6,079	6,983	7,552	7,096	8,220
Goodwill amortization	1,098	1,098	1,098	1,098	734	103	155	155
Research and development	4,708	4,662	5,984	17,335	13,179	11,998	13,889	14,325
Total operating expenses	10,530	11,031	13,001	24,512	20,896	19,653	21,140	22,700
Operating income (loss)	(3,807)	(1,095)	(515)	(10,452)	(5,158)	(2,877)	886	(7,135)
Stated interest expense/(income), net	(78)	(615)	(1,951)	(1,848)	(1,492)	(794)	(68)	306
Imputed warrant interest expense, non-cash	163	680	-	-	-	-	-	-
Other income	-	-	-	-	-	(5,890)	-	(10,030)
Equity in net loss of unconsolidated affiliates	2,766	3,047	2,896	4,556	4,132	3,668	2,725	1,801
Total other expenses/(income)	2,851	3,112	945	2,708	2,640	(3,016)	2,657	(7,923)
Income (loss) before cumulative effect of a change in accounting principle	(6,658)	(4,207)	(1,460)	(13,160)	(7,798)	139	(1,771)	788
Cumulative effect of a change in accounting principle	-	-	-	-	(3,646)	-	-	-
Net income (loss)	$(6,658)	$(4,207)	$(1,460)	$(13,160)	$(11,444)	$139	$(1,771)	$788

	Dec. 31, 1999	Mar. 31, 2000	Jun. 30, 2000	Sept. 30, 2000	Dec. 31, 2000	Mar. 31, 2001	Jun. 30, 2001	Sept. 30, 2001
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenues	59.3	58.5	58.4	58.7	59.7	62.6	58.2	67.6
Gross profit	40.7	41.5	41.6	41.3	40.3	37.4	41.8	32.4
Operating expenses:								
Selling, general and administrative	28.6	22.0	19.7	17.8	17.9	16.8	13.5	17.1
Goodwill amortization	6.7	4.6	3.7	3.2	1.9	0.2	0.3	0.3
Research and development	28.5	19.5	19.9	50.9	33.7	26.8	26.4	29.8
Total operating expenses	63.8	46.1	43.3	72.0	53.5	43.8	40.2	47.2
Operating income (loss)	(23.1)	(4.6)	(1.7)	(30.7)	(13.2)	(6.4)	1.7	(14.9)
Stated interest expense/(income), net	(0.5)	(2.6)	(6.5)	(5.4)	(3.8)	(1.8)	(0.2)	0.6
Imputed warrant interest expense, non-cash	1.0	2.8	-	-	-	-	-	-
Other income	-	-	-	-	-	(13.1)	-	(20.9)
Equity in net loss of unconsolidated affiliates	16.8	12.7	9.6	13.4	10.6	8.2	5.2	3.7
Total other expenses/(income)	17.3	13.0	3.1	8.0	6.8	(6.7)	5.0	(16.5)
Income (loss) before cumulative effect of a change in accounting principle	(40.3)	(17.6)	(4.9)	(38.6)	(19.9)	0.3	(3.4)	1.6
Cumulative effect of a change in accounting principle	-	-	-	-	(9.3)	-	-	-
Net income (loss)	(40.3)%	(17.6)%	(4.9)%	(38.6)%	(29.3)%	0.3%	(3.4)%	1.6%

Liquidity and Capital Resources

EMCORE has funded operations to date through sales of equity, bank borrowings, subordinated debt and revenues from product sales. In May 2001, EMCORE issued $175.0 million of 5% convertible subordinated notes due in May 2006. In March 2000, EMCORE completed an additional public offering and raised approximately $127.5 million, net of issuance costs. In June 1999, EMCORE completed a secondary public offering and raised approximately $52.0 million, net of issuance costs. As of September 30, 2001, EMCORE had working capital of approximately $201.2 million, including $147.7 million in cash, cash equivalents and marketable securities.

Cash used for operating activities approximated $52.5 million during the year ended September 30, 2001, as a result of increases in accounts receivable, inventory and other current assets coupled with a decrease in advanced billings and EMCORE's net loss. The increase in accounts receivable and inventories was within expectations of the 77% increase in revenues from the prior year. For the year ended September 30, 2001, net cash used for investment activities amounted to approximately $117.0 million. EMCORE's capital expenditures totaled $89.3 million, which was used primarily for capacity expansion at both New Jersey and New Mexico's manufacturing facilities. Completed in January 2001, EMCORE tripled its cleanroom manufacturing capacity in New Mexico by adding on an additional 36,000 square feet to the existing 50,000 square foot building which houses EMCORE's solar cell, optical components and networking products. Capital spending in fiscal year 2001 also included the purchase of and continued upgrades to manufacturing facilities, continued investment in analytical and diagnostic research and development equipment, upgrading and purchasing computer equipment and the manufacture of TurboDisc MOCVD production systems used internally for production of materials-related products. EMCORE's planned capital expenditures are expected to total approximately $24.0 million during fiscal year 2002. EMCORE's net investment in marketable securities increased by $19.7 million during the year ended September 30, 2001. Net cash provided by financing activities for the year ended September 30, 2001 amounted to approximately $190.2 million. In May 2001, EMCORE completed the private placement of $175.0 million aggregate principal amount of 5% convertible subordinated notes due 2006. The notes are convertible into EMCORE common stock at a conversion price of $48.76 per share. The proceeds of the offering are being used for general corporate purposes, including capital expenditures, working capital, funding its joint venture and for research and development. In addition, EMCORE may use a portion of the proceeds of the offering to strategically acquire or invest in complementary businesses, products or technology, either directly or through its joint venture.

In March 2001, EMCORE entered into an Amended and Restated Revolving Loan and Security Agreement with a bank. This credit facility provides for revolving loans in an amount up to $20.0 million outstanding at any one time, depending on EMCORE's borrowing base. These loans bear interest payable monthly in arrears at a rate equal to the lesser of the prime rate or LIBOR plus a margin of 1.50%. The credit facility matures on January 31, 2003. The loans under the credit facility are secured by a security interest in substantially all of our personal property. There were no borrowings under this facility and EMCORE was in compliance with all covenants at September 30, 2001.

EMCORE believes that its current liquidity, together with available credit, should be sufficient to meet its cash needs for working capital through fiscal year 2002. However, if the available credit facilities, cash generated from operations and cash on hand are not sufficient to satisfy EMCORE's liquidity requirements, EMCORE will seek to obtain additional equity or debt financing. Additional funding may not be available when needed or on terms acceptable to EMCORE. If EMCORE is required to raise additional financing and if adequate funds are not available or not available on acceptable terms, the ability to continue to fund expansion, develop and enhance products and services, or otherwise respond to competitive pressures will be severely limited. Such a limitation could have a material adverse effect on EMCORE's business, financial condition or operations.

Recent Accounting Pronouncements

In June 2001, Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" was approved by the Financial Accounting Standards Board (FASB). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Goodwill and certain intangible assets, arising from these business combinations, will remain on the balance sheet and will not be amortized. On an annual basis, and when there is reason to suspect that their values have been diminished or impaired, these assets must be tested for impairment, and write-downs may be necessary.

In June 2001, SFAS No. 142, "Goodwill and Other Intangible Assets" was approved by the FASB. SFAS No. 142 changes the accounting for goodwill and indefinite lived intangible assets from an amortization method to an impairment-only approach. Amortization of goodwill, including goodwill recorded in past business combinations and indefinite lived intangible assets, will cease upon adoption of this statement. During fiscal year 2001, EMCORE recognized $1.1 million in goodwill amortization. Identifiable intangible assets will continue to be amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". EMCORE is required to implement SFAS No. 142 in fiscal year 2003. EMCORE is planning to early adopt SFAS No. 142 in the first quarter of fiscal year 2002.

In August 2001, the FASB issued SFAS No. 143 "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations and costs associated with the retirement of tangible long-lived assets. EMCORE is required to implement SFAS No. 143 in fiscal year 2003. EMCORE is currently evaluating the impact that the adoption of SFAS No. 143 will have on its results of operations and financial position.

In October 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 replaces SFAS No. 121 and establishes accounting and reporting standards for long-lived assets to be disposed of by sale. This standard applies to all long-lived assets, including discontinued operations. SFAS No. 144 requires that those assets be measured at the lower of carrying amount or fair value less cost to sell. SFAS No. 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity that will be eliminated from the ongoing operations of the entity in a disposal transaction. EMCORE is required to implement SFAS No. 144 in fiscal year 2003. EMCORE is currently evaluating the impact that the adoption of SFAS No. 144 will have on its results of operations and financial position, if any.

Quantitative and Qualitative Disclosures About Market Risk

In May 2001, EMCORE completed the issuance of $175.0 million aggregate principal amount of 5.0% convertible subordinated notes due in May 2006. The notes are convertible into EMCORE common stock at a conversion price of $48.76 per share. Although the fair market value of these fixed rate notes is subject to interest rate risk, an immediate 10% change in interest rates would not have a material impact on our future operating results or cash flows.

EMCORE accounts for its investment in marketable securities as available for sale securities in accordance with the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Unrealized gains and losses for these securities are excluded from earnings and reported as a separate component of shareholders' equity. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the consolidated statements of operations. Fair values are determined by reference to market prices for securities as quoted based on publicly traded exchanges. At September 30, 2001, the Company's available for sale marketable securities were comprised of both debt and equity securities. The fair value of the debt securities approximated cost. At September 30, 2001, the Company's debt securities were comprised of $24.2 million of corporate debt securities, $34.5 million of municipal bonds and $11.1 million of asset-backed securities. The contractual maturities for all available for sale debt securities will occur during fiscal 2002. In August 2001, EMCORE sold its minority ownership position in its joint venture with Uniroyal Technology Corporation (UTCI) in exchange for approximately 2.0 million shares of UTCI common stock. EMCORE's cost basis in the UTCI stock is $7.10 per share or approximately $14.0 million. At September 30, 2001, the fair market value of UTCI stock was $3.14 per share. Therefore, EMCORE had an unrealized loss of $7.8 million recorded as a component of comprehensive loss. The investment of UTCI common stock is subject to market risk of equity price changes. While EMCORE cannot predict or manage the future price for such stock, management continues to evaluate its investment position on an ongoing basis, which may result in the write down of the investment to an estimated realizable value and our results of operations could be materially and adversely affected.

Although EMCORE occasionally enters into transactions denominated in foreign currencies, the total amount of such transactions is not material. Accordingly, fluctuations in foreign currency values would not have a material adverse effect on our financial condition or results of operations.

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended September 30, 2001, 2000, 1999

(in thousands, except per share data)

	2001	2000	1999
Revenues:			
Systems-related	$131,141	$65,788	$44,477
Materials-related	53,473	38,718	13,864
Total revenues	184,614	104,506	58,341
Cost of revenues:			
Systems-related	72,725	37,775	26,522
Materials-related	41,784	23,526	6,636
Total cost of revenues	114,509	61,301	33,158
Gross profit	70,105	43,205	25,183
Operating expenses:			
Selling, general and administrative	29,851	21,993	14,433
Goodwill amortization	1,147	4,392	4,393
Research and development	53,391	32,689	20,713
Total operating expenses	84,389	59,074	39,539
Operating loss	(14,284)	(15,869)	(14,356)
Other (income) expense:			
Interest income	(5,288)	(4,834)	(751)
Interest expense	3,240	342	1,617
Imputed warrrant interest expense, non-cash	-	843	1,136
Other income	(15,920)	-	-
Equity in net loss of unconsolidated affiliates	12,326	13,265	4,997
Total other (income) expense	(5,642)	9,616	6,999
Loss before extraordinary item and cumulative effect of a change in accounting principle	(8,642)	(25,485)	(21,355)
Extraordinary item - loss on early extinguishment of debt	-	-	(1,334)
Cumulative effect of a change in accounting principle	(3,646)	-	-
Net loss	$(12,288)	$(25,485)	$(22,689)
Per share data			
Weighted average basic and diluted shares outstanding used in per share data calculations	34,438	31,156	21,180
Loss per basic and diluted share before extraordinary item and cumulative effect of a change in accounting principle	$(0.25)	$(0.82)	$(1.03)
Net loss per basic and diluted share	$(0.36)	$(0.82)	$(1.09)

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

CONSOLIDATED BALANCE SHEETS
As of September 30, 2001 and 2000
(in thousands, except per share data)

	2001	2000
ASSETS		
Current assets:		
Cash and cash equivalents	$71,239	$50,849
Marketable securities	76,422	50,896
Accounts receivable, net of allowance for doubtful accounts of $1,139 and $1,065 at September 30, 2001 and 2000, respectively	30,918	18,240
Accounts receivable - related parties	2,161	2,334
Inventories, net	47,382	30,724
Prepaid expenses and other current assets	4,471	1,829
Total current assets	232,593	154,872
Property, plant and equipment, net	143,223	69,701
Goodwill, net	2,687	734
Investments in unconsolidated affiliates	9,228	17,015
Other assets, net	15,822	1,580
Total assets	$403,553	$243,902
LIABILITIES and SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$14,075	$16,512
Accrued expenses	13,533	6,083
Advanced billings	3,715	20,278
Capitalized lease obligation - current	57	72
Other current liabilities	-	340
Total current liabilities	31,380	43,285
Convertible subordinated notes	175,000	-
Capitalized lease obligation, net of current portion	46	75
Other liabilities	-	1,220
Total liabilities	206,426	44,580
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $0.0001 par, 5,882,352 shares authorized, no shares outstanding	-	-
Common stock, no par value, 100,000,000 shares authorized, 35,617,303 shares issued and 35,597,475 outstanding at September 30, 2001; 33,974,698 shares issued and 33,971,562 outstanding at September 30, 2000	327,559	314,780
Accumulated deficit	(121,152)	(108,864)
Comprehensive income (loss)	(8,314)	5
Shareholders' notes receivable	(34)	(6,360)
Treasury stock, at cost; 19,828 shares at September 30, 2001; 3,136 shares at September 30, 2000	(932)	(239)
Total shareholders' equity	197,127	199,322
Total liabilities and shareholders' equity	$403,553	$243,902

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the years ended September 30, 2001, 2000 and 1999

(in thousands)

	Common Stock Shares	Common Stock Amount	Accumulated Deficit	Comprehensive Income (Loss)	Shareholders' Notes Receivable	Treasury Stock	Total Shareholders' Equity
Balance at September 30, 1998	18,752	$87,443	$(60,196)	-	$(7,667)	-	$ 19,580
Net loss			(22,689)				(22,689)
Comprehensive loss							(22,689)
Preferred stock dividends			(319)				(319)
Accretion of redeemable preferred stock to redemption value			(52)				(52)
Issuance of common stock purchase warrants		2,596					2,596
Issuance of common stock, net of issuance cost of $5,000	6,000	52,000					52,000
Stock option exercise	220	376					376
Stock purchase warrant exercise	643	2,450					2,450
Conversion of convertible preferred stock into common stock	1,040	7,125					7,125
Redemptions of shareholders' notes receivable					120		120
Compensatory stock issuance	53	436					436
Balance at September 30, 1999	26,708	152,426	(83,256)	-	(7,547)	-	61,623
Net loss			(25,485)				(25,485)
Unrealized gain on marketable seurities				5			5
Comprehensive loss							(25,480)
Preferred stock dividends			(83)				(83)
Accretion of redeemable preferred stock to redemption value			(40)				(40)
Issuance of common stock purchase warrants		689					689
Issuance of common stock, net of issuance cost of $8,500	2,000	127,500					127,500
Stock option exercise	506	2,197					2,197
Stock purchase warrant exercise	1,996	10,874					10,874
Conversion of convertible preferred stock into common stock	2,060	14,193					14,193
Compensatory stock issuances	23	1,401					1,401
Conversion of subordinated notes into common stock	682	5,500					5,500
Treasury stock	(3)					(239)	(239)
Redemptions of shareholders' notes receivable					1,187		1,187
Balance at September 30, 2000	33,972	314,780	(108,864)	5	(6,360)	(239)	199,322
Net loss			(12,288)				(12,288)
Unrealized loss on marketable securities				(8,085)			(8,085)
Translation adjustment				(234)			(234)
Comprehensive loss							(20,607)
Issuance of common stock in connection with acquisitions	41	1,840					1,840
Stock option exercise	438	3,247					3,247
Stock purchase warrant exercise	1,111	5,508					5,508
Compensatory stock issuances	34	1,507					1,507
Issuances of common stock - Employee Stock Purchase Plan	17	677					677
Treasury stock	(16)					(693)	(693)
Redemptions of shareholders' notes receivable					6,326		6,326
Balance at September 30, 2001	35,597	$327,559	$(121,152)	$(8,314)	$(34)	$(932)	$ 197,127

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended September 30, 2001, 2000 and 1999

(in thousands)

	2001	2000	1999
Cash flows from operating activities:			
Net loss	$(12,288)	$(25,485)	$(22,689)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:			
Cumulative effect of a change in accounting principle	3,646	-	-
Depreciation and amortization	17,419	14,955	11,575
Provision for doubtful accounts	370	780	390
Gain on sale of unconsolidated affiliate	(10,000)	-	-
Deferred gain on sales to unconsolidated affiliate	(1,560)	301	1,259
Non-cash charges on warrant issuances	-	843	1,136
Extraordinary loss on early extinguishment of debt	-	-	1,334
Equity in net loss of unconsolidated affiliates	12,326	13,265	4,997
Compensatory stock issuance	858	566	436
Change in assets and liabilities:			
Accounts receivable – trade	(13,952)	(7,597)	(4,375)
Accounts receivable - related parties	174	146	(1,980)
Inventories	(16,966)	(16,734)	(1,545)
Prepaid expenses and other current assets	(2,631)	(1,440)	(140)
Other assets	(14,336)	(983)	(69)
Accounts payable	(2,475)	11,153	(6,664)
Accrued expenses	7,087	1,910	(24)
Advanced billings	(20,211)	15,928	1,170
Other	(234)	-	(52)
Total adjustments	(43,485)	33,093	7,448
Net cash and cash equivalents (used for) provided by operating activities	(52,773)	7,608	(15,241)
Cash flows from investing activities:			
Purchase of property, plant, and equipment	(89,324)	(33,755)	(17,110)
Cash purchase of business, net of cash acquired	(1,707)	-	-
Investments in marketable securities, net	(19,654)	(50,896)	-
Investments in unconsolidated affiliates	(6,302)	(19,949)	(14,203)
Payments of restricted cash	-	-	62
Net cash and cash equivalents used for investing activities	(116,987)	(104,600)	(31,251)
Cash flows from financing activities:			
Proceeds from convertible subordinated notes	175,000	-	-
Proceeds from public stock offering, net of issuance cost of $8,500	-	127,500	-
Proceeds from preferred stock offering, net of issuance cost of $500	-	-	21,200
Proceeds from public stock offering, net of issuance cost of $5,000	-	-	52,000
Proceeds under convertible subordinated debenture	-	-	7,800
Payments under bank loans	-	-	(17,950)
Payments under notes payable – related party	-	-	(7,000)
Payments on demand note facility and subordinated debt	-	-	(8,563)
Proceeds from exercise of stock purchase warrants	5,509	10,874	2,164
Proceeds from exercise of stock options	3,248	2,197	376
Payments on capital lease obligations	(44)	(715)	(573)
Purchase of treasury stock	-	(239)	-
Dividends paid on preferred stock	-	(133)	(253)
Proceeds from employee stock purchase plan	677	-	-
Proceeds from shareholders' notes receivable	5,760	1,192	-
Net cash and cash equivalents provided by financing activities	190,150	140,676	49,201
Net increase in cash and cash equivalents	20,390	43,684	2,709
Cash and cash equivalents, beginning of year	50,849	7,165	4,456
Cash and cash equivalents, end of year	$71,239	$50,849	$7,165

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

CONSOLIDATED STATEMENTS OF CASH FLOWS - continued
For the years ended September 30, 2001, 2000 and 1999
(in thousands)

	2001	2000	1999
Supplemental Disclosures of Cash Flow Information:			
Cash paid for interest	$29	$351	$1,739
Non-cash Investing and Financing Activities:			
Treasury stock received for redemption of shareholders' notes receivable	$693	$239	-
Issuance of non-qualified stock options to equity investee	$649	$835	-
Proceeds from sale of joint venture in form of marketable securities	($13,958)	-	-
Common stock issued on the exercise of warrants in exchange for subordinated notes	-	$7,800	-
Conversion of mandatorily redeemable convertible preferred stock to common stock	-	$14,420	$7,280

Reference is made to Note 9 – Debt Facilities - for disclosure relating to certain non-cash warrant issuance.
Reference is made to Note 12 - Shareholders' Equity - for disclosure relating to certain non-cash equity transactions.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2001 and 2000 and
for the years ended September 30, 2001, 2000 and 1999

NOTE 1. Description of Business

EMCORE Corporation (the "Company"), a New Jersey Corporation, designs, develops and manufactures compound semiconductor materials and is a leading developer and manufacturer of the tools and manufacturing processes used to fabricate compound semiconductor wafers, devices and modules. EMCORE's products and technology enable its customers, both in the United States and internationally, to manufacture commercial volumes of high-performance electronic devices using compound semiconductors. EMCORE offers a versatile portfolio of compound semiconductor products for the rapidly expanding broadband and wireless communications and solid-state lighting markets. The Company's integrated solutions philosophy embodies state of the art technology, material science expertise and a shared vision of our customer's goals and objectives to be leaders and pioneers in the rapidly growing world of compound semiconductors. EMCORE's solutions include: optical components for high speed data and telecommunications; solar cells for global satellite communications; electronic materials for high bandwidth communications systems, such as Internet access and wireless telephones; MOCVD tools for the growth of GaAs, AlGaAs, InP, InGaP, InGaAlP, InGaAsP, GaN, InGaN, AlGaN, and SiC epitaxial materials used in numerous applications, including data and telecommunications modules, cellular telephones, solar cells and high brightness LEDs.

NOTE 2. Summary of Significant Accounting Policies

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The equity method of accounting is used for unconsolidated affiliates where the Company exercises significant influence, generally when ownership is at least 20% and not more than 50%. All intercompany accounts and transactions are eliminated upon consolidation. Prior period balances have been reclassified to conform to the current period financial statement presentation.

Cash and Cash Equivalents. The Company considers all highly liquid short-term investments purchased with an original maturity of three months or less to be cash equivalents.

Marketable Securities. The Company accounts for its investment in marketable securities as available for sale securities in accordance with the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Unrealized gains and losses for these securities are excluded from earnings and reported as a separate component of shareholders' equity. Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the consolidated statements of operations. Fair values are determined by reference to market prices for securities as quoted based on publicly traded exchanges. At September 30, 2001, the Company's available for sale marketable securities were comprised of both debt and equity securities. The fair value of the debt securities approximated cost. At September 30, 2001, the Company's debt securities were comprised of $24.2 million of corporate debt securities, $34.5 million of municipal bonds and $11.1 million of asset-backed securities. The contractual maturities for all available for sale debt securities will occur during fiscal 2002. The Company recorded $113,000 of net realized gains on sales of available-for-sale debt securities during fiscal 2001. In August 2001, EMCORE sold its minority ownership position in its joint venture with Uniroyal Technology Corporation (UTCI) in exchange for approximately 2.0 million shares of UTCI common stock. EMCORE's cost basis in the UTCI stock is $7.10 per share or approximately $14.0 million. At September 30, 2001, the fair market value of UTCI stock was $3.14 per share. Therefore, EMCORE had an unrealized loss of $7.8 million recorded as a component of comprehensive loss. The investment of UTCI common stock is subject to market risk of equity price changes. While EMCORE cannot predict or manage the future price for such stock, management continues to evaluate its investment position on an ongoing basis, which may result in the write down of the investment to an estimated realizable value and our results of operations could be materially and adversely affected.

Fair Value of Financial Instruments. The Company estimates the fair value of its financial instruments based upon discounted cash flow analyses using the Company's incremental borrowing rate on similar instruments as the discount rate. As of September 30, 2001 and 2000, the carrying values of the Company's cash, cash equivalents, marketable securities, accounts receivables and accounts payable as reflected on the Company's accompanying balance sheet approximates fair value.

Inventories. Inventories are stated at the lower of cost or market with cost being determined using the first-in, first-out (FIFO) method.

Property, Plant and Equipment. Property, plant and equipment are stated at cost. Significant renewals and betterments are capitalized. Maintenance and repairs, which do not extend the useful lives of the respective assets, are expensed. Depreciation is recorded using the straight-line method over the estimated useful lives of the applicable assets, which range from three to forty years. Leasehold improvements are amortized using the straight-line method over the term of the related leases or the estimated useful lives of the improvements, whichever is less. Depreciation expense includes the amortization of capital lease assets. When assets are retired or otherwise disposed of, the assets and related accumulated depreciation accounts are adjusted accordingly, and any resulting gain or loss is recorded in current operations.

Long-Lived Assets. The carrying amount of long-lived assets are reviewed on a regular basis for the existence of facts or circumstances, both internally and externally, that suggest impairment. To date no such impairment has been indicated. The Company determines if the carrying amount of a long-lived asset is impaired based on anticipated undiscounted cash flows before interest. In the event of an impairment, a loss is recognized based on the amount by which the carrying amount exceeds fair value of the asset. Fair value is determined primarily using the anticipated cash flows before interest, discounted at a rate commensurate with the risk involved.

Other Assets. Included in other assets are various deferred costs and Company loans. The deferred costs are primarily related to $6.2 million of financing costs associated with the May 2001 issuance of $175.0 million convertible subordinated notes due in 2006. These financing costs are being amortized on a straight-line basis over the five-year life of the notes. Total capitalized financing costs, net of fiscal 2001 amortization of $516,000, was $5.7 million at September 30, 2001. Deferred costs also include costs related to obtaining product patents that enhance and maintain the Company's intellectual property position. These patent costs totaling $1.3 million, net of amortization, are being amortized on a straight-line basis over five years or the remaining life of the patent, whichever is less. Total patent amortization expense amounted to approximately $346,000, $219,000 and $143,000 for the years ended September 30, 2001, 2000 and 1999, respectively. Company loans primarily consisted of a $3.0 million loan to the Chief Executive Officer and a $5.0 million loan to Uniroyal Technology Corporation, Inc.; See NOTE 14 - Related Parties.

Goodwill. Goodwill of $13.2 million was recorded in connection with our acquisition of MicroOptical Devices, Inc. in December 1997. EMCORE recognized $4.4 million of goodwill amortization for the fiscal year ended September 30, 2000, which reflected a full year of amortization. During the three months ended December 31, 2000, EMCORE amortized $0.7 million, the remaining portion of this goodwill. In January 2001, EMCORE purchased Analytical Solutions, Inc. and Training Solutions, Inc. and allocated approximately $3.1 million to goodwill which is being amortized using the straight-line method over a period of five years, or $155,000 per quarter. As of September 30, 2001, EMCORE had approximately $2.7 million of net goodwill remaining. In June 2001, SFAS No. 142, "Goodwill and Other Intangible Assets" was approved by the FASB. EMCORE is planning to early adopt SFAS No. 142 in the first quarter of fiscal year 2002.

Advanced Billings. This represents customer deposits on systems- and materials-related orders.

Income Taxes. The Company recognizes deferred income taxes by the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized for differences between the financial statement and tax basis of assets and liabilities at enacted statutory tax rates in effect for the years in which the differences are expected to reverse. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. In addition, valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized. The primary sources of temporary differences are depreciation and amortization of intangible assets.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. The Company's most significant estimates relate to accounts receivable and inventory valuation reserves, warranty accruals and the valuation of long-lived assets.

Revenue Recognition and Cumulative Effect of a Change in Accounting Principle. Revenues from systems-related sales is recognized when the product meets the customer's specifications and when the title and the risks and rewards of ownership have passed to the customer. EMCORE's billing terms on system sales generally include a hold-back of 20 percent on the total purchase price subject to completion of the installation and final acceptance process at the customer site. Effective October 1, 2000, EMCORE changed its revenue recognition policy to defer the portion of revenue related to installation and final acceptance until such installation and final acceptance are completed. This change was made in accordance with the implementation of U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements (SAB 101). Previously, EMCORE had recognized 100 percent of revenue for products upon shipment as the product specifications had been met and the title and risks and rewards of ownership had transferred to the customer since EMCORE has historically completed such installation services successfully and since such services have required minimal costs to complete. The effect of this change is reported as the cumulative effect of a change in accounting principle in the year ended September 30, 2001. This net effect reflects the deferral as of October 1, 2000 of $3.6 million of revenue and accrued installation expense previously recognized. EMCORE recognized the revenue included in the cumulative effect adjustment during the year ended September 30, 2001.

Revenues from materials-related sales are recognized when the product meets the customer's specifications and when the title and the risks and rewards of ownership have passed to the customer. For new applications of EMCORE's products where performance cannot be assessed prior to meeting specifications at the customer's site, no revenue is recognized until such specifications are met. EMCORE also provides service for its products. Revenue from time and materials based service arrangements is recognized as the service is performed. Revenue from service contracts is recognized ratably over the term of such service contracts.

Product Warranty Costs. The Company's products generally carry a one-year warranty. A reserve is established at the time of sale to cover estimated warranty costs. The Company's estimate of warranty cost is based on its history of warranty repairs. While most new products are extensions of existing technology, the estimate could change if new products require a significantly different level of repair than similar products have required in the past.

Research and Development. Research and development costs are charged to expense as incurred.

Concentration of Credit Risk. Financial instruments, which may subject the Company to a concentration of credit risk, consist primarily of cash equivalents, marketable securities and accounts receivable. Marketable securities consist primarily of high-grade corporate debt, commercial paper, government securities and other investments at interest rates that vary by security. The Company's cash equivalents consist primarily of money market funds. The Company has maintained cash balances with certain financial institutions in excess of the $100,000 insured limit of the Federal Deposit Insurance Corporation. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from its customers. To reduce credit risk and to fund manufacturing costs, the Company requires periodic prepayments or irrevocable letters of credit on most production system orders. The Company maintains reserves for potential credit losses based upon the credit risk of specified customers, historical trends and other information. The Company's credit losses generally have not exceeded its expectations. Although such losses have been within management's expectations to date, there can be no assurance that such reserves will continue to be adequate.

Currency Translation. Assets and liabilities of the Company's Taiwan operations are translated from Taiwanese new dollar into U.S. dollars at the rate of exchange in effect at the balance sheet date. Revenues and expenses are translated at average monthly exchange rates prevailing during the year. Resulting translation adjustments are reflected in shareholders' equity as a component of comprehensive income or loss.

Recent Financial Accounting Pronouncements.

In June 2001, Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" was approved by the Financial Accounting Standards Board (FASB). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Goodwill and certain intangible assets, arising from these business combinations, will remain on the balance sheet and will not be amortized. On an annual basis, and when there is reason to suspect that their values have been diminished or impaired, these assets must be tested for impairment, and write-downs may be necessary.

In June 2001, SFAS No. 142, "Goodwill and Other Intangible Assets" was approved by the FASB. SFAS No. 142 changes the accounting for goodwill and indefinite lived intangible assets from an amortization method to an impairment-only approach. Amortization of goodwill, including goodwill recorded in past business combinations and indefinite lived intangible assets, will cease upon adoption of this statement. During fiscal year 2001, EMCORE recognized $1.1 million in goodwill amortization. Identifiable intangible assets will continue to be amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". EMCORE is required to implement SFAS No. 142 in fiscal year 2003. EMCORE is planning to early adopt SFAS No. 142 in the first quarter of fiscal year 2002.

In August 2001, the FASB issued SFAS No. 143 "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations and costs associated with the retirement of tangible long-lived assets. EMCORE is required to implement SFAS No. 143 in fiscal year 2003. EMCORE is currently evaluating the impact that the adoption of SFAS No. 143 will have on its results of operations and financial position.

In October 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 replaces SFAS No. 121 and establishes accounting and reporting standards for long-lived assets to be disposed of by sale. This standard applies to all long-lived assets, including discontinued operations. SFAS No. 144 requires that those assets be measured at the lower of carrying amount or fair value less cost to sell. SFAS No. 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity that will be eliminated from the ongoing operations of the entity in a disposal transaction. EMCORE is required to implement SFAS No. 144 in fiscal year 2003. EMCORE is currently evaluating the impact that the adoption of SFAS No. 144 will have on its results of operations and financial position, if any.

NOTE 3. Acquisitions

In January 2001, the Company purchased Analytical Solutions, Inc., and Training Solutions, Inc. both located in Albuquerque, New Mexico. These companies provide engineering support and analytical services in the form of performance analysis, failure analysis, cross sectioning and parts qualification to a wide array of high technology companies. The Company intends that the acquisition of these companies will accelerate product development and qualification with customers, particularly in fiberoptics. The total consideration for these two companies was approximately $4.0 million which was paid in both cash and the Company's common stock. The acquisition was recorded using the purchase method of accounting. The Company allocated approximately $3.1 million to goodwill which is being amortized over a period of five years. The remaining purchase price was primarily allocated to fixed assets. The Company's results of operations would not have been materially different had such purchase taken place on the first day of the Company's fiscal year.

NOTE 4. Earnings Per Share

The Company accounts for earnings per share under the provision of SFAS No. 128 "Earnings per Share." Basic earnings per common share was calculated by dividing net loss by the weighted average number of common stock shares outstanding during the period. The effect of outstanding common stock purchase options and warrants, the convertible preferred stock and the convertible subordinated notes have been excluded from the diluted earnings per share calculation since the effect of such securities is anti-dilutive. The following table reconciles the number of shares utilized in the earnings per share calculations.

	For the fiscal years ended September 30,		
(in thousands, except per share data)	**2001**	**2000**	**1999**
Loss before extraordinary item and cumulative effect of a change in accounting principle	($8,642)	($25,485)	($21,355)
Extraordinary item, loss on early retirement of debt	-	-	(1,334)
Cumulative effect of a change in accounting principle	(3,646)	-	-
Net loss	(12,288)	(25,485)	(22,689)
Preferred stock dividends	-	83	319
Periodic accretion of preferred stock to redemption value	-	40	52
Net loss attributable to common shareholders	($12,288)	($25,608)	($23,060)
Weighted average of outstanding common shares – basic	34,438	31,156	21,180
Effect of dilutive securities:			
Stock option and warrants	-	-	-
Preferred stocks	-	-	-
Convertible subordinated notes	-	-	-
Weighted average of outstanding common shares – diluted	34,438	31,156	21,180
Loss per basic and diluted share before extraordinary item and cumulative effect of a change in accounting principle	($0.25)	($0.82)	($1.03)
Loss per basic and diluted share – Extraordinary item	-	-	($0.06)
Loss per basic and diluted share – Cumulative effect of a change in accounting principle	($0.11)	-	-
Net loss per basic and diluted share	($0.36)	($0.82)	($1.09)

NOTE 5. Joint Ventures

In May 1999, General Electric Lighting and the Company formed GELcore, a joint venture to develop and market High Brightness Light-Emitting Diode (HB LED) lighting products. General Electric Lighting and the Company have agreed that this joint venture will be the exclusive vehicle for each party's participation in solid state lighting. Under the terms of the joint venture agreement, the Company has a 49% non-controlling interest in the GELcore venture and accounts for its investment under the equity method of accounting. In fiscal year 2001, the Company invested an additional $4.6 million in this venture and recognized losses totaling $4.9 million which has been recorded as a component of other income and expense. As of September 30, 2001, the Company's net investment in this joint venture amounted to $9.2 million. In November 2001, the Company invested an additional $2.0 million into this joint venture.

In March 1997, the Company and a subsidiary of Uniroyal Technology Corporation formed Uniroyal Optoelectronics LLC (UOE), a joint venture, to manufacture, sell and distribute HB LED wafers and package-ready devices. Under the terms of the joint venture agreement, the Company had a 49% non-controlling interest in this joint venture and accounted for its investment under the equity method of accounting. During fiscal year 2001, the Company invested an additional $2.4 million in this venture and recognized losses totaling $7.4 million which was recorded as a component of other income and expense.

In August 2001, EMCORE sold its minority ownership position in the UOE joint venture to Uniroyal Technology Corporation (UTCI) in exchange for approximately 2.0 million shares of UTCI common stock. The Company recorded a net gain on the disposition of its interest in UOE of $10.0 million in its fourth quarter of fiscal year 2001. The gain was recorded as a component of other income and expense.

The Company's reported net loss for the year ended September 30, 2001 and 2000 would have been reduced by approximately $9.0 million each year if the disposition had occurred on the first day of each respective period. For the year ended September 30, 2001, the reduction in net loss is comprised of a reduction in equity in losses of unconsolidated affiliates of $7.4 million and the recognition of $1.6 million in deferred gross profit on sales of equipment to the joint venture. For the year ended September 30, 2000, the reduction in net loss is comprised of a reduction in equity in losses of unconsolidated affiliates of $7.8 million and the recognition of $1.2 million in deferred gross profit on sales of equipment to the joint venture. The pro forma statement of operations figures above do not include the approximate gain on sale of $10.0 million.

The unaudited pro forma financial information in the paragraph above is based upon available information and certain assumptions that management believes are reasonable. The unaudited pro forma consolidated financial data above does not purport to represent what EMCORE's financial position or results of operations would have been had the UOE disposition in fact occurred as of the date or at the beginning of the periods presented, or to project EMCORE's financial position or results of operations for any future date or period.

In August 2001, EMCORE also made a $5.0 million aggregate principal amount bridge loan to UTCI; See NOTE 14 - Related Parties.

NOTE 6. Inventories

The components of inventories consisted of the following:

	As of September 30,	
(in thousands)	2001	2000
Raw materials	$32,795	$19,594
Work-in-process	10,161	8,831
Finished goods	4,426	2,299
Total	$47,382	$30,724

NOTE 7. Property, Plant and Equipment

Major classes of property and equipment are summarized below:

(in thousands)	Estimated Useful Lives	As of September 30, 2001	2000
Land	-	$2,502	$1,502
Building and improvements	15-40 years	62,911	16,427
Equipment	3-5 years	77,915	58,160
Furniture and fixtures	5 years	10,969	7,373
Leasehold improvements	5 years	3,937	17,472
Construction in progress	-	27,268	-
Property and equipment under capital lease	5 years	285	227
		185,787	101,161
Less: accumulated depreciation and amortization		(42,564)	(31,460)
Total		$143,223	$69,701

At September 30, 2001, minimum future lease payments due under the capital leases are as follows:

(in thousands)	
Period ending:	
September 30, 2002	$ 65
September 30, 2003	39
September 30, 2004	7
September 30, 2005	1
Total minimum lease payments	112
Less: amount representing interest	9
Net minimum lease payments	103
Less: current portion	57
Long-term portion	$ 46

Depreciation on owned property and equipment amounted to approximately $17.1 million, $8.0 million and $6.6 million for the years ended September 30, 2001, 2000 and 1999, respectively. Accumulated amortization on assets accounted under capital leases amounted to approximately $0.2 million and $0.1 million as of September 30, 2001 and 2000, respectively.

Included in equipment are 34 systems and 29 systems with a combined net book value of approximately $24.8 million and $21.0 million at September 30, 2001 and 2000, respectively. Such systems are utilized for the production of compound semiconductor wafers and package-ready devices for sale to third parties, systems demonstration purposes, system sales support, in-house materials applications, internal research and contract research funded by third parties.

NOTE 8. Accrued Expenses

Accrued expenses consisted of the following:

(in thousands)	As of September 30, 2001	2000
Salary and other compensation costs	$5,520	$2,614
Interest	3,500	-
Warranty	1,254	846
Other	3,259	2,623
Total	$13,533	$6,083

NOTE 9. Debt Facilities

Convertible Subordinated Notes

In May 2001, EMCORE completed the issuance of $175.0 million aggregate principal amount of 5% convertible subordinated notes due in May 2006. The notes are convertible into EMCORE common stock at a conversion price of $48.76 per share at the option of the holder. There are no financial covenants related to these notes.

Bank Loans

In March 2001, EMCORE entered into an Amended and Restated Revolving Loan and Security Agreement with a bank. This credit facility provides for revolving loans in an amount up to $20.0 million outstanding at any one time, depending on EMCORE's borrowing base. These loans bear interest payable monthly in arrears at a rate equal to the lesser of the prime rate (6.0% at September 30, 2001) or LIBOR (2.6% at September 30, 2001) plus a margin of 1.50%. The credit facility matures on January 31, 2003. The loans under the credit facility are secured by a security interest in substantially all of our personal property. There were no borrowings under this facility and the Company was in compliance with all covenants at September 30, 2001.

Extraordinary Item

In June 1999, the Company repaid its outstanding bank loans using a portion of the proceeds from its June 1999 public offering. The Company also used a portion of the net proceeds to repurchase its outstanding 6.0% subordinated notes due 2001. The early extinguishment of debt resulted in an extraordinary charge of $1.3 million or $0.06 per share in fiscal year 1999 that consisted of the following:

(in thousands)	
Extraordinary items:	
Discount on prepayment of 6% subordinated notes due 2001	$867
Write-off of related deferred financing costs	467
Net extraordinary loss	$1,334

NOTE 10. Commitments and Contingencies

The Company leases certain facilities and equipment under non-cancelable operating leases. Facility and equipment rent expense under such leases amounted to approximately $806,000, $921,000 and $761,000 for the years ended September 30, 2001, 2000 and 1999, respectively. In January 2001, the Company purchased its 80,000 sq. ft Somerset, NJ manufacturing building for RF materials, MR sensors and MOCVD production systems.

Future minimum rental payments under the Company's non-cancelable operating leases with an initial or remaining term of one year or more as of September 30, 2001 are as follows:

(in thousands) Period ending:	Operating
September 30, 2002	$341
September 30, 2003	298
September 30, 2004	110
September 30, 2005	4
Total minimum lease payments	$753

In January 2001, the Company switched to a self-insurance medical and dental health plan for health care coverage of its employees. The Company's maximum self-insured exposure is $50,000 per claim with certain maximum aggregate policy limits per claim year. The Company has accrued amounts equal to the actuarially determined liabilities. The actuarial valuations are based on historical information along certain assumptions about future events. Changes in assumptions for such matters as medical costs and changes in actual experience could cause these estimates to change in the near team.

In April 2001, EMCORE entered into a settlement agreement with Rockwell Technologies, LLC which released us from any liability relating to our manufacture and past sales of epitaxial wafers, chips and devices under Rockwell's US Patent No. 4,368,098. EMCORE had adequate reserves recorded prior to the settlement agreement.

In March 2001, EMCORE recorded a net gain of $5.9 million related to the settlement of litigation. The Company is from time to time involved in litigation incidental to the conduct of its business. Management and its counsel believe that such pending litigation will not have a material adverse effect on the Company's results of operations, cash flows or financial condition.

In fiscal year 2000, EMCORE guaranteed 49% of GELcore's unsecured three-year $7.5 million debt facility obtained from GE Canada, Inc which matures in August 2003.

NOTE 11. Income Taxes

The Company accounts for its income taxes under the provisions of SFAS No. 109, "Accounting for Income Taxes." Under the asset and liability method of SFAS 109, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The principal differences between the U.S. statutory and effective income tax rates were as follows:

	For the years ended September 30,		
	2001	2000	1999
US statutory income tax benefit rate	(34.0)%	(34.0)%	(34.0)%
State rate, net of federal benefit	(5.9)%	(5.9)%	(5.9)%
Change in valuation allowance	35.0%	33.9%	35.0%
Non-deductible amortization	4.8%	6.0%	4.8%
Other	0.1%	-	0.1%
Effective tax rate	-	-	-

As a result of its losses, the Company did not incur any income tax expense during the years ended September 30, 2001, 2000 and 1999. The components of the Company's net deferred taxes were as follows:

(in thousands)	For the years ended September 30,	
Deferred tax assets:	2001	2000
Federal net operating loss carryforwards	$21,096	$13,557
Research credit carryforwards (state and federal)	3,293	2,937
Inventory reserves	369	179
Accounts receivable reserves	387	362
Interest	-	287
Accrued installation reserve	-	177
Accrued warranty reserve	426	256
State net operating loss carryforwards	3,179	2,268
Other	828	158
Valuation reserve - federal	(19,243)	(13,455)
Valuation reserve - state	(5,208)	(4,263)
Total deferred tax assets	5,127	2,463
Deferred tax liabilities:		
Fixed assets and intangilbles	(5,127)	(2,463)
Net deferred taxes	$ -	$ -

The Company has established a valuation reserve as it has not determined that it is more likely than not that the net deferred tax asset is realizable, based upon the Company's past earnings history.

As of September 30, 2001, the Company has net operating loss carryforwards for tax purposes of approximately $62.0 million that expire in the years 2003 through 2021. The Company believes that the consummation of certain equity transactions and a significant change in the ownership during fiscal years 1995, 1998 and 1999 have constituted a change in control under Section 382 of the Internal Revenue Code (IRC). Due to the change in control, the Company's ability to use its federal net operating loss carryovers and federal research credit carryovers to offset future income and income taxes, respectively, are subject to annual limitations under IRC Sections 382 and 383.

NOTE 12. Stockholders' Equity

Preferred Stock: The Company's certificate of incorporation authorizes the Board of Directors to issue up to 5,882,352 shares of preferred stock of the Company upon such terms and conditions having such rights, privileges and preferences as the Board of Directors may determine.

Public Offerings: On June 15, 1999, the Company completed the issuance of an additional 6.0 million common stock shares through a public offering, which resulted in proceeds of $52.0 million, net of issuance costs of $5.0 million. On January 19, 2000, the Company filed a shelf registration statement (Shelf Registration Statement) with the Securities and Exchange Commission to offer from time to time up to 4.0 million shares of common stock. The Shelf Registration Statement became effective on February 4, 2000. On March 1, 2000, the Company completed the issuance of 2.0 million common stock shares under the Shelf Registration Statement that resulted in proceeds of $127.5 million, net of issuance costs of $8.5 million. A portion of the proceeds was used to repay all outstanding bank indebtedness.

Common Stock: In February 1999, an amendment to the certificate of incorporation increased the number of no par value common stock shares that the Company is authorized to issue to 50,000,000 shares. The certificate of incorporation was amended, effective December 22, 2000, to effect a two-for-one (2:1) split of the common stock. As a result, as of the effective date of the amendment, the certificate of incorporation authorizes the Company to issue up to 100,000,000 shares of common stock, with no par value. The amendment did not change the number of authorized shares or other provisions relating to the preferred stock. All references in these financial statements to common stock and per share data have been adjusted to reflect the common stock split that was effective on September 18, 2000.

Future Issuances: At September 30, 2001, the Company has reserved a total of 8,419,235 shares of its common stock for future issuances as follows:

	Number of shares
For exercise of outstanding warrants to purchase common stock	1,292,546
For exercise of outstanding common stock options	3,402,731
For future common stock option awards	3,240,492
For future issuances to employees under the Employee Stock Purchase Plan	483,466
Total reserved	8,419,235

NOTE 13. Stock Options and Warrants

All share amounts have been restated to reflect EMCORE's two-for-one (2:1) common stock split that was effective on September 18, 2000.

Stock Option Plans. The Company maintains two incentive stock option plans: the 2000 Stock Option Plan (the "2000 Plan") and the 1995 Incentive and Non Statutory Stock Option Plan (the "1995 Plan" and, together with the 2000 Plan, the "Option Plans"). The 1995 Plan authorizes the grant of options to purchase up to 2,744,118 shares of the Company's common stock, and as of September 30, 2001, no options were available for issuance thereunder. The 2000 Plan authorizes the grant of options to purchase up to 4,750,000 shares of the Company's common stock, and as of September 30, 2001, 3,240,492 options were available for issuance thereunder. Certain options under the Option Plans are intended to qualify as incentive stock options pursuant to Section 422A of the Internal Revenue Code.

During fiscal 2001, 270,900 options were granted pursuant to the 2000 Plan at exercise prices ranging from $20.06 to $53.19 per share.

Stock options generally vest over three to five years and are exercisable over a ten-year period. As of September 30, 2001, 2000 and 1999, options with respect to 1,793,047, 1,581,805 and 554,439 were exercisable, respectively.

The following table summarizes the activity under the Option Plans:

	Shares	Weighted Average Exercise Price
Outstanding as of September 30, 1998	2,425,452	$4.48
Granted	661,590	6.87
Exercised	(220,144)	1.71
Cancelled	(254,872)	4.67
Outstanding as of September 30, 1999	2,612,026	$5.30
Granted	1,858,602	22.04
Exercised	(506,256)	4.36
Cancelled	(193,696)	8.01
Outstanding as of September 30, 2000	3,770,676	$13.54
Granted	270,900	36.87
Exercised	(462,315)	7.01
Cancelled	(176,530)	28.85
Outstanding as of September 30, 2001	3,402,731	$15.49

At September 30, 2001, stock options outstanding were as follows:

Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Exercisable Options	Weighted Average Exercise Price
< $1	5,498	6.18	5,498	$0.27
$1 < to <= $5	215,047	4.62	184,607	2.12
$5 < to <= $10	1,400,615	6.69	853,078	6.38
$10 < to <= $20	165,780	7.28	67,580	10.91
$20 < to <= $30	1,303,391	8.62	652,104	22.06
> $30	312,400	8.99	30,180	40.79
	3,402,731		1,793,047	

In connection with the Company's acquisition of MODE in December 1997, EMCORE assumed 402,000 common stock purchase options with exercise prices ranging from $0.21 to $0.30. The MODE options have a term of 10 years from the date of grant, with such options expiring at various dates through July 31, 2007. The options vest, with continued service, over a four-year period; 25% in year one and 75% equally over the remaining 36 months. As of September 30, 2001, there are 5,498 options outstanding at a weighted average exercise price of $0.27.

The following table summarizes the activity of options assumed in the MODE acquisition:

	Shares	Weighted Average Exercise Price
Outstanding as of September 30, 1997	–	-
Assumed in MODE acquisition	401,956	$0.25
Exercised	(31,780)	0.26
Cancelled	(15,528)	0.28
Outstanding as of September 30, 1998	354,648	$0.25
Exercised	(105,598)	0.27
Cancelled	(56,058)	0.28
Outstanding as of September 30, 1999	192,992	$0.23
Exercised	(49,772)	0.25
Cancelled	(666)	0.29
Outstanding as of September 30, 2000	142,554	$0.23
Exercised	(137,056)	0.22
Cancelled	-	-
Outstanding as of September 30, 2001	5,498	$0.27

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock Based Compensation" (SFAS 123). SFAS 123 establishes financial and reporting standards for stock based compensation plans. The Company has adopted the disclosure only provisions of this standard and has elected to continue to apply the provision of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". Had the Company elected to recognize compensation expense for stock options based on the fair value at the grant dates of awards, net loss and net loss per share would have been as follows:

	For the fiscal years ended September 30,		
(in thousands)	2001	2000	1999
Loss before extraordinary item and cumulative effect of a change in accounting principle:			
As reported	$8,642	$25,485	$21,355
Pro forma	$13,000	$29,843	$22,648
Loss per basic and diluted share before extraordinary item and cumulative effect of a change in accounting principle:			
As reported	$(0.25)	$(0.82)	$(1.03)
Pro forma	$(0.37)	$(0.96)	$(1.09)
Net loss:			
As reported	$12,288	$25,485	$22,689
Pro forma	$16,646	$29,843	$23,983
Net loss per basic and diluted share:			
As reported	$(0.36)	$(0.82)	$(1.09)
Pro forma	$(0.48)	$(0.96)	$(1.15)

The weighted average fair value of the Company's stock options was calculated using Black-Scholes with the following weighted-average assumptions used for grants: no dividend yield; expected volatility of 104%, 100% and 76% for fiscal years 2001, 2000 and 1999, respectively; a risk-free interest rate of 3.9%, 5.9% and 5.8% for fiscal years 2001, 2000 and 1999, respectively; and expected lives of 5 years. The weighted average fair value of options granted during the years ended September 30, 2001, 2000 and 1999 were $27.29, $17.90 and $9.05 per share, respectively. Stock options granted by the Company prior to its initial public offering were valued using the minimum value method under SFAS No. 123.

Warrants.

Set forth below is a summary of the Company's outstanding warrants at September 30, 2001:

Underlying Security	Exercise Price	Warrants	Expiration Date
Common Stock (1)	$2.16	14,796	August 21, 2006
Common Stock (2)	$5.10	822,256	October 25, 2001
Common Stock (3)	$5.69	455,494	June 17, 2003

(1) issued in connection with EMCORE's December 1997 acquisition of MicroOptical Devices, Inc.
(2) issued in connection with EMCORE's October 1996 debt guarantee; 100% exercised in October 2001.
(3) issued in connection with EMCORE's June 1998 bank loan agreement.

NOTE 14. Related Parties

In December 1997, the Company and a wholly owned subsidiary of Uniroyal Technology Corporation formed Uniroyal Optoelectronics LLC, a joint venture, to manufacture, sell and distribute High Brightness (HB) LED wafers and package-ready devices; See NOTE 5 – Joint Ventures. During the fiscal year ended September 30, 2001, EMCORE sold three compound semiconductor production systems to the venture totaling $4.2 million in revenues. During the fiscal year ended September 30, 2000, EMCORE sold two compound semiconductor production systems to the venture totaling $2.7 million in revenues. During the years ended September 30, 2001, 2000 and 1999, sales made to the joint venture approximated $4.8 million, $3.9 million and $5.9 million, respectively. As of September 30, 2001 and 2000, the Company had an outstanding related party receivable of $1.6 and $0.6 million, respectively.

In May 1999, EMCORE and General Electric Lighting formed GELcore, a joint venture to develop and market HB LED lighting products. As of September 30, 2001 and 2000, the Company had an outstanding related party receivable of $0.5 million and $1.8 million, respectively.

The President of Hakuto Co. Ltd. (Hakuto), the Company's Asian distributor, is a member of the Company's Board of Directors and Hakuto is a minority shareholder of the Company. During the years ended September 30, 2001, 2000 and 1999, sales made through Hakuto approximated $14.5 million, $16.2 million and $10.2 million, respectively.

From time to time, the Company has lent money to certain of its executive officers and directors. Pursuant to due authorization from the Company's Board of Directors, the Company lent $3.0 million to the Chief Executive Officer. The promissory note bears interest at a rate of 5.18% per annum, compounded annually. The note is fully secured by a pledge of shares of the Company's common stock. Principal and accrued interest is payable in February 2004.

In August 2001, EMCORE made a $5.0 million aggregate principal amount bridge loan (Bridge Loan) to UTCI, the proceeds of which were to be used by UTCI for working capital and other corporate purposes. The Bridge Loan had an interest rate equal to the prime rate and had a maturity date of the earlier of the second anniversary of the date of the Bridge Loan and the closing of the sale of the adhesives and sealants business of Uniroyal Engineered Products L.L.C., a subsidiary of UTCI. The Bridge Loan was guaranteed by UOE and several other subsidiaries of UTCI, and it was fully secured by a lien on, among other things, UOE's cash, accounts receivable and a portion of UOE's equipment. The Bridge Loan was also convertible under certain circumstances into UTCI common stock at the Company's option. In November 2001, UTCI repaid the loan and accrued interest in cash.

NOTE 15. Segment Data and Related Information

EMCORE has two reportable operating segments: the systems-related business unit and the materials-related business unit. The systems-related business unit designs, develops and manufactures tools and manufacturing processes used to fabricate compound semiconductor wafer and devices. The systems-related business unit assists customers with device design, process development and optimal configuration of TurboDisc production systems. Revenues for the systems-related business unit consists of sales of EMCORE's TurboDisc production systems as well as spare parts and services. The materials-related business unit designs, develops and manufactures compound semiconductor materials. Revenues for the materials-related business unit include sales of semiconductor wafers, devices, modules and process development technology. EMCORE's vertically integrated product offering allows it to provide a complete compound semiconductor solution to its customers.

The segments reported below are the segments of the Company for which separate financial information is available and for which gross profit amounts are evaluated regularly by executive management in deciding how to allocate resources and in assessing performance. The accounting policies of the operating segments are the same as those described in the summary of accounting policies; See NOTE 2 - Summary of Significant Accounting Policies. The Company does not allocate assets or operating expenses to the individual operating segments. There are no intercompany sales transactions between the two operating segments.

The Company's reportable operating segments are business units that offer different products. The reportable segments are each managed separately because they manufacture and distribute distinct products and services. Information about reported segment gross profit is as follows:

(in thousands)	2001	2000	1999
Revenues:			
Systems-related	$131,141	$65,788	$44,477
Materials-related	53,473	38,718	13,864
Total revenues	184,614	104,506	58,341
Cost of revenues:			
Systems-related	72,725	37,775	26,522
Materials-related	41,784	23,526	6,636
Total cost of revenues	114,509	61,301	33,158
Gross profit:			
Systems-related	58,416	28,013	17,955
Materials-related	11,689	15,192	7,228
Total gross profit	$70,105	$43,205	$25,183
Gross margin:			
Systems-related	44.5%	42.6%	40.4%
Materials-related	21.9%	39.2%	52.1%
Total gross margin	38.0%	41.3%	43.2%

EMCORE has generated a significant portion of its sales to customers outside the United States. In fiscal 2001, 2000 and 1999, international sales constituted 47.7%, 38.6% and 52.5%, respectively, of revenues. EMCORE anticipates that international sales will continue to account for a significant portion of revenues. Historically, EMCORE has received substantially all payments for products and services in U.S. dollars and therefore EMCORE does not anticipate that fluctuations in any currency will have a material effect on its financial condition or results of operations.

The following chart contains a breakdown of EMCORE's consolidated revenues by geographic region.

For the fiscal years ended September 30,

(in thousands)	**2001**		**2000**		**1999**	
Region	Revenue	% of revenue	Revenue	% of revenue	Revenue	% of revenue
North America	$96,551	52%	64,174	62%	$27,698	48%
Asia	76,848	42%	34,656	33%	28,211	48%
Europe	11,215	6%	5,676	5%	2,432	4%
Total	$184,614	100%	$104,506	100%	$58,341	100%

All long-lived assets are located in the North America region. Significant sales in the Asia region are predominately made in Japan and Taiwan. Sales to customers that accounted for at least 10% of total EMCORE revenues are outlined below. In fiscal years 2001 and 1999, no individual customer had sales equal to or in excess of 10% of total fiscal year revenues.

For the fiscal years ended September 30,

	2001	**2000**	**1999**
Customer A	-	14.0%	-
Customer B	-	12.5%	-

NOTE 16. Employee Benefits

The Company has a savings plan (the "Savings Plan") that qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the Savings Plan, participating employees may defer a portion of their pretax earnings, up to the Internal Revenue Service annual contribution limit. All employer contributions are made in the Company's common stock. For the years ended September 30, 2001, 2000 and 1999, the Company contributed approximately $730,000, $527,000 and $376,000, respectively, in common stock, to the Savings Plan.

The Company adopted an Employee Stock Purchase Plan (the "Purchase Plan") in fiscal 2000. The Purchase Plan provides employees of the Company with an opportunity to purchase common stock through payroll deductions. The purchase price is set at 85% of the lower of the fair market value of common stock at the beginning of the participation period, the first Trading Day on or after January 1st, or at the end of the participation period, the last Trading Day on or before December 31st of such year. Contributions are limited to 10% of an employee's compensation. The participation periods have a 12-month duration, with new participation periods beginning in January of each year. The Board of Directors has reserved 500,000 shares of common stock for issuance under the Purchase Plan. In January 2001, 16,534 shares of common stock were purchased under the fiscal year 2000 Purchase Plan.

NOTE 17. Quarterly Financial Data (Unaudited)

(in thousands except per share data)	Revenues	Gross Profit	Operating Income (Loss)	Net Income (Loss)[1]	Net Income (Loss)	Net Income (Loss) per Diluted Share[1]	Net Income (Loss) per Diluted Share
Fiscal Year 1999:							
December 31, 1998	$10,125	$4,109	$(6,057)	$(6,879)	$(6,879)	$(0.37)	$(0.37)
March 31, 1999	16,072	6,869	(1,802)	(3,977)	(3,977)	(0.22)	(0.22)
June 30, 1999	17,667	7,814	(1,893)	(3,904)	(5,238)	(0.20)	(0.26)
September 30,1999	14,477	6,391	(4,604)	(6,595)	(6,595)	(0.25)	(0.25)
Fiscal Year 2000:							
December 31, 1999	16,501	6,723	(3,807)	(6,658)	(6,658)	(0.25)	(0.25)
March 31, 2000	23,925	9,936	(1,095)	(4,207)	(4,207)	(0.14)	(0.14)
June 30, 2000	30,023	12,486	(515)	(1,460)	(1,460)	(0.04)	(0.04)
September 30, 2000	34,057	14,060	(10,452)	(13,160)	(13,160)	(0.39)	(0.39)
Fiscal Year 2001:							
Pre-SAB 101:							
(as originally reported)							
December 31, 2000	40,064	16,528	(4,368)	(7,008)	(7,008)	(0.21)	(0.21)
March 31, 2001	47,907	19,581	(72)	2,944	2,944	0.08	0.08
June 30, 2001	52,890	21,900	760	(1,897)	(1,897)	(0.06)	(0.06)
Post-SAB 101:							
(as restated)							
December 31, 2000	39,090	15,738	(5,158)	(7,798)	(11,444)	(0.23)	(0.34)
March 31, 2001	44,825	16,776	(2,877)	139	139	0.00	0.00
June 30, 2001	52,652	22,026	886	(1,771)	(1,771)	(0.05)	(0.05)
September 30, 2001	48,047	15,565	(7,135)	788	788	0.02	0.02

(1) – Before extraordinary loss (fiscal 1999) and cumulative effect of a change in accounting principle (fiscal 2001).

All share amounts have been restated to reflect EMCORE's two-for-one (2:1) common stock split that was effective on September 18, 2000.

Effective October 1, 2000, EMCORE changed its revenue recognition policy to defer the portion of revenue related to installation and final acceptance until such installation and final acceptance are completed. This change was made in accordance with the implementation of U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 101, "*Revenue Recognition in Financial Statements*" (SAB 101). Previously, EMCORE had recognized 100 percent of revenue for products at such time as the product specifications had been met and the title and risks and rewards of ownership had transferred to the customer since EMCORE has historically completed such installation services successfully and since such services have required minimal costs to complete. The effect of this change is reported as the cumulative effect of a change in accounting principle in the year ended September 30, 2001. This net effect reflects the deferral as of October 1, 2000 of $3.6 million of revenue and accrued installation expense previously recognized. EMCORE recognized the revenue included in the cumulative effect adjustment during the year ended September 30, 2001. The quarters ended December 31, 2000, March 31, 2001 and June 30, 2001 have been restated to reflect the adoption of SAB 101.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and
Shareholders of EMCORE Corporation
Somerset, New Jersey

We have audited the accompanying consolidated balance sheets of EMCORE Corporation (the "Company") as of September 30, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended September 30, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of EMCORE Corporation as of September 30, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for revenue to conform to the U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 101, *"Revenue Recognition in Financial Statements".*

DELOITTE & TOUCHE LLP
Parsippany, New Jersey
November 27, 2001

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

To the Shareholders of EMCORE Corporation:

Management has prepared and is responsible for the consolidated financial statements and related information in the Annual Report. The financial statements, which include amounts based on judgment, have been prepared in conformity with generally accepted accounting principles consistently applied.

Management has developed, and continues to strengthen, a system of internal accounting and other controls for the Company. Management believes these controls provide reasonable assurance that assets are safeguarded from loss or unauthorized use and that the Company's financial records are a reliable basis for preparing the financial statements. Underlying the concept of reasonable assurance is the premise that the cost of control should not exceed the benefit derived.

The Board of Directors, through its audit committee, is responsible for reviewing and monitoring the Company's financial reporting and accounting practices. The audit committee meets regularly with management and independent accountants - both separately and together. The independent accountants have free access to the audit committee to review the results of their audits, the adequacy of internal accounting controls and the quality of financial reporting.

CORPORATE INFORMATION

Board of Directors

Thomas J. Russell, Ph.D
Chairman of the Board and Director

Reuben F. Richards, Jr.
President, Chief Executive Officer and Director
(Principal Executive Officer)

Thomas G. Werthan
Vice President, Chief Financial Officer and Director
(Principal Accounting and Financial Officer)

Richard A. Stall
Chief Technology Officer and Director

Robert Louis-Dreyfus
Director

Hugh H. Fenwick
Director

Shigeo Takayama
Director

Charles T. Scott
Director

John J. Hogan, Jr.
Director

Corporate Headquarters
EMCORE Corporation
145 Belmont Drive
Somerset, NJ 08873
(732) 271-9090
www.emcore.com

Subsidiary Offices
EMCORE PhotoVoltaics
10420 Research Rd, SE
Albuquerque, NM 87123
(505) 332-5000

EMCORE Optical Devices
10420 Research Rd, SE
Albuquerque, NM 87123
(505) 323-3400

EMCORE Fiber Optics
1600 Eubank Road, SE
Albuquerque, NM 87123
(505) 559-2600

Auditors
Deloitte & Touche LLP
Two Hilton Court
Parsippany, NJ 07054

Transfer Agent
American Stock Transfer & Trust Co.
59 Maiden Lane
New York, NY 10038

Investor Relations
TTC Inc.
1569 York Avenue, Suite #5D
New York, NY 10028
(212) 794-1050

Stock Listing
The Company's common stock is traded on the NASDAQ National Market under the symbol "EMKR".

The following table sets forth the quarterly high and low sale prices for the Company's common stock.

	Market Price	
Quarters Ended	**High**	**Low**
December 31, 2000	$55.375	$28.250
March 31, 2001	$52.500	$20.000
June 30, 2001	$44.130	$19.600
September 30, 2001	$30.640	$7.690