

Rubicon Technology, Inc.
Form 10-Q
November 13, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark one)

Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2008 or

Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____

Commission file number 001-33834

RUBICON TECHNOLOGY, INC.

(Exact Name of Registrant as Specified in Its Charter)

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Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

36-4419301
(I.R.S. Employer
Identification No.)

9931 Franklin Avenue

Franklin Park, Illinois
(Address of Principal Executive Offices)

60131
(Zip Code)

Registrant's Telephone Number, Including Area Code: (847) 295-7000

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, par value \$0.001 per share

21,279,692 shares outstanding

Class

as of November 7, 2008

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RUBICON TECHNOLOGY, INC.

Quarterly Report on Form 10-Q

For the quarterly period ended September 30, 2008

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. Financial Statements
Rubicon Technology, Inc.****Balance sheets**

	September 30, 2008	December 31, 2007
	(unaudited)	
	(in thousands other than share data)	
Assets		
Cash and cash equivalents	\$ 5,061	\$ 4,380
Restricted cash	7	10
Short-term investments	47,315	67,765
Accounts receivable, net of allowances of \$233 and \$189	8,037	4,673
Inventories, net	5,602	2,522
Spare parts	2,774	1,203
Prepaid expenses and other current assets	1,279	1,355
Total current assets	70,075	81,908
Investments	9,916	3,200
Property and equipment, net	37,659	26,303
Total assets	\$ 117,650	\$ 111,411
Liabilities and stockholders equity		
Accounts payable	\$ 3,913	\$ 2,572
Accrued payroll	1,156	1,314
Deferred revenue		583
Corporate income and franchise taxes	206	385
Accrued and other current liabilities	507	875
Total current liabilities	5,782	5,729
Commitments and contingencies (Note 8)		
Stockholders equity		
Preferred stock, \$0.001 par value, 5,000,000 undesignated shares authorized, no shares issued or outstanding		
Common stock, \$0.001 par value, 85,000,000 shares authorized, 21,274,760 and 20,488,608 shares issued and outstanding	24	24
Additional paid-in capital	260,378	259,243
Accumulated other comprehensive income (loss)	(994)	24
Accumulated deficit	(147,540)	(153,609)
Total stockholders equity	118,868	105,682

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Total liabilities and stockholders' equity	\$ 117,650	\$ 111,411
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The accompanying notes are an integral part of these statements.

Table of Contents**Rubicon Technology, Inc.****Statements of cash flows**

	Nine months ended September 30, 2008 2007 (unaudited) (in thousands)	
Cash flows from operating activities		
Net income (loss)	\$ 6,069	\$ (813)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	3,236	2,486
Amortization of financing costs		11
Net loss on disposal of equipment	1,215	139
Change in carrying value of convertible preferred stock warrants		3,560
Stock-based compensation	571	250
Interest expense related to accretion		253
Changes in operating assets and liabilities:		
Accounts receivable	(3,364)	(1,163)
Inventories	(3,080)	(779)
Spare parts	(1,571)	(703)
Prepaid expenses and other current assets	62	(1,565)
Accounts payable	1,341	1,622
Accrued payroll	(158)	34
Deferred revenue	(583)	833
Corporate income and franchise taxes	(179)	36
Accrued and other current liabilities	(325)	(145)
Net cash provided by operating activities	3,234	4,056
Cash flows from investing activities		
Purchases of property and equipment	(15,807)	(6,740)
Proceeds from sale of investments	12,716	
Proceeds from disposal of equipment		30
Net cash used in investing activities	(3,091)	(6,710)
Cash flows from financing activities		
Payment of issuance costs of initial public offering	(38)	
Proceeds from exercise of options	602	6
Restricted cash	3	
Proceeds from line of credit		3,000
Payments on line of credit		(2,973)
Payments on capital lease	(29)	(210)
Proceeds from issuance of long-term debt		5,100
Payments on long-term debt		(4,741)
Net cash provided by financing activities	538	182
Net increase (decrease) in cash and cash equivalents	681	(2,472)
Cash and cash equivalents, beginning of period	4,380	3,638

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Cash and cash equivalents, end of period	\$ 5,061	\$ 1,166
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 2	\$ 587
Supplemental disclosures of non-cash transactions		
Warrants issued with debt instruments	\$	\$ 596
Unrealized loss on investments	\$ 1,018	\$
Dividend conversion feature	\$	\$ 14,420

The accompanying notes are an integral part of these statements.

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Rubicon Technology, Inc.

NOTES TO UNAUDITED FINANCIAL STATEMENTS

September 30, 2008

1. BASIS OF PRESENTATION

Interim financial data

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements and should be read in conjunction with the Company s annual report filed on Form 10-K for the fiscal year ended December 31, 2007. In the opinion of management, all adjustments (consisting only of adjustments of a normal and recurring nature) considered necessary for a fair presentation of the results of operations have been included. Operating results for the three and nine month periods ended September 30, 2008 are not necessarily indicative of results that may be expected for the year ending December 31, 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Initial public offering

On November 21, 2007, the Company completed its initial public offering (IPO) of common stock in which a total of 6,505,000 shares were sold at an issuance price of \$14.00 per share. The Company raised a total of \$91.1 million in gross proceeds from the IPO, or approximately \$81.0 million in net proceeds after deducting the underwriting discount and commissions of \$6.4 million and other offering costs of approximately \$3.6 million. Upon the closing of the IPO, all shares of redeemable convertible preferred stock outstanding and preferred stock dividends automatically converted into 13,385,722 shares of common stock. Also, upon the closing of the IPO, 1,217,152 Series B preferred stock warrants and 131,096 Series C preferred stock warrants were exercised on a net exercise basis, which resulted in the Company issuing 48,068 shares of common stock. The remaining preferred stock warrants outstanding converted into 806,972 warrants to purchase common stock.

Follow-on Public Offering

On May 12, 2008, the Company completed a public offering of 3,950,000 shares of its common stock at a price of \$24.00 per share. The Company did not receive any of the proceeds from the sale, as all of the shares were sold by certain selling stockholders of the Company. Additionally, the underwriters were granted a 30-day option to purchase up to an additional 592,500 shares of common stock from the selling stockholders at the public offering price to cover over-allotments. The underwriters exercised such option, in part, for 353,410 shares of common stock on June 6, 2008.

Reverse stock split

All prior period common stock amounts have been retroactively adjusted to reflect a 1 for 13 reverse stock split effective August 30, 2007. As a result of this common stock split, there was an automatic change in the conversion prices of all series of preferred stock and their related dividend conversion rates at the same 1 for 13 ratio.

Inventories

Inventories are valued at the lower of cost or market. Cost is determined using the first-in, first-out method, and includes materials, labor and overhead. The Company reduces the carrying value of its inventories for differences between the cost and the estimated net realizable value, taking into account usage, expected demand, technological obsolescence and other information. Inventories are composed of the following:

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	September 30, 2008	December 31, 2007
	(in thousands)	
Raw materials	\$ 3,582	\$ 1,215
Work in progress	1,168	1,592
Finished goods	1,248	41
	5,998	2,848
Reserve for obsolescence and realization	(396)	(326)
	\$ 5,602	\$ 2,522

Table of Contents**Property and equipment**

Property and equipment consisted of the following:

	September 2008	December 2007
	(in thousands)	
Machinery, equipment and tooling	\$ 40,395	\$ 27,996
Leasehold improvements	5,292	3,608
Furniture and fixtures	715	708
Information systems	546	546
Construction in progress	5,984	6,150
Total cost	52,932	39,008
Accumulated depreciation and amortization	(15,273)	(12,705)
Property and equipment, net	\$ 37,659	\$ 26,303

Property and equipment are carried at cost and depreciated over their estimated useful lives using the straight-line method. The cost of maintenance and repairs is charged to expense as incurred. Significant renewals and improvements are capitalized. Depreciation and amortization expense associated with property and equipment was \$1,186,840 and \$3,236,099 for the three and nine months ended September 30, 2008 and \$915,037 and \$2,486,013 for the three and nine months ended September 30, 2007.

Revenue recognition

The Company recognizes revenue from product sales when earned in accordance with Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition. Revenue is recognized when, and if, evidence of an arrangement is obtained and the other criteria to support revenue recognition are met, including:

Persuasive evidence of an arrangement exists. The Company requires evidence of a purchase order with the customer specifying the terms and specifications of the product to be delivered, typically in the form of a signed quotation or purchase order from the customer.

Title has passed and the product has been delivered. Title passage and product delivery generally occur when the product is delivered to a common carrier.

The price is fixed or determinable. All terms are fixed in the signed quotation or purchase order received from the customer. The purchase orders do not contain rights of cancellation, return, exchange or refund.

Collection of the resulting receivable is reasonably assured. The Company's standard arrangement with customers includes 30 day payment terms. Customers are subject to a credit review process that evaluates the customers' financial position and their ability to pay. Collectability is determined by considering the length of time the customer has been in business and history of collections. If it is determined that collection is not probable no revenue is recognized unless cash is received in advance.

The Company does not provide maintenance or other services and we do not have sales that involve multiple elements or deliverables as defined under Emerging Issues Task Force Issue (EITF) No. 00-21, Revenue Arrangements with Multiple Deliverables.

Convertible preferred stock warrant liability

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Prior to the IPO, the Company accounted for the carrying value of the preferred stock warrants as a liability pursuant to FASB Staff Position (FSP) 150-5, Accounting Under SFAS 150 for Freestanding Warrants and Other Similar Instruments on Redeemable Shares (FSP 150-5) and adjusted the fair value at each reporting period with any increase or decrease in fair value reported in other income (expense). At the IPO closing, the warrants were either net exercised or became exercisable for common stock. For the three and nine months ended September 30, 2007, \$2,839,000 and \$3,560,000 was recorded as the change in value in other income (expense).

Redeemable convertible preferred stock

Prior to the IPO, the Company had issued various series of preferred stock. The holders of Series A, B, B-2, C, C-2, D, D-2, and E preferred stock had the option to sell their shares back to the Company at the greater of the original purchase price plus accrued and unpaid dividends, or the current fair market value of the shares plus accrued and unpaid dividends. As a result, the carrying value of the preferred stock was increased by an accretion amount each period so that the carrying amount was equal to the greater of fair value plus accrued and unpaid dividends or the original cost plus accrued and unpaid dividends value for the Series A, B, B-2, C, C-2, D, D-2, and E preferred stock. The accreted amounts were recorded to additional paid-in capital, if any, and then to accumulated deficit. (See Note 6). At the IPO, the option to sell was terminated and the related accretion of the preferred shares was transferred to additional paid-in-capital.

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Net income (loss) per common share attributable to common stockholders

Net income (loss) per share of common stock is as follows for the three and nine months ended September 30, 2008 and 2007:

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Net income (loss) attributable to common stockholders (in thousands):	\$ 1,619	\$ (28,755)	\$ 6,069	\$ (51,747)
Net income (loss) per common share attributable to common stockholders:				
Basic	\$ 0.08	\$ (81.07)	\$ 0.29	\$ (179.92)
Diluted	\$ 0.07	\$ (81.07)	\$ 0.27	\$ (179.92)

Weighted average common shares outstanding used in:

Basic	21,222,321	354,696	20,891,128	287,614
Diluted	22,084,570	354,696	22,262,889	287,614

Basic net income (loss) per common share attributable to common stockholders is computed by dividing net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per common share attributable to common stockholders is computed by dividing net income (loss) attributable to common stockholders by the weighted-average number of diluted common shares outstanding during the period. Diluted shares outstanding are calculated by adding to the weighted-average shares outstanding any common stock equivalents from redeemable preferred stock, and outstanding stock options and warrants based on the treasury stock method.

Diluted net loss attributable to common stockholders per share is the same as basic net loss attributable to common stockholders per share for the three and nine months ended September 30, 2007, because the effects of potentially dilutive securities are anti-dilutive.

At September 30, 2007, the Company had the following anti-dilutive securities outstanding which were excluded from the calculation of diluted net loss per share.

Preferred stock	13,217,850
Warrants	853,019
Stock options	1,399,113
	15,469,982

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At September 30, 2008, the Company had outstanding 323,900 of anti-dilutive stock options which were excluded from the calculation of diluted net income per share.

Recent accounting pronouncements

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*. This Statement replaces FASB Statement No. 141, *Business Combinations*. SFAS No. 141(R) establishes principles and requirements for how an acquiring company: recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141(R) further changes the accounting treatment for certain specific items, including: acquisition costs will be generally expensed as incurred; acquired contingent liabilities will be recorded at fair value at the acquisition date and subsequently measured at either the higher of such amount or the amount determined under existing guidance for non-acquired contingencies; in-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; restructuring costs associated with a business combination will be generally expensed subsequent to the acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. SFAS No. 141(R) applies prospectively to any business combinations for which the acquisition date is on or after January 1, 2009.

On January 1, 2008, the Company adopted EITF 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities*, (EITF 07-03). EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized and recognized as an expense as the goods are delivered or the related services are performed. The adoption of EITF 07-03 did not have a material impact on the Company's financial condition or results of operations.

In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 requires disclosures related to objectives and strategies for using derivatives; the fair-value amounts of, and gain and losses on, derivative instruments; and credit risk-related contingent features in derivative agreements. SFAS 161 is effective for fiscal years beginning after November 15, 2008. SFAS 161 is not expected to have a material impact on the Company's financial statements.

In May 2008, the FASB issued Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of non-governmental entities that are presented in conformity with accounting principles generally accepted in the United States of America. SFAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. SFAS 162 is not expected to have a material impact on the Company's financial statements.

Table of Contents**3. SEGMENT INFORMATION**

The Company has determined that it operates in only one segment in accordance with SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information, as it only reports profit and loss information on an aggregate basis to its chief operating decision maker.

Revenue is attributed by geographic region based on ship-to location of the Company's customers. The following table summarizes revenue by geographic region:

	Three months ended		Nine months ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
	(in thousands)		(in thousands)	
Asia	\$ 5,598	\$ 7,621	\$ 17,530	\$ 18,451
North America	5,843	1,262	15,425	5,538
Europe	317	234	841	576
Revenue	\$ 11,758	\$ 9,117	\$ 33,796	\$ 24,565

4. INVESTMENTS

Investments are available-for-sale securities and are recorded at fair value. Unrealized gains and losses are reported as part of accumulated other comprehensive income (loss).

The following table presents the amortized cost and gross unrealized gains and losses on all securities at September 30, 2008:

	Available-for-sale securities (in thousands)			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. Treasury securities and agency (taxable)	\$ 35,813	\$	\$ (67)	\$ 35,746
Corporate Notes/Bonds (taxable)	2,760		(56)	2,704
States and political subdivisions (taxable)	10,750		(834)	9,916
Commercial Paper (taxable)	8,902		(37)	8,865
Total available-for-sale securities	\$ 58,225	\$	\$ (994)	\$ 57,231

The net carrying value and estimated fair value of available-for-sale securities at September 30, 2008, by contractual maturity, were as follows:

	Cost	Fair value
Due in one year or less	\$ 47,475	\$ 47,315
Due after one year through three years		
Due after three years	\$ 10,750	\$ 9,916

A portion of our excess cash is invested in auction rate securities and, as of September 30, 2008, \$9.9 million of these securities are in the investment portfolio. All of these auction rate securities are AAA rated by one or more of the major credit rating agencies and have contractual maturities from 2036 to 2045. Further, all of these securities are collateralized by student loans, and approximately 99% of the collateral qualifies under the Federal Family Education Loan Program and is guaranteed by the US government. Auctions have failed for all of our auction rate securities, resulting in our inability to sell these securities in the short term. A failed auction results in a lack of liquidity in the securities but does not signify a default by the issuer. Upon an auction failure, the interest rates do not reset at market rate but instead reset based on a formula

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contained in the security. If we need access to these funds, we will not be able to do so without the possible loss of principal or until a future auction for these investments is successful, they are redeemed by the issuer, or they mature. We cannot predict if or when a successful auction or redemption will take place. We do not believe we need access to these funds for operational purposes for the foreseeable future. We continue to monitor and evaluate these investments on a quarterly basis for impairment and the need to reclassify as long-term investments. At September 30, 2008, all of these securities have been classified as long-term investments. All of the securities are due for auction again every 28 days.

On October 23, 2008 the Company accepted an offer from UBS, AG of Auction Rate Security Rights (ARS Rights). These rights permit us to require UBS, AG between June 10, 2010 and July 2, 2012 (the exercise period) to purchase our auction rate securities at par value. In exchange, UBS, AG is granted the right, at their sole discretion, to sell or otherwise dispose of our auction rate security investments until July 2, 2012 as long as the Company receives a payment of par value upon the sale or disposition. In addition, the rights permit the Company to establish a demand revolving credit line in an amount equal to the par value of the securities at a net no cost. If the Company's debt is determined to be rated below investment grade or is not rated, the amount that can be borrowed is limited to 75% of the market value of the auction rate securities.

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS No.157). In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 157 2, Effective Date of FASB Statement No. 157 , which provides a one year deferral of the effective date of

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SFAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Therefore, the Company has adopted the provisions of SFAS No. 157 with respect to its financial assets and liabilities only. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS No. 157 as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under SFAS No. 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The adoption of SFAS No. 157 did not have a material impact on the Company's results of operations and financial condition.

The following table summarizes the Company's financial assets measured at fair value on a recurring basis in accordance with SFAS No. 157 as of September 30, 2008:

	Level 1	Level 2	Level 3	Total
Cash Equivalents:				
Money market funds	\$ 3,258	\$	\$	\$ 3,258
Investments:				
Available-for-sales securities - current		47,315		47,315
Available-for-sales securities - non-current			9,916	9,916
Total	\$ 3,258	\$ 47,315	\$ 9,916	\$ 60,489

Level 3 assets consist of AAA-rated municipal bonds with an auction reset feature, and auction rate securities, whose underlying assets are generally student loans which are substantially backed by the federal government. In February 2008, auctions began to fail for these securities and each auction since then has failed. As of September 30, 2008, due to the auction failures, underlying maturities of the auction rate securities of greater than one year and the Company's ability to hold the securities beyond one year, the Company reclassified its investment in auction rate securities from short-term investments to long-term investments. These investments were valued at fair value as of September 30, 2008. The following table provides a summary of changes in fair value of the Company's Level 3 financial assets as of September 30, 2008:

	Auction rate securities
Balance at January 1, 2008	\$ 3,200
Net transfers in: auction rate securities with failed auctions	7,550
Unrealized losses included in other accumulated comprehensive income	(834)
Balance at September 30, 2008	\$ 9,916

In addition to the debt securities noted above, the Company had approximately \$1.8 million of time deposits included in cash and cash equivalents as of September 30, 2008.

5. SIGNIFICANT CUSTOMERS

For the three months ended September 30, 2008, the Company had four customers that accounted for approximately 36%, 14%, 11% and 10% of its revenue and for the three months ended September 30, 2007, the Company had three customers that accounted for approximately 26%, 20% and 19% of its revenue. For the nine months ended September 30, 2008, the Company had four customers that accounted for approximately 32%, 15%, 13% and 11% of its revenue and for the nine months ended September 30, 2007, the Company had three customers that accounted for approximately 27%, 20% and 13% of its revenue.

Customers individually representing more than 10% of trade receivables accounted for approximately 65% and 69% of accounts receivable as of September 30, 2008 and December 31, 2007, respectively. At September 30, 2008 Peregrine Semiconductor Corporation accounted for 35% (\$2.9 million) of accounts receivable. The Company grants credit to customers based on an evaluation of their financial condition. Losses from credit sales are provided for in the financial statements.

Table of Contents**6. STOCKHOLDERS EQUITY, REDEEMABLE STOCK CONVERSIONS, ACCRUED DIVIDEND CONVERSIONS AND WARRANT CONVERSIONS**

Common Stock As of September 30, 2008, the Company had 85,000,000 shares of common stock authorized with a par value of \$0.001 and the Company had reserved 1,175,224 shares of common stock for issuance upon the exercise of outstanding common stock options. Also, 2,062,725 shares of the Company's common stock were reserved for future grants of stock options (or other similar equity instruments) under the Company's 2001 Equity Plan (the "2001 Plan") and 2007 Stock Incentive Plan (the "2007 Plan") as of September 30, 2008. In addition, 410,383 shares of the Company's common stock were reserved for future exercise of outstanding warrants as of September 30, 2008.

On November 21, 2007, the Company completed an IPO of 6,505,000 shares of its common stock (including the underwriters' exercise of their over-allotment option) at a public offering price of \$14.00 per share. Net cash proceeds from the initial public offering were \$81 million after deducting offering costs.

Warrants and warrant conversions Upon the closing of the Company's IPO, all preferred stock warrants were either converted into common stock warrants or not exercised. For the nine months ended September 30, 2008, 385,462 common stock warrants were exercised in full on a net exercise basis, which resulted in the Company issuing 292,922 shares of common stock to the warrant holders.

Redeemable convertible preferred stock Prior to the IPO, the Company issued various series of preferred stock. At anytime after December 15, 2008, the holders of Series E, D, D-2, C, C-2, B, B-2 and A preferred stock would have had the option to sell their shares back to the Company at the greater of original purchase price plus accrued and unpaid dividends, or the current fair market value of the shares plus accrued and unpaid dividends. As a result, the carrying value of the preferred stock was increased by an accretion each period so that the carrying amounts equaled the greater of original purchase price plus accrued and unpaid dividends, or the current fair market value of the shares plus accrued and unpaid dividends for the Series E, D, D-2, C, C-2, B, B-2 and A preferred stock. The accreted amounts were recorded to additional paid-in capital, if any, and then to accumulated deficit. The accretion recorded at September 30, 2007 was recorded to bring the carrying value of the redeemable convertible preferred stock to their redemption values as of September 30, 2007. At the IPO, the option to sell was terminated.

Dividend conversion feature

The Company's redeemable convertible preferred stock provided that the holders, at their discretion, could require the conversion of accumulated dividends into either cash or common stock based upon stated conversion rates. Accordingly, in accordance with EITF 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments", any excess of the fair value of common stock a holder would receive over the accumulated dividends was recorded as the dividends accrued. At September 30, 2007 the accumulated dividends were less than the value of the common shares the holder would receive upon conversion. Accordingly, the Company recorded the excess fair value of the common shares that could be received upon conversion over the amount of cash dividends in the amount of \$14,420,000 to additional paid-in-capital and accumulated deficit. At November 21, 2007, the IPO date, the accumulated dividends were greater than the value of the shares the holder would receive upon conversion. At the closing of the IPO, accumulated dividends were converted to common stock.

7. STOCK INCENTIVE PLANS

The Company sponsors a stock option plan, the 2001 Plan, which allows for the grant of incentive and nonqualified stock options for the purchase of common stock. Each option entitles the holder to purchase one share of common stock at the specified option exercise price. The exercise price of each incentive stock option granted must not be less than the fair market value on the grant date. After the completion of the IPO, the Company's Board of Directors determined not to grant any additional awards under the 2001 Plan. Management and the Board of Directors determine vesting periods and expiration dates at the time of the grant.

In August 2007, the Company adopted the 2007 Plan, which allows for the grant of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards and bonus shares. The maximum number of shares which may be awarded or sold under the 2007 Plan is 2,307,692 shares. The compensation committee of the Board of Directors administers the plan. The compensation committee determines the type of award to be granted, the fair market value, the number of shares covered by the award, and the time when the award vests and may be exercised.

Upon the adoption of SFAS 123R, the Company began using the Black-Scholes option pricing model to value stock options. The Company uses historical stock prices of companies which it considers as a peer group as the basis for its volatility assumptions. The assumed risk-free rates were based on US Treasury rates in effect at the time of grant with a term consistent with the expected option lives. The expected term is based upon the vesting term of the Company's options, a review of a peer group of companies, and expected exercise behavior. The forfeiture rate is

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based on past history of forfeited options. The expense is being allocated using the straight-line method. For the three and nine months ended September 30, 2008, the Company recorded \$130,344 and \$454,967, respectively, of stock compensation expense under SFAS 123R. For the three and nine months ended September 30, 2007, the Company recorded \$58,783 and \$249,686, respectively, of stock compensation expense under SFAS 123R. As of September 30, 2008, the Company has \$2,201,794 of total unrecognized compensation cost related to nonvested awards granted under the Company's

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stock-based plans that it expects to recognize over a weighted-average period of 3.08 years. Under the prospective method of adoption of SFAS 123R, the Company continues to account for options issued prior to January 1, 2006 under the intrinsic value method of APB 25.

The following table summarizes the activity of the stock incentive and equity plans as of September 30, 2008 and changes during the nine months then ended:

	Shares available for grant	Number of options outstanding	Weighted-average option exercise price	Number of restricted and other stock shares issued
At December 31, 2007	2,020,685	1,710,494	\$ 5.87	14,284
Authorized				
Granted	(41,337)	34,050	23.30	7,287
Exercised		(485,943)	1.24	
Cancelled/forfeited	83,377	(83,377)	8.55	
At September 30, 2008	2,062,725	1,175,224	8.10	21,571
Exercisable at September 30, 2008		509,238	5.78	

The weighted average fair value per share of options granted for the three and nine months ended September 30, 2008 was \$11.64 and the fair value of each option grant was estimated at the date of grant using the Black-Scholes option-pricing model using an expected term of 4.8 years, a risk-free interest rate ranging from 2.37% to 3.28%, expected volatility of 56% and no dividend yield. The Company used an expected forfeiture rate of 25%. The weighted average fair value per share of options granted for the three and nine months ended September 30, 2007 was \$2.00 and \$2.03 and the fair value of each option grant was estimated at the date of grant using the Black-Scholes option-pricing model using an expected term of 4.8 years, a risk-free interest rate ranging from 4.25% to 4.92%, expected volatility of 56% and no dividend yield. The Company used an expected forfeiture rate of 25%.

During the nine months ended September 30, 2008, the Company granted restricted and unrestricted stock shares totaling 7,287 shares to outside directors of the Company at a fair value of \$177,575. For the three and nine months ended September 30, 2008, the Company recorded \$28,499 and \$79,577 of stock compensation expense related to restricted stock. For the three and nine months ended September 30, 2008, the Company recorded \$36,957 of stock compensation expense related to unrestricted stock.

A summary of the Company's non-vested options during the nine month period ended September 30, 2008 is presented below:

	Options	Weighted-average exercise price
Non-vested at January 1, 2008	899,768	\$ 8.37
Granted	34,050	23.30
Vested	(201,672)	5.35
Forfeited	(66,159)	10.12
Non-vested at September 30, 2008	665,987	\$ 9.87

8. COMMITMENTS AND CONTINGENCIES**Purchase Commitments**

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The Company has entered into agreements to purchase equipment or components to construct furnaces. These agreements will result in the Company purchasing equipment or components for a total cost of approximately \$3,769,000 with deliveries occurring through March 2009.

Litigation

From time to time, the Company experiences routine litigation in the normal course of its business. Through September 2008, all pending litigation was settled and did not have a material adverse effect on the financial condition or results of operations of the Company.

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9. SUBSEQUENT EVENT

On October 23, 2008 the Company accepted an offer from UBS, AG of Auction Rate Security Rights (ARS Rights). These rights permit us to require UBS, AG between June 10, 2010 and July 2, 2012 (the exercise period) to purchase our auction rate securities at par value. In exchange, UBS, AG is granted the right, at their sole discretion, to sell or otherwise dispose of our auction rate security investments until July 2, 2012 as long as the Company receives a payment of par value upon the sale or disposition. In addition, the rights permit the Company to establish a demand revolving credit line in an amount equal to the par value of the securities at a net no cost. If the Company's debt is determined to be rated below investment grade or is not rated, the amount that can be borrowed is limited to 75% of the market value of the auction rate securities.

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

All statements, other than statements of historical facts, included in this Quarterly Report on Form 10-Q regarding our estimates, expectations, beliefs, intentions, projections or strategies for the future, results of operations, financial position, net sales, projected costs, prospects and plans and objectives of management for future operations may be forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995, as amended. We have based these forward-looking statements on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives and financial needs. These forward-looking statements can be identified by the use of terms and phrases such as believe, plan, intend, anticipate, target, estimate, expect, and the like, and/or future-tense or conditional constructions (will, may, etc.) or the negative thereof. Items contemplating or making assumptions about actual or potential future sales, market size and trends or operating results also constitute forward-looking statements.

Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. Before investing in our common stock, investors should be aware that the occurrence of the risks, uncertainties and events described in the section entitled Risk factors in our Annual Report on Form 10-K and elsewhere in this Quarterly Report could have a material adverse effect on our business, results of operations and financial condition.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, forward-looking statements are inherently subject to known and unknown business, economic and other risks and uncertainties that may cause actual results to be materially different from those discussed in these forward-looking statements. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report. We assume no obligation to update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Quarterly Report, other than as may be required by applicable law or regulation. If one or more of these risks or uncertainties materialize, or if the underlying assumptions prove incorrect, our actual results may vary materially from those expected or projected.

You should read this Quarterly Report, the documents that we reference in this Quarterly Report and have filed with the SEC as exhibits and our Annual Report on Form 10-K for the year ended December 31, 2007 with the understanding that our actual future results, levels of activity, performance and events and circumstances may be materially different from what we expect.

Unless otherwise indicated, the terms Rubicon, the Company, we, us, and our refer to Rubicon Technology, Inc.

OVERVIEW

We are an advanced electronic materials provider that develops, manufactures and sells monocrystalline sapphire and other innovative crystalline products for Light-Emitting Diodes (LEDs), radio frequency integrated circuits (RFICs), blue laser diodes, optoelectronics and other optical applications. The emergence of sapphire in commercial volumes at competitive prices has enabled the development of new technologies such as high brightness (HB) white, blue and green LEDs and highly-integrated RFICs. We apply our proprietary crystal growth technology to produce high-quality sapphire products efficiently to supply a large and growing end-market demand, and we work closely with our customers to meet their quality and delivery needs.

We are a vertically-integrated manufacturer of high-quality sapphire substrates and optical windows that are used in a variety of high-growth, high-volume end-market applications. Our largest product line is two inch to four inch sapphire wafers for use in LEDs and blue laser diodes for solid state lighting and electronic applications. In addition, we have developed six inch sapphire wafers that are used for Silicon-on-Sapphire (SOS) RFICs, as well as products for military, aerospace, sensor and other applications. We are also extending our technology to manufacture

eight inch and larger diameter products to support next-generation LED, RFIC and optical window applications.

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Our revenue consists of sales of sapphire materials sold in core, as-cut, as-ground and polished forms in two, three, four and six inch diameters as well as optical materials sold as blanks or polished windows. Products are made to varying specifications, such as crystal planar orientations and thicknesses. We have focused on increasing sales of larger diameter substrates, which we define as three inch or greater in diameter, as they generally yield higher gross margins. Revenue from our SOS customer, which use six inch substrates, represented 24% of our total revenue for the three months ended September 30, 2008, as compared to 18% of total revenue for the three months ended September 30, 2007. Revenue from our SOS customers, which use six inch substrates, represented 37% of our total revenue for the nine months ended September 30, 2008, as compared to 15% of total revenue for the nine months ended September 30, 2007. Sales of larger diameter substrates to our LED customers also grew faster than sales of two inch diameter substrates over the past twelve months. Much of the sapphire we sell into the marketplace is used in the manufacture of consumer electronic devices. The current global financial crisis is having a significant impact on consumer spending which is resulting in a reduction in demand for our sapphire. Over the coming quarters, we expect our revenue and earnings to be substantially lower as a result of this reduced demand. The exact extent of that impact is, however, difficult to quantify at this time.

Historically, a significant portion of our revenue has been derived from sales to relatively few customers. For the three months ended September 30, 2008, we had four customers that accounted for approximately 36%, 14%, 11% and 10% of our revenue and for the three months ended September 30, 2007, we had three customers that accounted for approximately 26%, 20% and 19% of our revenue. For the nine months ended September 30, 2008, we had four customers that accounted for approximately 32%, 15%, 13% and 11% of our revenue and for the nine months ended September 30, 2007, we had three customers that accounted for approximately 27%, 20% and 13% of our revenue.

Other than as discussed above, none of our customers accounted for more than 10% of our revenue for such periods. Although we are attempting to diversify and expand our customer base, we expect our revenue to continue to be concentrated among a small number of customers. We expect that our significant customers may change from period to period. Our significant customer in the SOS market, Peregrine Semiconductor Corporation, has begun to accumulate an inventory of sapphire wafers and has notified us that they cannot accept shipment of sapphire until further notice. The remaining value of the current contract is approximately \$7 million; \$2 million was to be delivered in the fourth quarter of this year and the remaining \$5 million in the first half of 2009. Peregrine accounted for 36% and 32% of our revenue for the three and nine months ended September 30, 2008 and 35% (\$2.9 million) of our accounts receivable at September 30, 2008. We are examining the potential impact of this development to our operations.

We recognize revenue upon shipment to our customers. We derive a significant portion of our revenue from customers outside of the United States. The majority of our sales are to the Asian market and we expect that region to continue to be a major source of revenue for us. All of our revenue is denominated in US dollars.

Our cost of goods sold consists primarily of manufacturing materials, labor, manufacturing-related overhead such as utilities, depreciation and rent, provisions for excess and obsolete inventory reserves, freight and warranties. We manufacture our products at our Franklin Park, Illinois and Bensenville, Illinois manufacturing facilities based on customer orders. We purchase materials and supplies to support