

Rubicon Technology, Inc.
Form 10-Q
August 07, 2015
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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 June 30, 2015**

or

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

Commission file number 001-33834

RUBICON TECHNOLOGY, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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

900 East Green Street

Bensenville, Illinois
(Address of Principal Executive Offices)

60106
(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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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 (Do not check if a smaller reporting company) 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

As of August 4, 2015 the Registrant had 26,203,535 shares of common stock, par value \$0.001 per share, outstanding.

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RUBICON TECHNOLOGY, INC.

Quarterly Report on Form 10-Q

For the quarterly period ended June 30, 2015

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

	June 30, 2015	December 31, 2014
	(unaudited)	
	(in thousands, other than share data)	
Assets		
Cash and cash equivalents	\$ 22,744	\$ 24,353
Restricted cash	196	183
Short-term investments	13,208	20,562
Accounts receivable, net	7,944	8,323
Inventories	22,116	22,739
Other inventory supplies	7,206	8,208
Prepaid expenses and other current assets	838	1,035
Total current assets	74,252	85,403
Property and equipment, net	101,394	107,676
Other assets	1,696	1,827
Total assets	\$ 177,342	\$ 194,906
Liabilities and stockholders equity		
Accounts payable	\$ 2,495	\$ 3,754
Accrued payroll	563	514
Accrued and other current liabilities	866	925
Corporate income and franchise taxes	138	270
Accrued real estate taxes	299	280
Advance payments	23	10
Total current liabilities	4,384	5,753
Deferred tax liability	672	593
Total liabilities	5,056	6,346
Commitments and contingencies		
Stockholders equity		

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Preferred stock, \$0.001 par value, 5,000,000 undesignated shares authorized, no shares issued or outstanding		
Common stock, \$0.001 par value, 40,000,000 shares authorized and 27,978,379 and 27,913,788 shares issued; 26,203,535 and 26,138,944 shares outstanding	28	28
Additional paid-in capital	372,963	372,319
Treasury stock, at cost, 1,774,844 shares	(12,148)	(12,148)
Accumulated other comprehensive loss	(33)	(43)
Accumulated deficit	(188,524)	(171,596)
Total stockholders equity	172,286	188,560
Total liabilities and stockholders equity	\$ 177,342	\$ 194,906

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

Table of Contents**Rubicon Technology, Inc.****Consolidated statements of operations**

	Three months ended		Six months ended	
	June 30,		June 30,	
	2015	2014	2015	2014
	(unaudited)			
	(in thousands, other than			
	share data)			
Revenue	\$ 7,106	\$ 14,469	\$ 16,016	\$ 28,737
Cost of goods sold	12,261	21,743	26,280	43,505
Gross loss	(5,155)	(7,274)	(10,264)	(14,768)
Operating expenses:				
General and administrative	2,188	2,197	4,256	4,585
Sales and marketing	354	332	692	799
Research and development	603	391	1,036	967
Loss (gain) on disposal of assets	22	(15)	22	(15)
Loss from operations	(8,322)	(10,179)	(16,270)	(21,104)
Other income:				
Interest income	21	23	37	44
Interest expense	(24)	(24)	(47)	(47)
Realized (loss) gain on foreign currency translation	(204)	196	(561)	235
Total other (expense) income	(207)	195	(571)	232
Loss before income taxes	(8,529)	(9,984)	(16,841)	(20,872)
Income tax expense	(51)		(87)	(6)
Net loss	\$ (8,580)	\$ (9,984)	\$ (16,928)	\$ (20,878)
Net loss per common share				
Basic	\$ (0.33)	\$ (0.39)	\$ (0.65)	\$ (0.82)
Diluted	\$ (0.33)	\$ (0.39)	\$ (0.65)	\$ (0.82)
Weighted average common shares outstanding used in computing net loss per common share	26,142,261	25,706,797	26,135,768	25,511,972

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

Table of Contents**Rubicon Technology, Inc.****Consolidated statements of comprehensive loss**

	Three months ended		Six months ended	
	June 30,		June 30,	
	2015	2014	2015	2014
	(unaudited)			
	(in thousands)			
Net loss	\$ (8,580)	\$ (9,984)	\$ (16,928)	\$ (20,878)
Other comprehensive income (loss):				
Unrealized gain (loss) on investments, net of tax	4	93	10	(63)
Unrealized gain on currency translation				1
Other comprehensive income (loss)	4	93	10	(62)
Comprehensive loss	\$ (8,576)	\$ (9,891)	\$ (16,918)	\$ (20,940)

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

Table of Contents**Rubicon Technology, Inc.****Consolidated statements of cash flows**

	Six months ended June 30, 2015 2014 (unaudited)	
	(in thousands)	
Cash flows from operating activities		
Net loss	\$ (16,928)	\$ (20,878)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities		
Depreciation and amortization	6,602	6,984
Net loss (gain) on disposal of assets	22	(15)
Stock-based compensation	647	811
Deferred taxes	79	
Changes in operating assets and liabilities:		
Accounts receivable	379	(4,963)
Inventories	124	11,095
Other inventory supplies	875	1,191
Prepaid expenses and other assets	369	(700)
Accounts payable	(1,169)	(127)
Accrued payroll	59	51
Corporate income and franchise taxes	(132)	(61)
Advanced payments	13	(301)
Accrued and other current liabilities	(28)	(30)
Net used in operating activities	(9,088)	(6,943)
Cash flows from investing activities		
Purchases of property and equipment	(342)	(4,624)
Proceeds from disposal of assets		15
Purchases of investments	(1,136)	(29,798)
Proceeds from sale of investments	8,500	10,000
Net cash provided by (used in) investing activities	7,022	(24,407)
Cash flows from financing activities		
Proceeds from issuance of common stock, net of issuance costs		34,957
Proceeds from exercise of options	4	256
Cash used to settle net equity awards	(8)	
Restricted cash	(12)	(32)
Net cash (used in) provided by financing activities	(16)	35,181

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Net effect of currency translation	473	(172)
Net (decrease) increase in cash and cash equivalents	(1,609)	3,659
Cash and cash equivalents, beginning of period	24,353	21,071
Cash and cash equivalents, end of period	\$ 22,744	\$ 24,730

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

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Rubicon Technology, Inc.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2015

1. BASIS OF PRESENTATION

Interim financial data

The accompanying unaudited consolidated 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 GAAP for complete consolidated financial statements and should be read in conjunction with Rubicon Technology, Inc. s (the Company) annual report filed on Form 10-K for the fiscal year ended December 31, 2014. 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. Consolidated operating results for the three and six months periods ended June 30, 2015 are not necessarily indicative of results that may be expected for the year ending December 31, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Rubicon Worldwide LLC and Rubicon Sapphire Technology (Malaysia) SDN BHD. All intercompany transactions and balances have been eliminated in consolidation.

Foreign currency translation and transactions

Rubicon Worldwide LLC s assets and liabilities are translated into U.S. dollars at exchange rates existing at the respective balance sheet dates and capital accounts at historical exchange rates. The results of operations are translated into U.S. dollars at the average exchange rates during the respective period. Translation adjustments resulting from fluctuations in exchange rates for Rubicon Worldwide LLC are recorded as a separate component of accumulated other comprehensive income (loss) within stockholders equity.

The Company has determined that the functional currency of Rubicon Sapphire Technology (Malaysia) SDN BHD is the U.S. dollar. Rubicon Sapphire Technology (Malaysia) SDN BHD s assets and liabilities are translated into U.S. dollars using the remeasurement method. Non-monetary assets are translated at historical exchange rates and monetary assets are translated at exchange rates existing at the respective balance sheet dates. Translation adjustments for Rubicon Sapphire Technology (Malaysia) SDN BHD are included in determining net income (loss) for the period. The results of operations are translated into U.S. dollars at the average exchange rates during the respective period. The Company records these gains and losses in other income (expense).

Foreign currency transaction gains and losses are generated from the effects of exchange rate changes on transactions denominated in a currency other than the functional currency of the Company, which is the U.S. dollar. Gains and losses on foreign currency transactions are generally required to be recognized in the determination of net income (loss) for the period. The Company records these gains and losses in other income (expense).

Investments

The Company invests available cash primarily in investment grade commercial paper, FDIC guaranteed certificates of deposit, common stock, corporate notes and government securities. Investments classified as available-for-sale securities are carried at fair market value with unrealized gains and losses recorded in accumulated other comprehensive income (loss). Investments in trading securities are reported at fair value, with both realized and unrealized gains and losses recorded in other income (expense), in the Consolidated Statement of Operations. Investments in which the Company has the ability and intent, if necessary, to liquidate in order to support its current operations, are classified as short-term.

The Company reviews its available-for-sale securities investments at the end of each quarter for other-than-temporary declines in fair value based on the specific identification method. The Company considers various factors in determining whether an impairment is other-than-temporary, including the severity and duration of the impairment, changes in underlying credit ratings, forecasted recovery, its ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value and the probability that the scheduled cash payments will continue to be made. When the Company concludes that an other-than-temporary impairment has resulted, the difference between the fair value and carrying value is written off and recorded as a charge on the Consolidated Statement of Operations. As of June 30, 2015, no impairment was recorded.

Table of Contents**Accounts receivable**

The majority of the Company's accounts receivable is due from manufacturers serving the light-emitting diode (LED) and optical systems and specialty electronics devices industries. Credit is extended based on an evaluation of the customer's financial condition. Accounts receivable are due based on contract terms and at stated amounts due from customers, net of an allowance for doubtful accounts.

Accounts outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance for doubtful accounts by considering a number of factors, including the length of time a customer's balance is past due, the customer's current ability to pay and the condition of the general economy and industry as a whole. The Company writes off accounts receivable when they are deemed uncollectible, and payments subsequently received on such receivables are recorded as a reduction to bad debt expense. The following table shows the activity of the allowance for doubtful accounts:

	June 30, 2015	December 31, 2014
	(in thousands)	
Beginning balance	\$ 140	\$ 50
Charges to costs and expenses	(72)	105
Accounts charged off, less recoveries	15	(15)
Ending balance	\$ 83	\$ 140

Inventories

Inventories are valued at the lower of cost or market. Raw materials cost is determined using the first-in, first-out method, and work-in-process and finished goods costs are determined on a weighted-average cost basis which 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. At times in 2015 and 2014, the Company has accepted sales orders for core and wafer products at prices lower than cost. Based on these sales prices, the Company recorded for the three and six months ended June 30, 2015, a lower of cost or market adjustment which reduced inventory and increased cost of goods sold by \$815,000 and \$1.1 million, respectively. For the three and six months ended June 30, 2014, the Company accepted orders for small diameter core products at prices lower than cost and recorded an adjustment which reduced inventory and increased costs of goods sold by \$354,000 and \$1.5 million, respectively. Inventories are composed of the following:

	June 30, 2015	December 31, 2014
	(in thousands)	
Raw materials	\$ 11,498	\$ 14,503
Work in progress	8,663	6,357
Finished goods	1,955	1,879

\$ 22,116 \$ 22,739

The Company establishes inventory reserves when conditions exist that suggest inventory may be in excess of anticipated demand or is obsolete based on customer specifications. The Company evaluates the ability to realize the value of its inventory based on a combination of factors, including forecasted sales, estimated current and future market value and changes in customers' product specifications. For the three and six months ended June 30, 2014, the Company determined it had inventory that was excess or obsolete and recorded an adjustment which reduced inventory and increased costs of goods sold by \$363,000. The Company's method of estimating excess and obsolete inventory has remained consistent for all periods presented.

Table of Contents**Property and equipment**

Property and equipment consisted of the following:

	June 30, 2015	December 31, 2014
	(in thousands)	
Land and land improvements	\$ 4,133	\$ 4,133
Buildings	32,461	32,482
Machinery, equipment and tooling	127,530	127,158
Leasehold improvements	7,302	7,640
Furniture and fix		