

Rubicon Technology, Inc.  
Form 10-Q  
November 13, 2017

**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, 2017**

**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)**

<b>Delaware</b> <b>(State or Other Jurisdiction of</b>	<b>36-4419301</b> <b>(I.R.S. Employer</b>
<b>Incorporation or Organization)</b>	<b>Identification No.)</b>
<b>900 East Green Street</b>	<b>60106</b>
<b>Bensenville, Illinois</b> <b>(Address of Principal Executive Offices)</b>	<b>(Zip Code)</b>

**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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 November 6, 2017 the Registrant had 2,732,682 shares of common stock, par value \$0.001 per share, outstanding.

**RUBICON TECHNOLOGY, INC.**

**Quarterly Report on Form 10-Q**

**For the quarterly period ended September 30, 2017**

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

	September 30, 2017 (unaudited)	December 31, 2016
	<b>(in thousands, other than share data)</b>	
Assets		
Cash and cash equivalents	\$ 18,021	\$ 17,672
Restricted cash	173	163
Accounts receivable, net	679	2,585
Inventories	4,092	8,000
Other inventory supplies	1,052	1,486
Prepaid expenses and other current assets	448	1,082
Assets held for sale	15,711	14,761
Total current assets	40,176	45,749
Property and equipment, net	1,307	7,110
Other assets	—	154
Total assets	\$ 41,483	\$ 53,013
Liabilities and stockholders' equity		
Accounts payable	\$ 711	\$ 948
Accrued payroll	201	182
Accrued and other current liabilities	488	602
Corporate income and franchise taxes	505	568
Accrued real estate taxes	214	241
Advance payments	73	23
Total current liabilities	2,192	2,564
Commitments and contingencies		
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, 8,200,000 shares authorized and 2,901,800 and 2,860,367 shares issued; 2,724,316 and 2,682,883 shares outstanding	29	29

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Additional paid-in capital	375,515	374,903
Treasury stock, at cost, 177,484 shares	(12,148 )	(12,148 )
Accumulated other comprehensive loss	(10 )	(30 )
Accumulated deficit	(324,095 )	(312,305 )
Total stockholders' equity	39,291	50,449
Total liabilities and stockholders' equity	\$ 41,483	\$ 53,013

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

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
	(unaudited)			
	(in thousands, other than share data)			
Revenue	\$1,345	\$7,086	\$3,667	\$14,908
Cost of goods sold	1,537	18,732	8,276	36,024
Gross loss	(192 )	(11,646 )	(4,609 )	(21,116 )
Operating expenses:				
General and administrative	812	1,709	3,921	6,171
Sales and marketing	141	395	579	1,147
Research and development	50	803	887	2,034
Loss (gain) on disposal of assets	(46 )	—	1,135	126
Long-lived asset impairment charges	—	10,216	675	10,481
Loss from operations	(1,149 )	(24,769 )	(11,806 )	(41,075 )
Other income (expense):				
Interest income	39	9	73	52
Interest expense	—	(28 )	—	(98 )
Realized (loss) gain on foreign currency translation	8	(229 )	27	237
Total other income (expense)	47	(248 )	100	191
Loss before income taxes	(1,102 )	(25,017 )	(11,706 )	(40,884 )
Income tax (expense) benefit	(7 )	216	(85 )	541
Net loss	\$(1,109 )	\$(24,801 )	\$(11,791 )	\$(40,343 )
Net loss per common share				
Basic	\$(0.41 )	\$(9.40 )	\$(4.37 )	\$(15.30 )
Diluted	\$(0.41 )	\$(9.40 )	\$(4.37 )	\$(15.30 )
Weighted average common shares outstanding used in computing net loss per common share	2,716,994	2,637,452	2,696,008	2,637,452

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

**Rubicon Technology, Inc.**

**Consolidated statements of comprehensive loss**

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>(unaudited)</b>			
	<b>(in thousands)</b>			
Net loss	\$ (1,109)	\$ (24,801)	\$ (11,791)	\$ (40,343)
Other comprehensive income (loss):				
Unrealized gain on investments, net of tax	—	—	12	5
Unrealized gain (loss) on currency translation	—	(2 )	8	2
Other comprehensive income (loss)	—	(2 )	20	7
Comprehensive loss	\$ (1,109)	\$ (24,803)	\$ (11,771)	\$ (40,336)

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



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

	<b>Nine months ended</b>	
	<b>September 30,</b>	
	2017	2016
	(unaudited)	
	(in thousands)	
Cash flows from operating activities		
Net loss	\$(11,791)	\$(40,343)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	1,023	4,919
Net loss on disposal of assets	1,135	126
Long-lived asset impairment charges	675	10,481
Stock-based compensation	786	1,081
Deferred taxes	—	(554 )
Changes in operating assets and liabilities:		
Accounts receivable	1,907	(240 )
Inventories	3,907	11,031
Other inventory supplies	314	638
Prepaid expenses and other assets	789	1,638
Accounts payable	(241 )	(1,045 )
Accrued payroll	16	1,265
Corporate income and franchise taxes	(63 )	(42 )
Advanced payments	50	457
Accrued and other current liabilities	(140 )	(891 )
Net cash used in operating activities	(1,633 )	(11,479)
Cash flows from investing activities		
Purchases of property and equipment	—	(595 )
Proceeds from disposal of assets	2,144	190
Purchases of investments	(24 )	(24 )
Proceeds from sale of investments	37	8,924
Net cash provided by investing activities	2,157	8,495
Cash flows from financing activities		
Net change in short-term borrowings	—	(1,500 )
Taxes paid related to net share settlement of equity awards	(173 )	(1 )
Restricted cash	(11 )	(6 )
Net cash used in financing activities	(184 )	(1,507 )
Net effect of currency translation	9	(355 )
Net increase (decrease) in cash and cash equivalents	349	(4,846 )
Cash and cash equivalents, beginning of period	17,672	21,216

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Cash and cash equivalents, end of period	\$18,021	\$16,370
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The accompanying notes are an integral part of these consolidated statements.

**Rubicon Technology, Inc.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2017**

**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, 2016. 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 nine months periods ended September 30, 2017 are not necessarily indicative of results that may be expected for the year ending December 31, 2017.

**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 Technology Worldwide LLC, Rubicon Sapphire Technology (Malaysia) SDN BHD, and Rubicon Technology Hong Kong Limited. All intercompany transactions and balances have been eliminated in consolidation.

**Foreign currency translation and transactions**

Rubicon Technology Worldwide LLC and Rubicon Technology Hong Kong Limited'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 Technology Worldwide LLC and Rubicon Technology Hong Kong Limited 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 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).

### **Going Concern**

The Company evaluates whether it is probable that known conditions or events, considered in the aggregate, would raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued. If such conditions or events are identified, the Company prepares mitigation plans to alleviate the doubt or a statement of the substantial doubt about the Company's ability to continue as a going concern. The Company's negative financial trends of recurring operating losses and negative cash flow from operating activities are considered conditions or events that raise substantial doubt about the Company's ability to continue as a going concern. The Company has plans in place that are considered as probable to effectively mitigate the adverse conditions. Activities around the Company's restructuring and mitigation plans are more fully disclosed below under assets held for sale and long-lived assets.

### **Investments**

When the Company invests available cash, it primarily invests it in investment grade commercial paper, corporate notes, FDIC guaranteed certificates of deposit, common stock 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 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.

### Accounts receivable

The majority of the Company's accounts receivable is due from manufacturers serving the 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 by considering a number of factors, including the length of time 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:

	September 30, 2017	December 31, 2016	
	(in thousands)		
Beginning balance	\$31	\$ 389	
Net allowance adjustments	(20 )	(235 )	
Accounts charged off, less recoveries	(4 )	(123 )	
Ending balance	\$7	\$ 31	

### 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 standard 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.

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. The Company's method of estimating excess and obsolete inventory has remained consistent for all periods presented.

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