

Rubicon Technology, Inc.  
Form 10-Q  
November 09, 2015  
Table of Contents

**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, 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

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.

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Large accelerated filer  Accelerated filer  x  
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  x

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

Table of Contents

**RUBICON TECHNOLOGY, INC.**

**Quarterly Report on Form 10-Q**

**For the quarterly period ended September 30, 2015**

**TABLE OF CONTENTS**

	<b>Page</b>
<b>Part I <u>Financial Information</u></b>	<b>3</b>
Item 1. <u>Consolidated Financial Statements (unaudited)</u>	3
<u>Consolidated Balance Sheets (unaudited) September 30, 2015 and December 31, 2014</u>	3
<u>Consolidated Statements of Operations (unaudited) Three and nine months ended September 30, 2015 and 2014</u>	4
<u>Consolidated Statements of Comprehensive Loss (unaudited) Three and nine months ended September 30, 2015 and 2014</u>	5
<u>Consolidated Statements of Cash Flows (unaudited) Nine months ended September 30, 2015 and 2014</u>	6
<u>Notes to Consolidated Financial Statements (unaudited)</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	30
Item 4. <u>Controls and Procedures</u>	30
<b>Part II <u>Other Information</u></b>	<b>30</b>
Item 1. <u>Legal Proceedings</u>	30
Item 1A. <u>Risk Factors</u>	30
Item 6. <u>Exhibits</u>	31
<u>Signatures</u>	32
<u>Exhibit Index</u>	33

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

	<b>September 30, 2015</b>	<b>December 31, 2014</b>
	<b>(unaudited)</b>	
	<b>(in thousands, other than share data)</b>	
<b>Assets</b>		
Cash and cash equivalents	\$ 21,428	\$ 24,353
Restricted cash	167	183
Short-term investments	12,676	20,562
Accounts receivable, net	3,276	8,323
Inventories	23,112	22,739
Other inventory supplies	6,660	8,208
Prepaid expenses and other current assets	1,063	1,035
<b>Total current assets</b>	<b>68,382</b>	<b>85,403</b>
Property and equipment, net	59,079	107,676
Other assets	1,492	1,827
<b>Total assets</b>	<b>\$ 128,953</b>	<b>\$ 194,906</b>
<b>Liabilities and stockholders equity</b>		
Accounts payable	\$ 2,563	\$ 3,754
Accrued payroll	192	514
Accrued and other current liabilities	1,381	925
Corporate income and franchise taxes	200	270
Accrued real estate taxes	183	280
Advance payments	37	10
<b>Total current liabilities</b>	<b>4,556</b>	<b>5,753</b>
Deferred tax liability	9	593
<b>Total liabilities</b>	<b>4,565</b>	<b>6,346</b>
<b>Commitments and contingencies</b>		
<b>Stockholders equity</b>		

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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	373,255	372,319
Treasury stock, at cost, 1,774,844 shares	(12,148)	(12,148)
Accumulated other comprehensive loss	(27)	(43)
Accumulated deficit	(236,720)	(171,596)
<b>Total stockholders' equity</b>	<b>124,388</b>	<b>188,560</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 128,953</b>	<b>\$ 194,906</b>

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

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

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>(unaudited)</b>			
	<b>(in thousands, other than</b>			
	<b>share data)</b>			
Revenue	\$ 5,346	\$ 8,036	\$ 21,362	\$ 36,773
Cost of goods sold	9,237	17,496	35,517	61,001
Gross loss	(3,891)	(9,460)	(14,155)	(24,228)
Operating expenses:				
General and administrative	3,037	2,949	7,293	7,534
Sales and marketing	287	337	979	1,136
Research and development	558	446	1,594	1,413
Long-lived asset impairment charges	39,597		39,597	
Loss on disposal of assets		680	22	665
Loss from operations	(47,370)	(13,872)	(63,640)	(34,976)
Other income:				
Interest income	15	22	52	66
Interest expense	(29)	(24)	(76)	(71)
Realized (loss) gain on foreign currency translation	(1,475)	(137)	(2,036)	98
Total other (expense) income	(1,489)	(139)	(2,060)	93
Loss before income taxes	(48,859)	(14,011)	(65,700)	(34,883)
Income tax benefit	663	298	576	292
Net loss	\$ (48,196)	\$ (13,713)	\$ (65,124)	\$ (34,591)
Net loss per common share				
Basic	\$ (1.84)	\$ (0.53)	\$ (2.49)	\$ (1.35)
Diluted	\$ (1.84)	\$ (0.53)	\$ (2.49)	\$ (1.35)
Weighted average common shares outstanding used in computing net loss per common share	26,160,308	26,110,651	26,143,948	25,711,532

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





**Table of Contents****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>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>(unaudited)</b>			
	<b>(in thousands)</b>			
Net loss	\$ (48,196)	\$ (13,713)	\$ (65,124)	\$ (34,591)
Other comprehensive income (loss):				
Unrealized gain on investments, net of tax	5	602	15	540
Unrealized gain (loss) on currency translation	2	(2)	1	(2)
Other comprehensive income	7	600	16	538
Comprehensive loss	\$ (48,189)	\$ (13,113)	\$ (65,108)	\$ (34,053)

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

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

	<b>Nine months ended September 30, 2015      2014 (unaudited) (in thousands)</b>	
<b>Cash flows from operating activities</b>		
Net loss	\$ (65,124)	\$ (34,591)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	9,780	10,321
Long-lived asset impairment charges	39,597	
Net loss on disposal of assets	22	665
Stock-based compensation	939	1,081
Deferred taxes	(584)	(363)
Changes in operating assets and liabilities:		
Accounts receivable	5,047	(2,251)
Inventories	(2,177)	11,330
Other inventory supplies	1,146	3,404
Prepaid expenses and other assets	304	(483)
Accounts payable	(910)	(401)
Accrued payroll	(296)	256
Corporate income and franchise taxes	(70)	4
Advanced payments	27	(402)
Accrued and other current liabilities	394	(60)
Net cash used in operating activities	(11,905)	(11,490)
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(801)	(6,127)
Proceeds from disposal of assets		15
Purchases of investments	(3,099)	(28,359)
Proceeds from sale of investments	11,000	15,000
Net cash provided by (used in) investing activities	7,100	(19,471)
<b>Cash flows from financing activities</b>		
Proceeds from issuance of common stock, net of issuance costs		34,957
Proceeds from exercise of options	4	212
Cash used to settle net equity awards	16	
Restricted cash	(8)	(30)
Net cash provided by financing activities	12	35,139

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Net effect of currency translation	1,868	(105)
Net (decrease) increase in cash and cash equivalents	(2,925)	4,073
Cash and cash equivalents, beginning of period	24,353	21,071
Cash and cash equivalents, end of period	\$ 21,428	\$ 25,144

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

**Table of Contents**

**Rubicon Technology, Inc.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**September 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 nine months periods ended September 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 September 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 such write offs, net of payments received, are recorded as a reduction to bad debt expense. The following table shows the activity of the allowance for doubtful accounts:

	<b>September 30,</b>	<b>December 31,</b>
	<b>2015</b>	<b>2014</b>
	<b>(in thousands)</b>	
Beginning balance	\$ 140	\$ 50
Charges to costs and expenses	155	105
Accounts charged off, less recoveries	14	(15)
Ending balance	\$ 309	\$ 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 nine months ended September 30, 2015, a lower of cost or market adjustment which reduced inventory and increased cost of goods sold by \$1.1 million. For the three and nine months ended September 30, 2014, the Company recorded a lower of cost or market adjustment which reduced inventory and increased costs of goods sold by \$276,000 and \$1.8 million, respectively. Inventories are composed of the following:

	<b>September 30,</b>	<b>December 31,</b>
	<b>2015</b>	<b>2014</b>
	<b>(in thousands)</b>	
Raw materials	\$ 10,210	\$ 14,503
Work in progress	10,495	6,357
Finished goods	2,407	1,879
	\$ 23,112	\$ 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 nine months ended September 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 \$1.8 million and \$2.2 million, respectively. 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:

	September 30, 2015	December 31, 2014
	(in thousands)	
Land and land improvements	\$ 4,133	\$ 4,133
Buildings	26,097	32,482
Machinery, equipment and tooling	50,310	127,158
Leasehold improvements	7,141	7,640
Furniture and fixtures	901	961
Information systems	1,087	1,140
Construction in progress	1,201	3,734
Total cost	90,870	177,248
Accumulated depreciation and amortization	(31,791)	(69,572)
Property and equipment, net	\$ 59,079	\$ 107,676

**Revenue recognition**

Revenue recognized includes product sales and billings for costs and fees for government contracts.

**Product Sales**

The Company recognizes revenue from product sales when earned. 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 payment terms. Customers are subject to a credit review process that evaluates each



customer's financial position and its ability to pay. Collectability is determined by considering the length of time the customer has been in business and its history of collections. If it is determined that collection is not probable, no product is shipped and no revenue is recognized unless cash is received in advance.

Government Contracts

The Company recognizes research and development revenue in the period during which the related costs are incurred over the contractually defined period. In July 2012, the Company signed a contract with the Air Force Research Laboratory to produce large-area sapphire windows on a cost plus fixed fee basis. The Company records research and development revenue on a gross basis as costs are incurred, plus a portion of the fixed fee. For the three and nine months ended September 30, 2015, \$270,000 and \$556,000 of revenue was recorded, respectively, and for the three and nine months ended September 30, 2014, \$156,000 and \$553,000 of revenue was recorded, respectively. The total value of the contract is \$4.7 million, of which \$3.9 million has been recorded through September 30, 2015.

The Company does not provide maintenance or other services and it does not have sales that involve multiple elements or deliverables.

**Net income per common share**

Basic net income per common share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted net income per common share is computed by dividing net income 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 any outstanding stock options and warrants based on the treasury stock method.

**Table of Contents**

Diluted net loss per share is the same as basic net loss per share for the three and nine months ended September 30, 2015 and 2014 because the effects of potentially dilutive securities are anti-dilutive.

At September 30, 2015 and 2014, the Company had the following anti-dilutive securities outstanding which were excluded from the calculation of diluted net loss per share:

	<b>September 30, 2015</b>	<b>September 30, 2014</b>
Warrants		117,522
Stock options	1,130	142,104
<b>Total</b>	<b>1,130</b>	<b>259,626</b>

**Other comprehensive loss**

Comprehensive loss is defined as the change in equity of a business enterprise from transactions and other events from non-owner sources. Comprehensive loss includes net earnings (loss) and other non-owner changes in equity that bypass the statement of operations and are reported in a separate component of equity. For the nine months ended September 30, 2015 and for the twelve months ended December 31, 2014, other comprehensive loss includes the unrealized loss on investments and foreign currency translation adjustments.

The following table summarizes the components of comprehensive loss:

	<b>September 30, 2015</b>	<b>December 31, 2014</b>
	<b>(in thousands)</b>	
Reclassification of unrealized gain included in net loss	\$	\$ 388
Unrealized loss on investments	(14)	(415)
Unrealized loss on currency translation	(13)	(16)
Ending Balance	\$ (27)	\$ (43)

**Recent accounting pronouncement**

In May 2014, the FASB issued Accounting Standards Update No. 2015-14 ( ASU 2014-09 ) *Revenue from Contracts with Customers* which supersedes most of the current revenue recognition requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The guidance permits the use of either a retrospective or cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 *Revenue from Contracts with Customers (Topic 606)*:

*Deferral of the Effective Date* which defers the effect date of ASU No. 2014-09, by one year to fiscal years and interim periods within those fiscal years, beginning after December 15, 2017 and permits early adoption on a limited basis. The adoption of ASU 2014-09 is not expected to have a material impact on the Company's consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, *Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* related to stock compensation. The new standard requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 and can be applied either prospectively or retrospectively to all awards outstanding as of the beginning of the earliest annual period presented as an adjustment to opening retained earnings. Early adoption is permitted. The Company is evaluating the impact, if any, of adopting ASU 2014-12 on its financial statements.

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**Table of Contents**

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The standard requires management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management must evaluate whether it is probable that known conditions or events, considered in the aggregate, would raise substantial doubt about the entity'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 standard requires management's mitigation plans to alleviate the doubt or a statement of the substantial doubt about the entity's ability to continue as a going concern to be disclosed in the financial statements. The standard is effective for fiscal years and interim periods beginning after December 15, 2016, with early adoption permitted. The Company is evaluating the impact, if any, of adopting ASU 2014-15 on its financial statements.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs* which requires entities to present debt issuance costs related to a debt liability as a direct deduction from the carrying amount of that debt liability on the balance sheet. ASU 2015-03 does not contain guidance for debt issuance costs related to line-of-credit arrangements. Consequently, in August 2015 the FASB issued ASU 2015-15 *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements* to add paragraphs indicating that the Securities Exchange Commission would not object to an entity deferring and presenting debt issuance costs related to line-of-credit arrangements as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The standard is effective for fiscal years and interim periods beginning after December 15, 2015, with early adoption permitted. The Company is evaluating the impact, if any, of adopting ASU 2015-03 on its financial statements.

**3. ASSET IMPAIRMENT CHARGES**

When circumstances, such as adverse market conditions, indicate that the carrying value of a long-lived asset may be impaired, the Company performs an analysis to review the recoverability of the asset's carrying value. The Company makes estimates of the undiscounted cash flows (excluding interest charges) from the expected future operations of the asset. These estimates consider factors such as expected future operating income, operating trends and prospects, as well as the effects of demand, competition and other factors. If the analysis indicates that the carrying value is not recoverable from future cash flows, an impairment loss is recognized to the extent that the carrying value exceeds the estimated fair value. Any impairment losses are recorded as operating expenses, which reduce net income. In response to the Company's current period operating losses combined with its history of continuing operating losses, the Company evaluated the recoverability of certain property and equipment. In the third quarter of 2015, the overall outlook for the sapphire market continued to be volatile as industry analysts reported significant worldwide over capacity and pricing of sapphire products reached historical lows. Based upon the Company's assessment using its most recent projections, impairment to these assets was indicated as of September 30, 2015, as the recoverable amount of undiscounted cash flows did not exceed the carrying amount of these assets. The Company recorded an asset impairment charge on machinery, equipment and facilities of \$39.6 million. The Company evaluated its asset portfolio and has written down the assets using a cost and market approach to determine the current fair market value.

**4. SEGMENT INFORMATION**

The Company evaluates operations as one reportable segment, 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:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>(in thousands)</b>		<b>(in thousands)</b>	
China	\$ 320	\$ 2,851	\$ 5,483	\$ 16,721
Korea	1,267	794	3,253	4,843
Taiwan	305	1,747	3,218	7,780
Germany	1,629	199	3,270	470
United States	1,332	1,258	3,853	4,218
Israel	104	296	718	982
Australia	300	471	715	616
Japan	84	191	327	616
Other	5	229	525	527
<b>Total Revenue</b>	<b>\$ 5,346</b>	<b>\$ 8,036</b>	<b>\$ 21,362</b>	<b>\$ 36,773</b>

**Table of Contents**

The following table summarizes revenue by product type:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	(in thousands)		(in thousands)	
Core	\$ 1,824	\$ 4,183	\$ 10,962	\$ 25,111
Wafer	2,136	2,085	5,769	6,093
Optical	1,116	1,612	4,075	5,016
Research & Development	270	156	556	553
<b>Total Revenue</b>	<b>\$ 5,346</b>	<b>\$ 8,036</b>	<b>\$ 21,362</b>	<b>\$ 36,773</b>

The following table summarizes assets by geographic region:

	September 30, December 31,	
	2015	2014
	(in thousands)	
United States	\$ 98,211	\$ 156,105
Malaysia	30,705	38,765
Other	37	36
<b>Total Assets</b>	<b>\$ 128,953</b>	<b>\$ 194,906</b>

**5. INVESTMENTS**

The Company invests available cash primarily in investment grade commercial paper, FDIC guaranteed certificates of deposit, common stock, corporate notes and government securities. The Company's short-term investments balance of \$12.7 million as of September 30, 2015, is comprised of FDIC guaranteed certificates of deposit of \$2.9 million and corporate notes and bonds of \$9.8 million. The Company's investments are classified as available-for-sale securities and are carried at fair market value with unrealized gains and losses recorded in accumulated other comprehensive income (loss).

The following table presents the amortized cost and gross unrealized gains and losses on all securities at September 30, 2015:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Short-term Investments:</b>				
FDIC Guaranteed certificates of deposit	\$ 2,880	\$ 2	\$	\$ 2,882

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Corporate Notes and Bonds	9,797		3	9,794
Total short-term investments	\$ 12,677	\$ 2	\$ 3	\$ 12,676

The following table presents the amortized cost, and gross unrealized gains and losses on all securities at December 31, 2014:

	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
	<b>(in thousands)</b>			
<b>Short-term Investments:</b>				
FDIC Guaranteed certificates of deposit	\$ 2,120	\$ 2	\$ 2	\$ 2,118
Corporate Notes/Bonds	18,458		14	18,444
Total short-term investments	\$ 20,578	\$	\$ 16	\$ 20,562

**Table of Contents**

The Company values its investments at fair value, defined 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 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard below 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 Company's fixed income available-for-sale securities consist of high quality, investment grade commercial paper, corporate notes and government securities. The Company values these securities based on pricing from pricing vendors, who may use quoted prices in active markets for identical assets (Level 1 inputs) or inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs) in determining fair value. The valuation techniques used to measure the fair value of the Company's financial instruments having Level 2 inputs were derived from non-binding market consensus prices that are corroborated by observable market data, quoted market prices for similar instruments, or pricing models, such as discounted cash flow techniques.

The following table summarizes the Company's financial assets measured at fair value on a recurring basis as of September 30, 2015:

	Level 1	Level 2	Level 3	Total
	(in thousands)			
<b>Cash Equivalents:</b>				
Money market funds	\$ 18,912	\$	\$	\$ 18,912
<b>Investments:</b>				
Available-for-sales securities - current				
FDIC Guaranteed certificates of deposit		2,882		2,882
Corporate notes/bonds		9,794		9,794
<b>Total</b>	<b>\$ 18,912</b>	<b>\$ 12,676</b>	<b>\$</b>	<b>\$ 31,588</b>

The following table summarizes the Company's financial assets measured at fair value on a recurring basis as of December 31, 2014:



	Level 1	Level 2	Level 3	Total
	(in thousands)			
<b>Cash Equivalents:</b>				
Money market funds	\$ 21,963	\$	\$	\$ 21,963
<b>Investments:</b>				
Available-for-sales securities current:				
FDIC Guaranteed certificates of deposit		2,118		2,118
Corporate notes/bonds		18,444		18,444
<b>Total</b>	<b>\$ 21,963</b>	<b>\$ 20,562</b>	<b>\$</b>	<b>\$ 42,525</b>

In addition to the debt securities noted above, the Company had approximately \$2.5 million and \$2.4 million of time deposits included in cash and cash equivalents as of September 30, 2015 and December 31, 2014, respectively.

## 6. SIGNIFICANT CUSTOMERS

For the three months ended September 30, 2015, the Company had two customers individually that accounted for approximately 30% and 13% of revenue and for the three months ended September 30, 2014, the Company had three customers individually that accounted for approximately 22%, 18% and 13% of revenue. For the nine months ended September 30, 2015, the Company had two customers individually that accounted for approximately 18% and 15% of revenue. For the nine months ended September 30, 2014, the Company had two customers individually that accounted for approximately 23% and 12% of revenue. No other customers accounted for more than 10% of revenue for these reported periods in 2015 and 2014.

Customers individually representing more than 10% of trade receivables accounted for approximately 51% and 50% of accounts receivable as of September 30, 2015 and December 31, 2014, respectively. 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**

**7. STOCKHOLDERS EQUITY**

**Common Stock**

As of September 30, 2015, the Company had reserved 2,551,702 shares of common stock for issuance upon the exercise of outstanding common stock options and the vesting of restricted stock units ( RSUs ). Also, 1,516,100 shares of the Company s common stock were reserved for future grants of stock options (or other similar equity instruments) under the Company s 2007 Stock Incentive Plan (the 2007 Plan ) as of September 30, 2015. In addition, 267,826 shares of the Company s common stock were reserved for future exercise of outstanding warrants as of September 30, 2015.

On January 13, 2014, the Company completed a public offering of common stock in which a total of 3,047,500 shares were sold including 397,500 shares pursuant to the full exercise of the underwriter s over-allotment option, at a price of \$10.65 per share. The Company raised a total of \$32.5 million in gross proceeds from the offering, or approximately \$30.3 million in net proceeds after deducting the underwriting discount and expenses of \$2.3 million.

On March 20, 2014, certain stockholders completed a public offering of 2,875,000 shares of common stock and the Company sold 375,000 shares pursuant to the full exercise of the underwriter s over-allotment option each at a price of \$13.00 per share. The Company raised a total of \$4.9 million in gross proceeds from the offering, or approximately \$4.4 million in net proceeds after deducting the underwriting discount and expenses of \$319,000 and estimated costs of \$148,000.

**Warrants**

For the three and nine months ended September 30, 2015, no common stock warrants were exercised. At September 30, 2015 and December 31, 2014, there were 267,826 common stock warrants outstanding.

**8. STOCK INCENTIVE PLANS**

The Company sponsored a stock option plan, the 2001 Plan, which allowed for the granting of incentive and nonqualified stock options for the purchase of common stock. The maximum number of shares that may be awarded or sold under the 2001 Plan was 1,449,667 shares. 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. At the discretion of management and with the approval of the Board of Directors, the Company granted options under the 2001 Plan. Management and the Board of Directors determined vesting periods and expiration dates at the time of the grant. On August 2, 2011, the plan expired.

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, RSUs, performance awards and bonus shares. The Board of Directors has appointed the Compensation Committee to administer the plan. The Compensation Committee determines the type of award to be granted, the number of shares covered by the award, and the time when the award vests and may be exercised.

The Company uses the Black-Scholes option pricing model to value stock options issued after January 1, 2006. The Company uses a three year historical stock price average to determine its volatility assumptions. The assumed risk-free rates were based on U.S. 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 based on past history of forfeited options. The compensation expense is allocated using the straight-line method. For the three and nine months ended September 30,

2015, the Company recorded \$173,000 and \$558,000 respectively, of stock option compensation expense. For the three and nine months ended September 30, 2014, the Company recorded \$147,000 and \$643,000 respectively, of stock compensation expense. As of September 30, 2015, the Company has \$1.4 million of total unrecognized compensation expense related to non-vested awards granted under the Company's stock-based plans that it expects to recognize over a weighted-average period of 2.7 years. The Company accounts for options issued prior to January 1, 2006 under the intrinsic value method.

**Table of Contents**

The following table summarizes the activity of the stock incentive and equity plans as of September 30, 2015 and changes during the nine months then ended:

	Shares available for grant	Number of options outstanding	Weighted- average option exercise price	Number of restricted stock and board shares issued	Number of restricted stock units outstanding
At January 1, 2015	1,772,529	2,238,286	\$ 10.31	140,653	134,731
Granted	(563,839)	458,600	1.85	60,802	44,437
Exercised		(5,692)	0.78		
Cancelled/forfeited	307,410	(272,208)	11.02		(46,452)
At September 30, 2015	1,516,100	2,418,986	\$ 8.64	201,455	132,716

The Company's aggregate intrinsic value is calculated as the difference between the exercise price of the underlying stock options and the fair value of the Company's common stock. Based on the fair market value of the common stock at September 30, 2015 and 2014, there was no intrinsic value of the options outstanding and exercisable. The weighted average fair value per share of options granted for the nine months ended September 30, 2015 was \$1.85 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 5.5 years, risk-free interest rates of 1.41 - 1.70%, expected volatility of 65% and no dividend yield. The Company used an expected forfeiture rate of 18.56%.

A summary of the Company's non-vested options during the nine month period ended September 30, 2015 is presented below:

	Options	Weighted- average exercise price
Non-vested at January 1, 2015	628,733	\$ 5.93
Granted	458,600	1.85
Vested	(109,460)	6.73
Forfeited	(120,219)	6.53
Non-vested at September 30, 2015	857,654	\$ 3.56

For the three and nine months ended September 30, 2015 the Company recorded \$45,000 and \$161,000, respectively, of RSU expense. As of September 30, 2015, there was \$368,000 of unrecognized compensation expense related to the non-vested RSUs. This expense is expected to be recognized over a weighted-average period of 2.1 years.

A summary of the Company's restricted stock units is as follows:

	<b>RSUs outstanding</b>	<b>Weighted average price at time of grant</b>	<b>Aggregate intrinsic value</b>
Non-vested restricted stock units as of January 1, 2015	134,731	\$ 5.41	
Granted	44,437	4.36	
Cancelled	(46,452)	5.34	
Non-vested at September 30, 2015	132,716	\$ 5.08	\$ 136,697

For the three and nine months ended September 30, 2015, the Company recorded \$74,000 and \$220,000, respectively, of stock compensation expense related to restricted stock. For the three and nine months ended September 30, 2014, the Company recorded \$134,000 and \$215,000, respectively, of stock compensation expense related to restricted stock.

An analysis of restricted stock issued is as follows:

Non-vested restricted stock as of January 1, 2015	12,207
Granted	60,802
Vested	(37,382)
Non-vested restricted stock as of September 30, 2015	35,627

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**Table of Contents****9. COMMITMENTS AND CONTINGENCIES****Purchase Commitments**

The Company has entered into agreements for electricity and to purchase equipment and components to construct furnaces. These agreements will result in the Company purchasing electricity, equipment or components for a total cost of approximately \$1.9 million with deliveries occurring through December 2017.

**10. INCOME TAXES**

The Company is subject to income taxes in the U.S. and Malaysia. On a quarterly basis, the Company assesses the recoverability of deferred tax assets and the need for a valuation allowance. Such evaluations involve the application of significant judgment and multiple factors, both positive and negative, are considered. For the period ended September 30, 2015, a valuation allowance on the U.S. deferred tax assets has been included in the 2015 forecasted effective tax rate. The Company is in a U.S. cumulative loss position for the past three years, which is considered significant negative evidence that is difficult to overcome on a more likely than not standard through objectively verifiable data. Under the accounting standards objective verifiable evidence is given greater weight than subjective evidence such as the Company's projections for future growth. Based on an evaluation in accordance with the accounting standards, as of December 31, 2014, a valuation allowance has been recorded against the net U.S. deferred tax assets in order to measure only the portion of the deferred tax assets that are more likely than not to be realized based on the weight of all the available evidence. At September 30, 2015, the Company continues to be in a U.S. three year cumulative loss position; therefore, until an appropriate level of profitability is attained, the Company expects to maintain a full valuation allowance on its U.S. net deferred tax assets. Any U.S. tax benefits or tax expense recorded on the Company's Consolidated Statement of Operations will be offset with a corresponding valuation allowance until such time that the Company changes its determination related to the realization of deferred tax assets. In the event that the Company changes its determination as to the amount of deferred tax assets that can be realized, the Company will adjust its valuation allowance with a corresponding impact to the provision for income taxes in the period in which such determination is made.

During the three months ended September 30, 2015, the Company determined that based on current market conditions and future projected cash flows that it was not more likely than not to meet the capital investment requirements for the second five year Malaysia tax holiday. The Company recorded for the three and nine months ended September 30, 2015, \$18,000 of deferred tax benefit. This amount creates a deferred tax asset in Malaysia of \$14,000 as of September 30, 2015 for timing differences expected to reverse outside of the first five year tax holiday.

The tax provision for the three and nine months ended September 30, 2015 is based on two separate estimated effective tax rates, one for the U.S. and one for Malaysia. The Company recorded for the three and nine months ended September 30, 2015 a tax benefit of \$663,000 and \$576,000, respectively for a worldwide effective tax rate of 1.4% and 0.9%, respectively. For the three and nine months ended September 30, 2015 the difference between the Company's effective tax rate and the U.S. federal 35% statutory rate and state 6.2% (net of federal benefit) statutory rate was primarily related to a U.S. valuation allowance, the long-lived asset impairment, Malaysia tax rate change and profits recorded in the Malaysia operation for which the Company has a tax holiday in effect until the end of December 31, 2015.

**11. CREDIT FACILITY**

On January 2, 2013, the Company entered into a three-year term agreement with a bank to provide the Company with a senior secured credit facility of up to \$25.0 million. The agreement provides for the Company to borrow up to 80%

of the value of eligible accounts receivable and up to 35% of the value of domestically held raw material and finished goods inventory. Advances against inventory are limited to the lesser of 40% of the aggregate outstanding principal on the revolving line of credit and \$10.0 million. The Company has the option to borrow at an interest rate of LIBOR plus 2.75% or the Wall Street Journal prime rate plus 0.50%. If the Company maintains liquidity of \$20.0 million or greater with the lending institution, then the borrowing interest rate options are LIBOR plus 2.25% or the Wall Street Journal prime rate. There is an unused revolving line facility fee of 0.375% per annum. The facility is secured by a first priority interest in substantially all of the Company's personal property, excluding intellectual property. The Company is required to maintain an adjusted quick ratio of 1.40 to 1.00, maintain operating and other deposit accounts with the bank or bank's affiliates of 25% of the Company's total worldwide cash, securities and investments, and the Company can pay dividends or repurchase capital stock only with the bank's consent during the three year term. In August 2015, the Company entered into an amendment agreement with the bank to extend the senior secured facility through January 2, 2018. Under the new agreement, advances against inventory are limited to the lesser of 45% of the aggregate outstanding principal on the revolving line of credit and \$10.0 million and the rate on facility fee on the unused revolving line was adjusted to 0.50% annum. All other terms and conditions remain the same. For the nine months ended September 30, 2015, the Company did not draw on this facility. For the three and nine months ended September 30, 2015 the Company recorded \$29,000 and \$76,000, respectively, of interest expense on the unused portion of the facility. For the three and nine months ended September 30, 2014, the Company recorded \$24,000 and \$71,000, respectively, of interest expense charged on the unused portion of the facility.

**Table of Contents**

**12. SUBSEQUENT EVENT**

On April 30, 2015, Firerock Global Opportunity Fund LP filed a complaint in the Northern District of Illinois asserting federal securities claims against the Company, certain officers, its directors and the underwriters in the Company's March 2014 stock offering (the Complaint). The Complaint seeks as a remedy either money damages or rescission of the March offering, plus attorneys' fees. On October 29, 2015, after mediation and subsequent discussions, the parties reached a settlement agreement in principle, which has not been finalized or executed. The settlement agreement is expected to include a release of all defendants, and dismissal of the case against all defendants with prejudice. The Company recorded for the three and nine months ended September 30, 2015, a general and administrative expense of \$900,000 which is the amount the Company expects to contribute to the settlement. The Company anticipates that the remaining costs of the settlement will be covered by insurance. The proposed settlement remains subject to approval by the United States District Court for the Northern District of Illinois.



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**Table of Contents**

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

All statements, other than statements of historical facts, included in this Quarterly Report on Form 10-Q, including statements 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 within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. 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, forecast, prospects, goals, potential, likely, and future-tense or conditional constructions such as will, may, could, should, 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 for the year ended December 31, 2014 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, 2014 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. and our consolidated subsidiaries.

**OVERVIEW**

We are a vertically integrated, advanced electronic materials provider specializing in monocrystalline sapphire for applications in light-emitting diodes ( LEDs ), optical systems and specialty electronic devices. Sapphire is also used as an exterior component in mobile devices, specifically camera lens covers, dual flashes and home buttons on certain newer model smartphones and as the crystal covering the faces of certain smart watches. Sapphire was adopted for use on the home button on certain smartphones because of the scratch resistance and increased touch capacitance it offers, which are important characteristics to ensure the effectiveness of the fingerprint recognition security built into the

device. We believe that the use of fingerprint recognition security and other biometrics could become more prevalent in the future, which could become a strong growth driver for sapphire. In addition, some consumer electronics original equipment manufacturers ( OEMs ) are using full sapphire faceplates for smartphones, in limited volume. If sapphire smartphone faceplates were widely adopted, this would become the world's largest application for sapphire. We apply our proprietary crystal growth technology to produce high-quality sapphire products efficiently to supply both high-volume and niche end-markets, and we work closely with our customers to meet their quality and delivery needs.

Our largest product lines are:

sapphire cores, two to six inches in diameter, which our customers further process into wafers for use in LED applications and into components such as lens covers for mobile devices;

four and six-inch sapphire wafers that are used as substrates for the manufacture of LED chips and to a lesser extent for other semiconductor applications such as Silicon-on-Sapphire ( SoS ) Radio Frequency Integrated Circuits ( RFICs );

four, six, and eight-inch patterned sapphire substrates ( PSS ) which are polished wafers that undergo additional processes of photolithography and dry plasma etching to produce a patterned surface which enhances LED light extraction efficiency ( LEE ); and

optical sapphire components in various shapes and sizes, including round and rectangular windows and blanks, domes, tubes and rods. These optical sapphire products are used in equipment for a wide variety of end markets, including defense and aerospace, medical devices, oil and gas drilling, semiconductor manufacturing and other markets.

## Table of Contents

The adoption of sapphire in mobile devices continued to expand with the introduction of new products such as the Apple watch, which has sapphire content, as do at least two other smart watches manufactured by others already in the market. In addition, Kyocera has introduced a new smartphone with a sapphire faceplate and a Chinese smartphone manufacturer has announced plans to do the same. However, the industry expectation was that at least one version of the iPhone 6 introduced in the third quarter of 2014 would have a sapphire faceplate. That did not happen and the subsequent bankruptcy filing by GT Advanced Technologies Inc. ( GTAT ) has raised considerable speculation on how the mobile device segment of the sapphire market will continue to evolve. It is difficult to determine the future impact of the GTAT bankruptcy on sapphire supply and demand as it is unknown what will be the disposition of their furnaces and sapphire inventory. While we do not know whether Apple has changed its overall strategy around sapphire, Apple and other mobile device manufacturers continue to expand the use of sapphire in more of their products. We expect this trend to continue, and we believe this segment of the market has the potential to become the largest consumer of sapphire in a relatively short period of time. However, largely because of the potential for expanded use of sapphire in mobile devices, significant sapphire capacity has been added in the industry resulting in more sapphire capacity than is needed for the current applications. We have participated in the mobile device market and plan to continue to participate in that market.

Currently, the LED market remains the largest consumer of sapphire. For the LED market, we currently sell two to six-inch material in core form and four, six and eight-inch material in polished and PSS wafer form. Eight-inch wafers are sold primarily for customers' research and development efforts at this time. We have the ability to produce cores and wafers of up to twelve inches in diameter to support production of chips for next-generation LED and other electronic applications. Larger sapphire also has current applications in the optical markets. In other semiconductor markets, we sell primarily six-inch wafers used in certain RFIC products.

We have been focusing our efforts on a newer product offering, PSS wafers. High brightness ( HB ) LED chip manufacturers etch a pattern onto the surface of the sapphire wafer in the early stages of their production process in order to improve light output. We have leveraged our capability in producing larger diameter sapphire wafers to offer pre-patterned, larger diameter (four-inch and six-inch) wafers to the LED market. PSS sales volumes are expected to increase in 2016.

We have signed a resource sharing agreement with another sapphire polisher. Under that agreement, we will receive what we believe will be a lower cost four-inch polishing process in exchange for making available to the other party the use of some of our underutilized slicing and polishing capacity in Malaysia. The agreement is aimed at accelerating wafer cost reductions. We will continue our existing six-inch polishing process but we believe that some of the process modifications made for four-inch may be transferrable to six-inch and result in reduced costs for that product as well. The extent and timing of cost reductions are difficult to predict at this stage.

Historically, a significant portion of our revenue has been derived from sales to relatively few customers. For the three months ended September 30, 2015, the Company had two customers individually that accounted for approximately 30% and 13% of revenue and for the three months ended September 30, 2014, the Company had three customers individually that accounted for approximately 22%, 18% and 13% of revenue. For the nine months ended September 30, 2015, the Company had two customers individually that accounted for approximately 18% and 15% of revenue. For the nine months ended September 30, 2014, the Company had two customers individually that accounted for approximately 23% and 12% of revenue. Other than as discussed above, none of our customers accounted for more than 10% of our revenue for such periods. Although we continue to strive 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.

We recognize revenue based upon shipping terms with our customers and from our government contract as costs and fees are incurred. Delays in product orders or changes to the timing of shipments could cause our quarterly revenue to vary significantly. We derive a significant portion of our revenue from customers outside of the U.S. In most periods, 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 and corresponding accounts receivable are denominated in U.S. dollars.

We recognize research and development revenue in the period during which the related costs and fees are incurred.

We manufacture and ship our products from our facilities in the Chicago metropolitan area and from our facility in Penang, Malaysia. We have approximately 226,400 square feet of manufacturing and office space in Batavia, Franklin Park and Bensenville, Illinois and a 65,000 square foot facility in Penang, Malaysia, where we process sapphire grown by us in our Illinois facilities into finished cores and wafers. Our Malaysia facility currently finishes the majority of our core processing and can produce production volumes of polished wafers. In March 2012, we acquired additional land in Batavia, Illinois to expand our crystal growth capacity. 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 Illinois and Malaysia manufacturing facilities based on customer orders. We purchase materials and supplies to support such current and future demand. We are subject to variations in the cost of raw materials and consumables from period to period because we do not have long-term fixed-price agreements with most of our suppliers. We mitigate the potential impact of fluctuations in energy costs by entering into long-term purchase agreements. Once our current agreements expire, if electricity prices increase significantly, we may not be able to pass these price increases through to our customers on a timely basis, if at all, which could adversely affect our gross margins and results of operations.

**Table of Contents**

Our operating expenses are principally comprised of sales and marketing, research and development ( R&D ) and general and administrative ( G&A ) expenses. G&A expenses consist primarily of salaries and associated costs for employees in finance, human resources, information technology and administrative activities, charges for accounting, legal, and insurance fees, and stock-based compensation. The majority of our stock-based compensation relates to administrative personnel and is accounted for as a G&A expense.

Other income (expense) consists of interest income, interest expense and realized gains and losses on investments and currency translation.

We account for income taxes under the asset and liability method whereby the expected future tax consequences of temporary differences between the book value and the tax basis of assets and liabilities are recognized as deferred tax assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to be recognized. Our updated analysis of ownership changes that limit the utilization of our net operating loss ( NOL ) carryforwards as of March 31, 2014, shows no such ownership change. We believe that an updated analysis will not likely indicate an ownership change that would limit the utilization of net operating losses and tax credits at September 30, 2015. Based on an evaluation in accordance with the accounting standards, as of December 31, 2014, a valuation allowance has been recorded against the net U.S. deferred tax assets in order to measure only the portion of the deferred tax assets that are more likely than not to be realized based on the weight of all the available evidence. A cumulative loss position for three consecutive years is considered significant negative evidence that is difficult to overcome on a more likely than not standard through objectively verifiable data. At September 30, 2015, we continue to be in a three year cumulative loss position therefore a full valuation allowance was provided and no tax benefit will be recorded until we can conclude that it is more likely than not that our deferred tax assets will be realized.

We anticipate our capital expenditures will be about \$2.0 million for the full year 2015. These expenditures will be primarily focused on investments in equipment to produce patterned sapphire substrates and to enhance our polishing platform. Our capital expenditures in the nine months ended September 30, 2015 were \$801,000.

**RESULTS OF CONSOLIDATED OPERATIONS THREE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014**

The following table sets forth our consolidated statements of operations for the periods indicated:

	<b>Three months ended September 30, 2015      2014 (in millions)</b>	
Revenue	\$ 5.3	\$ 8.0
Cost of goods sold	9.2	17.5
Gross loss	(3.9)	(9.5)
Operating expenses:		
General and administrative	3.0	2.9
Sales and marketing	0.3	0.3
Research and development	0.5	0.5
Long-lived asset impairment charges	39.6	

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Loss on disposal of assets		0.7
Total operating expenses	43.4	4.4
Loss from operations	(47.3)	(13.9)
Other (expense) income	(1.5)	(0.1)
Loss before income taxes	(48.8)	(14.0)
Income tax benefit	0.6	0.3
Net loss	\$ (48.2)	\$ (13.7)

**Table of Contents**

The following table sets forth our consolidated statements of operations as a percentage of revenue for the periods indicated:

	<b>Three months ended September 30, 2015                  2014 (percentage of total)</b>	
Revenue	100%	100%
Cost of goods sold	174	219
Gross loss	(74)	(119)
Operating expenses:		
General and administrative	56	36
Sales and marketing	5	4
Research and development	10	6
Long-lived asset impairment charges	741	
Loss on disposal of assets		9
Total operating expenses	812	55
Loss from operations	(886)	(174)
Other income (expense)	(28)	(1)
Loss before income taxes	(914)	(175)
Income tax benefit	12	4
Net loss	(902)%	(171)%

*Revenue.* Revenue was \$5.3 million and \$8.0 million for the three months ended September 30, 2015 and 2014, respectively, a decrease of \$2.7 million. We experienced lower revenue from sales of our core products by \$2.4 million, of which \$939,000 was attributable to a decrease in volume and \$1.4 million was attributable to a decrease in price. Demand for our core products was softer in the third quarter 2015 compared to the third quarter 2014, due to decreased demand from the LED market and the mobile device market, largely due to excess inventory in the supply chain. Pricing for sapphire cores decreased again as compared to the first half of 2015 for both our two-inch and four-inch core products. We experienced an increase in revenue from wafer sales of \$52,000, which was the result of a \$234,000 increase in wafers sold to the LED market partially offset by a decrease of \$182,000 on wafers sold to the SoS market. Of the \$234,000 increase in wafer sales to the LED market, PSS wafer sales increased by \$1.1 million while polished wafer sales decreased by \$881,000. We also had decreased revenue of \$497,000 from optical products due to a softening in the sales of sapphire for sensor and instrumentation applications. We anticipate pricing to remain challenging for at least the next several quarters. We have continued to focus our sales of wafer products on PSS wafers where we believe there is greater margin opportunity. We expect PSS revenue to grow in 2016 as customers move from qualification volumes to production volumes and as we gain market share. We operate in an extremely volatile market, so the amount of price or volume change is difficult to predict.



*Gross loss.* Gross loss was \$3.9 million and \$9.5 million for the three months ended September, 30, 2015 and 2014, respectively, a decrease in gross loss of \$5.6 million. The decrease in gross loss is attributable in part to lower production costs of \$1.9 million. For the three months ended September 30, 2014 products were sold below cost resulting in a lower of cost or market adjustment which reduced inventory and increased cost of goods sold by \$1.8 million. Additionally, for the three months ended September 30, 2014, we began to move towards a new polishing platform, resulting in an adjustment that decreased other inventory supplies and increased costs of goods sold by \$1.9 million. For the three months ended September 30, 2015 and 2014, we were not operating at capacity due to lower demand, and in each period recorded as an expense \$1.8 million of costs associated with the under-utilization of equipment and staff.

*General and administrative expenses.* G&A expenses were \$3.0 million and \$2.9 million for the three months ended September 30, 2015 and 2014, respectively, an increase of \$88,000. The increase is primarily attributable to a legal settlement expense of \$900,000 recorded in 2015 partially offset by a decrease in employee compensation costs of \$866,000, as costs in 2014 included \$704,000 in compensation expense related to restructuring of the management team and these costs were not incurred in 2015.

*Sales and marketing expenses.* Sales and marketing expenses were \$287,000 and \$337,000 for the three months ended September 30, 2015 and 2014, respectively, a decrease of \$50,000. The decrease in sales and marketing expenses is primarily attributable to decreased marketing service costs of \$53,000.

*Research and development expenses.* R&D expenses were \$558,000 and \$446,000 for the three months ended September 30, 2015 and 2014, respectively, an increase of \$112,000. The increase was primarily attributable to increased employee compensation costs of \$145,000 due to additional headcount partially offset by a decrease in project expenses of \$45,000.

*Long-lived asset impairment charges.* For the three months ended September 30, 2015, we recorded an asset impairment charge on machinery, equipment and facilities of \$39.6 million. The overall outlook for the sapphire market continued to be volatile as industry analysts reported significant worldwide over capacity and pricing of sapphire products reached historical lows. Based upon our assessment using our most recent projections, impairment to these assets was indicated as of September 30, 2015, as the recoverable amount of undiscounted cash flows did not exceed the carrying amount of these assets.

**Table of Contents**

*Other income (expense).* Other expense was \$1.5 million and \$139,000 for the three months ended September 30, 2015 and 2014, respectively, an increase in other expense of \$1.4 million. The increase was due to an increase in realized loss on foreign currency translation of \$1.3 million due to a weakening of the Malaysian Ringgit against the U.S. Dollar.

*Income tax benefit.* In accordance with ASC740 Accounting for Income Taxes ( ASC740 ), we evaluate our deferred income tax assets quarterly to determine if valuation allowances are required or should be adjusted. ASC740 requires that companies assess whether valuation allowances should be established against their deferred tax assets based on consideration of all available evidence, both positive and negative, using a more likely than not standard. We are in a U.S. cumulative loss position for the past three years, which is considered significant negative evidence by the accounting standards that is difficult to overcome on a more likely than not standard through objectively verifiable data. The accounting standards attribute greater weight to objective negative evidence than to subjective positive evidence, such as our projections for future growth. Based on this evaluation, as of December 31, 2014, a valuation allowance has been recorded against the net U.S. deferred tax assets in order to measure only the portion of the deferred tax assets that are more likely than not to be realized based on the weight of all the available evidence. At September 30, 2015, we continue to be in a U.S. three year cumulative loss position, therefore, until an appropriate level of profitability is attained, we expect to maintain a valuation allowance on net deferred tax assets related to future U.S. tax benefits and will no longer accrue tax benefits or tax expense on our Consolidated Statement of Operations. In the event that we change our determination as to the amount of deferred tax assets that can be realized, we will adjust our valuation allowance with a corresponding impact to the provision for income taxes in the period in which such determination is made.

During the three months ended September 30, 2015, we determined that based on current market conditions and future projected cash flows that it was not more likely than not that we would meet the capital investment requirements for the second five year Malaysia tax holiday. We recorded for the three months ended September 30, 2015, \$18,000 of deferred tax benefit. This amount creates the net deferred tax asset in Malaysia of \$14,000 as of September 30, 2015 for timing differences expected to reverse outside of the first five year tax holiday.

The tax provision for the three months ended September 30, 2015 is based on an estimated combined statutory effective tax rate. For the three months ended September 30, 2015 the difference between the Company's effective tax rate of 1.4% and the U.S. federal 35% statutory rate and state 6.2% (net of federal benefit) statutory rate was primarily related to a U.S. valuation allowance, the long-lived asset impairment, Malaysia tax rate change and profits recorded in the Malaysia operation for which the Company has a tax holiday in effect until the end of December 31, 2015.

**Table of Contents****RESULTS OF CONSOLIDATED OPERATIONS NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014**

The following table sets forth our consolidated statements of operations for the periods indicated:

	<b>Nine months ended September 30, 2015      2014 (in millions)</b>	
Revenue	\$ 21.4	\$ 36.8
Cost of goods sold	35.5	61.0
Gross loss	(14.1)	(24.2)
Operating expenses:		
General and administrative	7.3	7.6
Sales and marketing	1.0	1.1
Research and development	1.6	1.4
Long-lived asset impairment charges	39.6	
Loss on disposal of assets		0.7
Total operating expenses	49.5	10.8
Loss from operations	(63.6)	(35.0)
Other (expense) income	(2.1)	0.1
Loss before income taxes	(65.7)	(34.9)
Income tax benefit	0.6	0.3
Net loss	\$ (65.1)	\$ (34.6)

The following table sets forth our consolidated statements of operations as a percentage of revenue for the periods indicated:

	<b>Nine months ended September 30, 2015      2014 (percentage of total)</b>	
Revenue	100%	100%
Cost of goods sold	166	166
Gross loss	(66)	(66)
Operating expenses:		
General and administrative	35	20

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Sales and marketing	5	3
Research and development	7	4
Long-lived asset impairment charges	185	
Loss on disposal of assets		2
Total operating expenses	232	29
Loss from operations	(298)	(95)
Other (expense) income	(10)	
Loss before income taxes	(308)	(95)
Income tax benefit	3	1
Net loss	(305)%	(94)%

*Revenue.* Revenue was \$21.4 million and \$36.8 million for the nine months ended September 30, 2015 and 2014, respectively, a decrease of \$15.4 million. We experienced lower revenue from sales of our core products by \$14.2 million, of which \$8.0 million was attributable to a decrease in volume and \$6.2 million was attributable to a decrease in price. Demand for our core products was weaker for the nine months ended September 30, 2015 as compared to September 30, 2014 due to decreased demand from the LED general lighting market and the mobile device market, due to excess inventory in the supply chain and added capacity in the sapphire market. We experienced lower revenue from wafer sales of \$268,000 which was the result of a \$950,000 decrease in wafers sold to the LED market partially offset by \$682,000 in higher sales of wafers sold to the SoS market. The \$950,000 reduction in revenue from wafers sold into the LED market reflects a \$3.1 million decrease in sales of polished wafers partially offset by an increase of \$2.1 million in sales of PSS wafers. We also had decreased revenue of \$940,000 from optical products due to a decrease in the sales of sapphire for sensor and instrumentation applications. Demand for our core products was weaker for the nine months ended September 30, 2015 as compared to September 30, 2014 due to decreased demand from the LED general lighting market and excess inventory in the supply chain. We have shifted our sales focus away from polished wafers to PSS wafers where we believe there is greater margin opportunity. We expect PSS revenue to continue to grow into 2016 as customers move to increased production volumes and as we gain market share. We operate in an extremely volatile market, so the amount of price or volume change is difficult to predict.

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**Table of Contents**

*Gross loss.* Gross loss was \$14.1 million and \$24.2 million for the nine months ended September 30, 2015 and 2014, respectively, a decrease in gross loss of \$10.1 million. The decrease in gross loss is primarily attributable to lower production costs of \$5.6 million. For the nine months ended September 30, 2015 and 2014, products were sold below cost resulting in a lower of cost or market adjustment which reduced inventory and increased cost of goods sold by \$1.1 million and \$1.8 million, respectively. Additionally, for the nine months ended September 30, 2014, we recorded costs associated with excess and obsolete inventory as well as consumable inventory items of \$3.7 million. For the nine months ended September 30, 2015 and 2014, due to the lower demand, we were not operating at capacity and recorded costs of \$5.6 million and \$6.1 million, respectively, associated with the under-utilization of equipment and staff as an expense.

*General and administrative expenses.* G&A expenses were \$7.3 million and \$7.6 million for the nine months ended September 30, 2015 and 2014, respectively, a decrease of \$241,000. The decrease was primarily due to a decrease in employee compensation costs associated with the management restructuring in 2014 of \$875,000, decreased financing fees and other costs of \$214,000 and a decrease in travel expenses of \$251,000 partially offset by a legal settlement expense of \$900,000 and an increase in other legal costs of \$256,000.

*Sales and marketing expenses.* Sales and marketing expenses were \$1.0 million and \$1.1 million for the nine months ended September 30, 2015 and 2014, respectively, a decrease of \$157,000. The decrease is primarily due to a decrease in marketing services expenses.

*Research and development expenses.* R&D expenses were \$1.6 million and \$1.4 million for the nine months ended September 30, 2015 and 2014, respectively, an increase of \$181,000. The increase is primarily attributable to employee compensation costs on increased headcount.

*Long-lived asset impairment charges.* For the nine months ended September 30, 2015, we recorded an asset impairment charge on machinery, equipment and facilities of \$39.6 million. The overall outlook for the sapphire market continued to be volatile as industry analysts reported significant worldwide over capacity and pricing of sapphire products reached historical lows. Based upon our assessment using our most recent projections, impairment to these assets was indicated as of September 30, 2015, as the recoverable amount of undiscounted cash flows did not exceed the carrying amount of these assets.

*Other income (expense).* Other expense was \$2.1 million for the nine months ended September 30, 2015 and other income was \$93,000 for the nine months ended September 30, 2014, an increase in other expense of \$2.2 million. The increase was primarily due to an increase in realized losses on foreign currency translation of \$2.1 million due to a weakening of the Malaysian Ringgit against the U.S. Dollar.

*Income tax benefit.* In accordance with ASC740 Accounting for Income Taxes ( ASC740 ), we evaluate our deferred income tax assets quarterly to determine if valuation allowances are required or should be adjusted. ASC740 requires that companies assess whether valuation allowances should be established against their deferred tax assets based on consideration of all available evidence, both positive and negative, using a more likely than not standard. We are in a cumulative U.S. loss position for the past three years, which is considered significant negative evidence by the accounting standards that is difficult to overcome on a more likely than not standard through objectively verifiable data. The accounting standards attribute greater weight to objective negative evidence than to subjective positive evidence, such as our projections for future growth. Based on this evaluation, as of December 31, 2014, a valuation allowance has been recorded against the net U.S. deferred tax assets in order to measure only the portion of the deferred tax assets that are more likely than not to be realized based on the weight of all the available evidence. At September 30, 2015, we continue to be in a U.S. three year cumulative loss position, therefore, until an appropriate level of profitability is attained, we expect to maintain a valuation allowance on net deferred tax assets related to

future U.S. tax benefits and will no longer accrue tax benefits or tax expense on our Consolidated Statement of Operations. In the event that we change our determination as to the amount of deferred tax assets that can be realized, we will adjust our valuation allowance with a corresponding impact to the provision for income taxes in the period in which such determination is made.

During the nine months ended September 30, 2015, we determined that based on current market conditions and future projected cash flows that it was not more likely than not that we would meet the capital investment requirements for the second five year Malaysia tax holiday. We recorded for the nine months ended September 30, 2015, \$18,000 of deferred tax benefit. This amount creates net deferred tax asset in Malaysia of \$14,000 as of September 30, 2015 for timing differences expected to reverse outside of the first five year tax holiday.

The tax provision for the nine months ended September 30, 2015 is based on an estimated combined statutory effective tax rate. For the nine months ended September 30, 2015 the difference between the Company's effective tax rate of 0.9% and the U.S. federal 35% statutory rate and state 6.2% (net of federal benefit) statutory rate was primarily related to a U.S. valuation allowance, the long-lived asset impairment, Malaysia tax rate change, and profits recorded in the Malaysia operation for which the Company has a tax holiday in effect until the end of December 31, 2015.



**Table of Contents****LIQUIDITY AND CAPITAL RESOURCES**

We have historically funded our operations using a combination of issuances of common stock and cash generated from our operations.

As of September 30, 2015, we had cash and short term investments totaling \$34.1 million, including cash of \$2.5 million held in deposits at major banks, \$18.9 million invested in money market funds and \$12.7 million of short-term investments including commercial paper, corporate notes and bonds and FDIC guaranteed certificates of deposit.

**Cash flows from operating activities**

The following table represents the major components of our cash flows from operating activities for the nine months ended September 30, 2015 and 2014:

	<b>Nine months ended September 30, 2015      2014 (in millions)</b>	
Net loss	\$ (65.1)	\$ (34.6)
<b>Non-cash items:</b>		
Depreciation and amortization	9.8	10.3
Stock based compensation and other, net	1.0	1.8
Long-lived asset impairment charges	39.6	
Deferred taxes	(0.6)	(0.4)
<b>Total non-cash items:</b>	49.8	11.7
<b>Working capital:</b>		
Accounts receivable	5.0	(2.2)
Inventories	(2.2)	11.3
Prepaid expenses and other assets	1.5	2.9
Accounts payable	(0.9)	(0.4)
Other accruals		(0.2)
<b>Total working capital items:</b>	3.4	11.4
<b>Net cash used in operating activities</b>	<b>\$ (11.9)</b>	<b>\$ (11.5)</b>

Cash used in operating activities was \$11.9 million for the nine months ended September 30, 2015. During such period, we generated a net loss of \$65.1 million, non-cash expenses of \$49.8 million, and an increase in cash from net working capital of \$3.4 million. The net working capital increase was driven by a decrease in accounts receivable of \$5.0 million on timing of customer payments and lower sales, an increase in inventory of \$2.2 million primarily related to an increase in work-in-process and finished goods partially offset by a decrease in raw materials, and a decrease in other prepaid expenses of \$1.5 million primarily related to a decrease in prepaid furnace components. This increase was partially offset by a decrease in accounts payable and other accruals of \$855,000 due to timing of payments.

Cash used in operating activities was \$11.5 million for the nine months ended September 30, 2014. During such period, we generated a net loss of \$34.6 million, including non-cash items of \$11.7 million, and an increase in net working capital of \$11.4 million. The net working capital change was comprised of a decrease in inventory of \$11.3 million primarily attributed to decreases in our sapphire boule inventory and work-in-process inventory, a decrease in prepaid expenses and other assets of \$2.9 million primarily attributable to a decrease in consumable inventory items that were deemed obsolete as we moved to a new polishing platform, an increase in accounts receivable of \$2.2 million due to timing of customers payments, and a decrease in accounts payable and accruals of \$603,000 due to timing of payments.

**Table of Contents****Cash flows from investing activities**

The following table represents the major components of our cash flows from investing activities for the nine months ended September 30, 2015 and 2014:

	<b>Nine months ended September 30, 2015      2014 (in millions)</b>	
<b>Purchases of property and equipment:</b>		
Machinery & equipment for crystal growth	\$	\$ (1.3)
Polishing platform and PSS machinery and equipment	(0.7)	
Increase capacity in other areas	(0.1)	(4.9)
Proceeds from disposal of assets		0.1
<b>Total purchases of property and equipment:</b>	(0.8)	(6.1)
<b>Purchases of investments</b>	(3.1)	(28.4)
Proceeds from sale of investments	11.0	15.0
<b>Net cash provided by (used in) investing activities</b>	<b>\$ 7.1</b>	<b>\$ (19.5)</b>

Net cash provided by investing activities was \$7.1 million for the nine months ended September 30, 2015. During the nine months ended September 30, 2015, we used approximately \$801,000 on the purchase of equipment primarily for our facility in Penang, Malaysia. We used proceeds from the sale of investments of \$11.0 million partially offset by the purchases of investments of \$3.1 million to fund operations and capital spending.

Net cash used in investing activities was \$19.5 million for the nine months ended September 30, 2014. During the nine months ended September 30, 2014, we used approximately \$6.1 million on the net purchase of equipment, which was primarily focused on enhancing our polishing and patterned sapphire substrate platforms at our facility in Penang, Malaysia. We used proceeds from our common stock offerings of approximately \$28.4 million to purchase investment securities partially offset by the sales of investments of \$15.0 million which were used to fund operations and capital spending.

We anticipate our full year 2015 spending on capital expenditures to be about \$2.0 million and will primarily be focused on investments in equipment to produce patterned sapphire substrates and to enhance our polishing platform.

**Cash flows from financing activities**

Net cash provided by financing activities was \$12,000 for the nine months ended September 30, 2015, which represents cash used to settle net equity awards of \$16,000 and proceeds from the exercise of options of \$4,000, partially offset by a change in restricted cash of \$8,000. Net cash provided by financing activities for the nine months ended September 30, 2014 represents \$35.0 million in proceeds from the issuance of common stock, net of issuance costs, and \$212,000 in net proceeds from the exercise of stock options.

**Future liquidity requirements**

We believe that our existing cash, cash equivalents, investments and anticipated cash flows from operating activities will be sufficient to meet our anticipated cash needs for at least the next twelve months. Our cash needs include cash required to fund our operations and the capital needed to fund our investments in additional PSS capacity, new product development and other production needs. If the assumptions underlying our business plan regarding future revenues and expenses change, or if unexpected opportunities or needs arise, we may seek to raise additional cash by selling equity or convertible debt securities. If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders could be significantly diluted, and these newly-issued securities may have rights, preferences or privileges senior to those of existing stockholders. If we obtain additional debt financing or draw on our credit facility, a substantial portion of our operating cash flow may be dedicated to the payment of principal and interest on such indebtedness, and the terms of the debt securities issued could impose significant restrictions on our operations. If we are unable to obtain financing on terms favorable to us, we may be unable to successfully execute our business plan.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

We consider to be critical those accounting policies that require our most subjective or complex judgments, which often result from a need to make estimates about the effect of matters that are inherently uncertain, and that are among the most important of our accounting policies in the portrayal of our financial condition and results of operations. We believe the following to be our critical accounting policies, including the more significant estimates and assumptions used in preparation of our financial statements.

### **Foreign currency translation and transaction**

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 loss within stockholders' equity.

## **Table of Contents**

We have 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. We record 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 our functional currency, 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. We record these gains and losses in other income (expense).

## **Revenue recognition**

We recognize revenue from sales of products and billings for costs and fees from government contracts.

### **Product Sales**

*Persuasive evidence of an arrangement exists.* We require 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 occurs 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, exchanges or refunds.

*Collection of the resulting receivable is reasonably assured.* Our standard arrangement with customers includes payment terms. Customers are subject to a credit review process that evaluates each customer's financial position and its ability to pay. We determine collectability by considering the length of time the customer has been in business and our history of collections with that customer. If we determine that collection is not probable, no product is shipped and no revenue is recognized unless cash is received in advance.

### **Government Contracts**

We recognize research and development revenue in the period during which the related costs are incurred over the contractually defined period. In July 2012, we signed a contract with the Air Force Research Laboratory to produce large-area sapphire windows on a cost plus fixed fee basis. We record revenue on a gross basis as costs are incurred plus a portion of the fixed fee. For the three and nine months ended September 30, 2015, \$270,000 and \$556,000, respectively, of revenue was recognized. For the three and nine months ended September 30, 2014, \$156,000 and \$553,000 of revenue was recorded, respectively. The total value of the contract is \$4.7 million of which \$3.9 million has been recorded through September 30, 2015.

We do not provide maintenance or other services and do not have sales that involve multiple elements or deliverables.

### **Inventory valuation**

We value our inventory at the lower of cost or market. Market is determined based on net realizable value. 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. We establish inventory reserves when conditions exist that suggest inventory may be in excess of anticipated demand or is obsolete based on customer required specifications. We evaluate the ability to realize the value of our 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 nine months ended September 30, 2014, we determined that we had inventory that was in excess or obsolete and recorded adjustments which reduced inventory and increased cost of goods by \$1.8 million and \$2.2 million, respectively. For the three and nine months ended September 30, 2015, we accepted sales orders for core and wafer products at prices lower than our cost. Based on these sales prices, we recorded for the nine months ended September 30, 2015 an adjustment which increased costs of goods sold and reduced inventory by \$1.1 million. We expect pricing on these products to remain challenging at least for the next few quarters. Our method of estimating excess and obsolete inventory has remained consistent for all periods presented. However, if our recognition of excess or obsolete inventory is, or if our estimates of our inventory's potential utility become, less favorable than currently expected, additional inventory reserves may be required. We determine our normal operating capacity and record as an expense costs attributable to lower utilization of equipment and staff. For the three and nine months ended September 30, 2015, we determined that we were not operating at capacity and recorded costs associated with lower utilization of equipment and staff of \$1.8 million and \$5.6 million, respectively. For the remainder of 2015, it is likely that we will incur additional costs due to lower utilization of equipment and staff.

## **Table of Contents**

### **Investments**

We invest available cash primarily in investment grade commercial paper, FDIC guaranteed certificates of deposit, 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 we have the ability and intent, if necessary, to liquidate in order to support our current operations are classified as short-term.

We review our 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. We consider 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, our 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 we conclude 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 September 30, 2015, no investment impairment was recorded.

### **Allowance for doubtful accounts**

We estimate the allowance for doubtful accounts based on an assessment of the collectability of specific customer accounts. The determination of risk for collection is assessed on a customer-by-customer basis considering our historical experience and expected future orders with the customer, changes in payment patterns, and recent information we have about the current status of our accounts receivable balances. If we determine that a specific customer is a risk for collection, we provide a specific allowance for credit losses to reduce the net recognized receivable to the amount we reasonably believe will be collected. We believe that, based on the customers to whom we sell and the nature of our agreements with them, our estimates are reasonable. Our method of estimating collectability has remained consistent for all periods presented and with past collections experience.

### **Long-lived assets**

We review property and equipment for impairment whenever events or circumstances indicate that carrying amounts may not be recoverable. If such events or changes in circumstances occur, we will recognize an impairment loss if the undiscounted future cash flows expected to be generated by the assets are less than the carrying value of the related asset. The impairment loss would adjust the asset to its fair value.

In evaluating the recoverability of long-lived assets, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of such assets. If our fair value estimates or related assumptions change in the future, we may be required to record impairment charges related to property and equipment. Asset recoverability is first measured by comparing the assets' carrying amount to their expected future undiscounted net cash flows to determine if the assets are impaired. If such assets are considered to be impaired, the impairment recognized is measured based on the amount by which the carrying amount of the assets exceeds the fair value.

In response to our current period operating losses combined with our history of continuing operating losses, we evaluated the recoverability of certain property and equipment. In the third quarter of 2015, the overall outlook for the sapphire market continued to be volatile as industry analysts reported significant worldwide over capacity and pricing of sapphire products reached historical lows. Based on our assessment using the most recent projections, impairment to these assets was indicated as of September 30, 2015, as the recoverable amount of undiscounted cash flows did not



exceed the carrying amount of these assets. We recorded an asset impairment charge on machinery, equipment and facilities of \$39.6 million.

### **Stock-based compensation**

We expense stock options based upon the fair market value on the date of grant. We use the Black-Scholes option pricing model to determine the fair value of stock options. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model will be affected by assumptions regarding a number of complex and subjective variables. These variables include our expected stock volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rates, forfeitures and expected dividends.

The expected term represents the weighted-average period that our stock options are expected to be outstanding and is based upon five years of historical data. We estimate the volatility of our common stock based on a five year historical stock price. We base the risk-free interest rate that we use in the option pricing model on U.S. Treasury zero-coupon issues with remaining terms similar to the expected term on the options. We do not anticipate paying any cash dividends in the foreseeable future and, therefore, use an expected dividend yield of zero in the option pricing model. We are required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. The current forfeiture rate of 18.56% was based on our past history of forfeitures.

## **Table of Contents**

We allocate stock based compensation costs using a straight-line method which amortizes the fair value of each option on a straight-line basis over the service period. Based on the variables affecting the valuation of our common stock and the method used for allocating compensation costs, we recognized \$292,000 and \$939,000 in stock compensation expense during the three and nine months ended September 30, 2015, respectively.

All option grants made during the three and nine months ended September 30, 2015 and 2014 were granted at an exercise price per share equal to the closing market price of our common stock on the last market trading day prior to the date of grant. Therefore, there is no intrinsic value because the exercise price per share of each option was equal to the fair value of the common stock on the date of grant.

Based on the fair market value of the common stock at September 30, 2015, there is no aggregate intrinsic value of all stock options outstanding and exercisable.

## **Income tax valuation allowance**

Evaluating the need for and amount of a valuation allowance for deferred tax assets often requires significant judgment and extensive analysis of all the positive and negative evidence available to determine whether all or some portion of the deferred tax assets will not be realized. A valuation allowance must be established for deferred tax assets when it is more likely than not (a probability level of more than 50 percent) that they will not be realized. In general, realization refers to the incremental benefit achieved through the reduction in future taxes payable or an increase in future taxes refundable from the deferred tax assets, assuming that the underlying deductible differences and carryforwards are the last items to enter into the determination of future taxable income. In determining our valuation allowance, we consider the source of taxable income including taxable income in prior carryback years, future reversals of existing temporary differences, the required use of tax planning strategies, and future taxable income exclusive of reversing temporary differences and carryforwards. We are in a cumulative U.S. loss position for the past three years, which is considered significant negative evidence by the accounting standards that is difficult to overcome on a more likely than not standard through objectively verifiable data. Under the accounting standards objective verifiable evidence is given greater weight than subjective evidence, such as our projections for future growth. Based on an evaluation in accordance with the accounting standards, as of December 31, 2014, a valuation allowance has been recorded against the net U.S. deferred tax assets in order to measure only the portion of the deferred tax assets that are more likely than not to be realized based on the weight of all the available evidence. At September 30, 2015 we continue to be in a three year U.S. cumulative loss position, therefore until an appropriate level of profitability is attained, we expect to maintain a full valuation allowance on our U.S. net deferred tax assets.

## **RECENT ACCOUNTING PRONOUNCEMENT**

In May 2014, the FASB issued ASU No. 2014-09 ( ASU 2014-09), *Revenue from Contracts with Customers*, which supersedes most of the current revenue recognition requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The guidance is effective for the interim and annual periods beginning on or after December 15, 2017 (early adoption is not permitted). The guidance permits the use of either a retrospective or cumulative effect transition method. The adoption of ASU 2014-09 is not expected to have a material impact on our consolidated financial statements.

In June 2014, the FASB issued Accounting Standards Update No. 2014-12 ( ASU 2014-12 ), *Compensation Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* related to stock compensation. The new standard requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the periods for which the requisite service has already been rendered. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 and can be applied either prospectively or retrospectively to all awards outstanding as of the beginning of the earliest annual period presented as an adjustment to opening retained earnings. Early adoption is permitted. We are evaluating the impact, if any, of adopting ASU 2014-12 on our financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The standard requires management to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management must evaluate whether it is probable that known conditions or events, considered in the aggregate, would raise substantial doubt about the entity'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 standard requires management's mitigation plans to alleviate the doubt or a statement of the substantial doubt about the entity's ability to continue as a going concern to be disclosed in the financial statements. The standard is effective for fiscal years and interim periods beginning after December 15, 2016, with early adoption permitted. We are evaluating the impact, if any, of adopting ASU 2014-15 on our financial statements.

**Table of Contents**

**OFF-BALANCE SHEET ARRANGEMENTS**

We do not have any off-balance sheet arrangements.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

For the nine months ended September 30, 2015, there were no material changes in the information regarding market risk contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

**ITEM 4. CONTROLS AND PROCEDURES**

**Management's evaluation of disclosure controls and procedures**

Based on evaluations at September 30, 2015, our chief executive officer and chief financial officer (together, our certifying officers), with the participation of the management team, have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that material information relating to the Company is accumulated and communicated to management, including our certifying officers, as appropriate to allow timely decisions regarding required disclosures.

**Changes in internal control over financial reporting**

Our certifying officers have concluded that there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the three months ended September 30, 2015 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II**

**ITEM 1. LEGAL PROCEEDINGS**

As previously reported on April 30, 2015, Firerock Global Opportunity Fund LP filed a complaint in the Northern District of Illinois asserting federal securities claims against the Company, certain officers, its directors and the underwriters in the Company's March 2014 stock offering (the Complaint). The Complaint seeks as a remedy either money damages or rescission of the March offering, plus attorneys' fees. On October 29, 2015, after mediation and subsequent discussions, the parties reached a settlement agreement in principle, which has not been finalized or executed. The settlement agreement is expected to include a release of all defendants, and dismissal of the case against all defendants with prejudice. The Company recorded for the three and nine months ended September 30, 2015, an expense of \$900,000 which is the amount the Company expects to contribute to the settlement. The Company anticipates that the remaining costs of the settlement will be covered by insurance. The proposed settlement remains subject to approval by the United States District Court for the Northern District of Illinois.

**ITEM 1A. RISK FACTORS**

Our business is influenced by many factors that are difficult to predict, involve uncertainties that may materially affect actual results and are often beyond our control. We have identified a number of these risk factors in our Annual Report on Form 10-K for the year ended December 31, 2014, which factors should be taken into consideration when reviewing the information contained in this report. There have been no material changes with regard to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014.

**Table of Contents**

**ITEM 6. EXHIBITS**

The exhibits filed or incorporated by reference as a part of this report are listed in the Index to Exhibits which appears following the signature page to this Quarterly Report on Form 10-Q and is incorporated by reference.

Table of Contents

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on November 9, 2015.

Rubicon Technology, Inc.

Date: November 9, 2015

By: /s/ William F. Weissman  
William F. Weissman  
President and Chief Executive Officer

Date: November 9, 2015

By: /s/ Mardel A. Graffy  
Mardel A. Graffy  
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the registrant and will be retained by the registrant and furnished to the Securities and Exchange Commission or its staff upon request.

**Table of Contents****EXHIBIT INDEX**

The Exhibits listed below are filed or incorporated by reference as part of this Quarterly Report on Form 10-Q.

<b>Exhibit</b>		
<b>No.</b>	<b>Description</b>	<b>Incorporation by Reference</b>
3.1	Eighth Amended and Restated Certificate of Incorporation of Rubicon Technology, Inc.	Filed as Exhibit 3.1 to Amendment No. 2, to the registrant's Registration Statement on Form S-1/A filed on November 1, 2007 (File No. 333-145880)
3.2	Amendment No. 1 to Eight Amended and Restated Certificate of Incorporation	Filed as Appendix A to the registrant's Definitive Proxy statement on Schedule 14A, filed on April 29, 2011 (File No. 1-33834)
3.3	Amended and Restated Bylaws of Rubicon Technology, Inc.	Filed as Exhibit 3.2 to the registrant's Registration Statement on Form S-1/A filed on November 1, 2007 (File No. 333-145880)
10.1	First Amendment Agreement by and between Silicon Valley Bank and Rubicon Technology, Inc., dated as of August 6, 2015	
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	
32.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
101.INS**	XBRL Instance Document	
101.SCH**	XBRL Taxonomy Extension Schema Document	
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document	
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document	
101.PRE**	XBRL Taxonomy Extension Presentation Document	
101.DEF**		



XBRL Taxonomy Extension Definition Linkbase  
Document

\*\* Filed electronically with this Report on Form 10-Q