

Rubicon Technology, Inc.  
Form 10-Q  
November 08, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**

**FORM 10-Q**

(Mark one)

☒ **Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**  
for the quarterly period ended September 30, 2010

or

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

Commission file number 001-33834

**RUBICON TECHNOLOGY, INC.**

(Exact Name of Registrant as Specified in Its Charter)

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**Delaware**  
(State or Other Jurisdiction of

**36-4419301**  
(I.R.S. Employer

Incorporation or Organization)

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.

Large accelerated filer ☐ Accelerated filer ☒

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

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

As of November 5, 2010 the Registrant had 22,937,049 shares of common stock, par value \$0.001 per share, outstanding.

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**RUBICON TECHNOLOGY, INC.**

**Quarterly Report on Form 10-Q**

**For the quarterly period ended September 30, 2010**

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

	September 30, 2010	December 31, 2009
	(unaudited)	
	(in thousands other than share data)	
<b>Assets</b>		
Cash and cash equivalents	\$ 11,962	\$ 3,860
Restricted cash	533	8
Short-term investments	71,126	40,716
Accounts receivable, net	12,573	4,967
Inventories, net	8,441	6,597
Spare parts	6,085	2,133
Prepaid expenses and other current assets	1,528	1,311
Total current assets	112,248	59,592
Property and equipment, net	69,806	39,525
Investments	2,000	2,000
Other assets		69
Total assets	\$ 184,054	\$ 101,186
<b>Liabilities and stockholders' equity</b>		
Accounts payable	\$ 4,571	\$ 2,056
Accrued payroll	1,375	515
Corporate income and franchise taxes	152	171
Accrued and other current liabilities	2,149	1,004
Total current liabilities	8,247	3,746
Commitments and contingencies (Note 9)		
Stockholders' equity		
Preferred stock, \$0.001 par value, 5,000,000 undesignated shares authorized, no shares issued or outstanding		
Common stock, \$0.001 par value, 85,000,000 shares authorized; 24,187,024 and 21,482,558 shares issued; and 22,937,049 and 20,232,583 outstanding	24	21
Additional paid-in capital	326,569	261,974
Treasury stock, at cost, 1,249,975 shares	(5,661)	(5,661)

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Accumulated other comprehensive loss		(10)
Accumulated deficit	(145,125)	(158,884)
Total stockholders' equity	175,807	97,440
Total liabilities and stockholders' equity	\$ 184,054	\$ 101,186

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	(unaudited)			
	(in thousands, other than			
	share data)			
Revenue	\$ 20,522	\$ 5,737	\$ 47,825	\$ 11,280
Cost of goods sold	9,423	6,143	25,348	15,956
Gross profit (loss)	11,099	(406)	22,477	(4,676)
Operating expenses:				
General and administrative	2,341	1,264	6,918	3,424
Sales and marketing	329	310	892	799
Research and development	260	216	706	566
Loss on disposal of assets	29		334	
Income (loss) from operations	8,140	(2,196)	13,627	(9,465)
Other income (expense):				
Interest income	43	149	196	556
Interest expense		(2)		(2)
Realized loss on foreign currency transactions	(13)		(72)	
Realized gain (loss) on investments		(13)	8	36
Total other income	30	134	132	590
Income (loss) before income taxes	8,170	(2,062)	13,759	(8,875)
Income tax benefit	126			
Net income (loss)	\$ 8,296	\$ (2,062)	\$ 13,759	\$ (8,875)
Net income (loss) per common share				
Basic	\$ 0.36	\$ (0.10)	\$ 0.65	\$ (0.44)
Diluted	\$ 0.35	\$ (0.10)	\$ 0.61	\$ (0.44)
Weighted average common shares outstanding used in computing net income (loss) per common share				
Basic	22,923,900	20,032,470	21,319,485	20,112,967
Diluted	23,977,278	20,032,470	22,442,553	20,112,967

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, 2010                      2009 (unaudited) (in thousands)</b>	
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 13,759	\$ (8,875)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	4,239	3,976
Net loss on disposal of assets	334	
Stock-based compensation	1,566	682
Realized gain on investments	(8)	(36)
Changes in operating assets and liabilities:		
Accounts receivable	(7,606)	(853)
Inventories	(1,821)	635
Spare parts	(3,927)	1,613
Prepaid expenses and other current assets	(215)	519
Accounts payable	2,500	(1,572)
Accrued payroll	858	(352)
Corporate income and franchise taxes	(20)	(112)
Accrued and other current liabilities	1,094	(50)
Net cash provided by (used in) operating activities	10,753	(4,425)
<b>Cash flows from investing activities</b>		
Purchases of property and equipment	(34,896)	(3,224)
Proceeds from disposal of assets	42	
Purchases of investments	(55,201)	
Proceeds from sale of investments	24,800	6,382
Net cash (used in) provided by investing activities	(65,255)	3,158
<b>Cash flows from financing activities</b>		
Proceeds from issuance of common stock, net of issuance costs of \$4,130	61,723	
Proceeds from exercise of options	1,378	36
Restricted cash	(525)	(5)
Purchase of treasury stock		(2,577)
Net cash provided by (used in) financing activities	62,576	(2,546)
Net effect of currency translation	28	
Net increase (decrease) in cash and cash equivalents	8,102	(3,813)
Cash and cash equivalents, beginning of period	3,860	7,629



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Cash and cash equivalents, end of period	\$ 11,962	\$ 3,816
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$	\$ 2
Supplemental disclosures of non-cash transactions		
Unrealized loss on investments	\$ 1	\$ 84

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

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**Rubicon Technology, Inc.**

## **NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2010**

### **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 US ( GAAP ) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the US for complete consolidated financial statements and should be read in conjunction with the annual report filed on Form 10-K for the fiscal year ended December 31, 2009 for Rubicon Technology, Inc. (the Company ). 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 month periods ended September 30, 2010 are not necessarily indicative of results that may be expected for the year ending December 31, 2010.

### **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 US 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 US 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 US dollar. Rubicon Sapphire Technology (Malaysia) SDN BHD's assets and liabilities are translated into US 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 US 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 US 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, 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

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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, 2010 and September 20, 2009, no impairment was recorded.

**Table of Contents****Auction-rate securities put options ( ARS Put Options )**

In October 2008, the Company entered into an agreement that provided the Company with the right, but not the obligation, to sell all its auction-rate securities to UBS, AG for par value during the period from June 30, 2010 to July 2, 2012. The ARS Put Options provided the Company with the opportunity to recover the estimated unrealized loss on its ARS investments. The Company recorded the fair value of the ARS Put Options upon receipt and valued the ARS Put Options using a discounted cash flow model. Unrealized gains and losses related to the ARS Put Options are recognized in earnings. The Company exercised these put options on June 30, 2010. At September 30, 2010 the Company has no auction rate security or auction rate security put options in investments. The Company's investment policy no longer includes auction rate securities as an approved investment. See Note 4 Investments for additional information regarding the ARS Put Options.

**Inventories**

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

	September 30, 2010	December 31, 2009
	(in thousands)	
Raw materials	\$ 4,784	\$ 3,982
Work in progress	2,447	1,277
Finished goods	1,633	2,788
	8,864	8,047
Reserve for obsolescence and realization	(423)	(1,450)
	\$ 8,441	\$ 6,597

The change in inventory reserves is comprised of the disposal of obsolete inventory and a change in standard cost to net realizable value and charges to costs and expenses. The table below details such changes (in thousands):

Inventory reserves at December 31, 2009	\$ (1,450)
Disposal of obsolete inventory	472
Change in standard cost to net realizable value	331
Charges to costs and expenses	224
Inventory reserves at September 30, 2010	\$ (423)

**Property and equipment**

Property and equipment consisted of the following:

	September 30, 2010	December 31, 2009
	(in thousands)	
Land and land improvements	\$ 1,158	\$ 623

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Machinery, equipment and tooling	47,134	48,125
Leasehold improvements	7,667	6,985
Furniture and fixtures	729	715
Information systems	748	546
Construction in progress	35,267	4,361
<b>Total cost</b>	<b>92,703</b>	<b>61,355</b>
Accumulated depreciation and amortization	(22,897)	(21,830)
<b>Property and equipment, net</b>	<b>\$ 69,806</b>	<b>\$ 39,525</b>

### Revenue recognition

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.

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

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

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

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

**Net income (loss) per common share**

Net income (loss) per share of common stock is as follows for the three and nine months ended September 30, 2010 and 2009:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net income (loss) (in thousands):	\$ 8,296	\$ (2,062)	\$ 13,759	\$ (8,875)
Net income (loss) per common share:				
Basic	\$ 0.36	\$ (0.10)	\$ 0.65	\$ (0.44)
Diluted	\$ 0.35	\$ (0.10)	\$ 0.61	\$ (0.44)

**Weighted average common shares outstanding used in:**

Basic	22,923,900	20,032,470	21,319,485	20,112,967
Diluted	23,977,278	20,032,470	22,442,553	20,112,967

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

Diluted net loss per share is the same as basic net loss per share for the three and nine months ended September 30, 2009 because the effects of potentially dilutive securities are anti-dilutive.

At September 30, 2009, the Company had the following anti-dilutive securities outstanding which were excluded from the calculation of diluted net loss per share:

	September 30, 2009
Warrants	248,922
Stock options	950,018
	1,198,940

**Recent accounting pronouncement**

On January 21, 2010 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, amending Accounting Standards Codification (ASC) 820 (formerly Statement of Financial Accounting Standards No. 157). New disclosures related to transfers in and out of Level 1 and Level 2 measurements and separate disclosures about purchases, shares, issuances, and settlements relating to Level 3 measurements are required. ASU 2010-06 clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the Level 3 measurements disclosures about purchases, shares, issuances, and settlements which is effective for fiscal years beginning after December 15, 2010. The adoption of ASU 2010-06 did not have a material impact on the Company's financial condition or results of operations.

On February 24, 2010 the FASB issued ASU 2010-09, which amends ASC 855 to address certain implementation issues related to an entity's requirement to perform and disclose subsequent events procedures. ASU 2010-09 requires entities to evaluate subsequent events through the date the financial statements are issued. ASU 210-09 is effective immediately for financial statements that are issued or available to be issued. The adoption of ASU 2010-09 did not have a material impact on the Company's financial condition or results of operations.

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In April 2010, the FASB issued ASU No. 2010 -17 Revenue Recognition - Milestone Method (Topic 605): Milestone Method of Revenue Recognition. This standard provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for certain research and development transactions. Under this new standard, a company can recognize as revenue consideration that is contingent upon achievement of a milestone in the period in which it is achieved, only if the milestone meets all criteria to be considered substantive. ASU No. 2010 - 17 is effective for fiscal years beginning on or after June 15, 2010. ASU No. 2010 - 17 is not expected to have a material impact on the Company's financial statements.

### 3. 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:

	Three months ended September 30, 2010      2009 (in thousands)		Nine months ended September 30, 2010      2009 (in thousands)	
Asia	\$ 19,216	\$ 4,375	\$ 41,739	\$ 7,090
North America	1,000	1,253	5,040	3,790
Europe	306	109	1,046	400
Total Revenue	\$ 20,522	\$ 5,737	\$ 47,825	\$ 11,280

The following table summarizes assets by geographic region:

	September 30, 2010	December 31, 2009
North America	\$ 170,118	\$ 100,429
Asia	13,936	757
Total Assets	\$ 184,054	\$ 101,186

### 4. INVESTMENTS

The Company invests available cash primarily in investment grade commercial paper, corporate notes and government securities. The Company's short-term investments balance of \$71.1 million as of September 30, 2010, is comprised of US Treasury securities of \$7.5 million, corporate notes and bonds of \$46.4 million, commercial paper of \$17.0 million and FDIC guaranteed certificates of deposit of \$200,000. 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).

In February 2008, the Company began experiencing failed auctions of its entire auction-rate securities portfolio, resulting in its inability to sell these securities in the short term. The Company held put options associated with an agreement with UBS, AG related to the auction-rate securities purchased through them. The Company exercised these put options on June 30, 2010 with a settlement date of July 1, 2010. The auction-rate securities were trading securities recorded at fair value and unrealized gains and losses were reported as part of gain on investments in the Consolidated Statements of Operations. The Company's long-term investments at September 30, 2010, consist of a \$2.0 million investment in Peregrine Semiconductor, Corp. (a customer) Series D-1 Preferred shares.



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As noted above, in October 2008 the Company entered into an agreement with UBS, AG, which provided the Company certain rights to sell to UBS, AG the auction-rate securities that were purchased through them. The Company had the option to sell these securities to UBS, AG at par value from June 30, 2010 through July 2, 2012. The Company exercised the put option on June 30, 2010 with a settlement date of July 1, 2010. The ARS Put Options provided the Company with the opportunity to recover the estimated unrealized loss on its ARS investments. The Company recorded the fair value of the ARS Put Options upon receipt and valued the put options at their estimated fair value using a discounted cash flow model that weighs various factors, including interest rates and expected holding period. Unrealized gains and losses related to the ARS Put Options were recognized in earnings. During the nine months ended September 30, 2010, the Company recorded a gain of \$63,466 representing the changes in fair value of the auction-rate securities. The Company also recorded during the nine months ended September 30, 2010, a loss of \$55,279 representing the changes in fair value of the put options. During the three and nine months ended September 30, 2009, the Company recorded a gain (loss) of \$9,628 and (\$463,644), representing the changes in fair value of the put options. The Company also recorded during the three and nine months ended September 30, 2009, a gain (loss) of (\$23,402) and \$499,519, representing the changes in fair value of the auction-rate securities. Both the gain and loss from recording the change in fair value of the put options and auction-rate securities were recorded in gain on investments in the Consolidated Statements of Operations. The Company's investment policy no longer includes auction-rate securities as an approved investment.

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The investment in Peregrine Semiconductor Corp. (Peregrine) is accounted for as a cost method investment.

The following table presents the amortized cost, gross unrealized gains and losses and fair value on all securities at September 30, 2010:

	Amortized Cost	Gross Unrealized Gains (in thousands)	Gross Unrealized Losses	Fair Value
<b>Short-term Investments:</b>				
U.S. Treasury securities and agency (taxable)	\$ 7,500	\$ 1	\$	\$ 7,501
FDIC guaranteed certificates of deposit (taxable)	200			200
Corporate Notes and Bonds (taxable)	46,447	10		46,457
Commercial Paper (taxable)	16,975		(7)	16,968
Total short-term investments	\$ 71,122	\$ 11	\$ (7)	\$ 71,126
<b>Long-term Investments:</b>				
Peregrine Semiconductor, Corp. Series D-1 Preferred shares	\$ 2,000	\$	\$	\$ 2,000

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 following table summarizes the Company's financial assets measured at fair value on a recurring basis as of September 30, 2010:

	Level 1	Level 2	Level 3	Total
<b>Cash Equivalents:</b>				
Money market funds	\$ 10,098	\$	\$	\$ 10,098
<b>Investments:</b>				
Available-for-sales securities current		71,126		71,126
Total	\$ 10,098	\$ 71,126	\$	\$ 81,224

The following table provides a summary of changes in fair value of the Company's Level 3 financial assets as of September 30, 2010:

	<b>Level 3</b>
Balance at January 1, 2010	\$ 10,092
Redemption of auction-rate securites	(10,100)
Net recognized gains	8

Balance at September 30, 2010

\$

In addition to the debt securities noted above, the Company had approximately \$1.9 million of time deposits included in cash and cash equivalents as of September 30, 2010.

## 5. RELATED PARTY TRANSACTIONS

In November 2008, the Company purchased 1,345,444 shares of Peregrine Semiconductor, Corp. Series D-1 Preferred shares for a total of \$2.0 million, which represents less than 1% of Peregrine s shares outstanding. The terms and stock price of the purchase were

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the same as for the other investors who participated. Peregrine is a customer of the Company. For the three and nine months ended September 30, 2010, revenue from Peregrine was \$218,750 and \$2,113,250. As of September 30, 2010 and December 31, 2009, accounts receivable from Peregrine was \$638,740 and \$162,000. The pricing terms and conditions of the sales to Peregrine are similar to those available to the Company's other non-related customers.

## **6. SIGNIFICANT CUSTOMERS**

For the three months ended September 30, 2010, the Company had four customers that accounted for approximately 17%, 16%, 15% and 11% of its revenue and for the three months ended September 30, 2009, the Company had two customers that accounted for approximately 28% and 24% of its revenue. For the nine months ended September 30, 2010, the Company had four customers that accounted for approximately 19%, 14%, 12% and 10% of its revenue and for the nine months ended September 30, 2009, the Company had four customers that accounted for approximately 23%, 20%, 13% and 11% of its revenue.

Customers individually representing more than 10% of trade receivables accounted for approximately 76% and 68% of accounts receivable as of September 30, 2010 and December 31, 2009, 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.

## **7. STOCKHOLDERS' EQUITY**

### **Common Stock**

As of September 30, 2010, the Company had 85,000,000 shares of common stock authorized with a par value of \$0.001 and the Company had reserved 1,821,518 shares of common stock for issuance upon the exercise of outstanding common stock options. Also, 676,349 shares of the Company's common stock were reserved for future grants of stock options (or other similar equity instruments) under the Company's 2001 Equity Plan (the "2001 Plan") and 2007 Stock Incentive Plan (the "2007 Plan") as of September 30, 2010. In addition, 281,561 shares of the Company's common stock were reserved for future exercise of outstanding warrants as of September 30, 2010.

On June 21, 2010, the Company completed a public offering of common stock in which a total of 3,029,100 shares were sold at a price of \$30.00 per share. The Company sold 2,195,100 shares of common stock, including 395,100 shares pursuant to the full exercise of the underwriter's over-allotment option, and 834,000 shares of common stock were sold by certain stockholders of the Company. The Company raised a total of \$65.9 million in gross proceeds from the offering, or approximately \$61.7 million in net proceeds after deducting the underwriting discount and commissions of \$3.5 million and estimated other offering costs of approximately \$712,000. The Company did not receive any of the proceeds from the sale of common stock by the selling stockholders.

### **Warrants**

For the three and nine months ended September 30, 2010, no common stock warrants were exercised. At September 30, 2010 and December 31, 2009, there were 281,561 common stock warrants outstanding.

## **8. STOCK INCENTIVE PLANS**

The Company sponsors a stock option plan, the 2001 Plan, which allows for the grant of incentive and nonqualified stock options for the purchase of common stock. Each option entitles the holder to purchase one share of common stock at the specified option exercise price. The exercise price of each incentive stock option granted must not be less than the fair market value on the grant date. At the discretion of management and with the approval of the Board of Directors, the Company may grant options under the 2001 Plan. Management and the Board of Directors determine vesting periods and expiration dates at the time of the grant.

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

The Company uses the Black-Scholes option pricing model to value stock options issued after January 1, 2006. The Company uses historical stock prices of companies which it considers as a peer group as the basis for its volatility assumptions. The assumed risk-free rates were based on US Treasury rates in effect at the time of grant with a term consistent with the expected option lives. The expected term is based upon the

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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 expense is being allocated using the straight-line method. For the three and nine months ended September 30, 2010, the Company recorded \$533,161 and \$1,473,797, respectively, of stock compensation expense. For the three and nine months ended September 30, 2009, the Company recorded \$200,251 and \$560,744, respectively, of stock compensation expense. As of September 30, 2010, the Company has \$5,910,254 of total unrecognized compensation cost related to non-vested awards granted under the Company's stock-based plans that it expects to recognize over a weighted-average period of 3.05 years. The Company accounts for options issued prior to January 1, 2006 under the intrinsic value method.

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The following table summarizes the activity of the stock incentive and equity plans as of September 30, 2010 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 other shares issued
At December 31, 2009	874,269	2,194,286	\$ 9.48	34,863
Authorized				
Granted	(203,826)	203,826	28.37	
Exercised		(570,688)	5.64	
Cancelled/forfeited	5,906	(5,906)	14.70	
At September 30, 2010	676,349	1,821,518	12.78	34,863

The weighted average fair value per share of options granted for the three and nine months ended September 30, 2010 was \$27.20 and \$28.37, respectively, 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 5.2 years, risk-free interest rates of 0.23% - 0.75%, expected volatility of 60% and no dividend yield. The Company used an expected forfeiture rate of 27.54%.

For the three and nine months ended September 30, 2010, the Company recorded \$19,563 and \$92,260, respectively, of stock compensation expense related to restricted stock. For the three and nine months ended September 30, 2009, the Company recorded \$28,499 and \$85,498, respectively, of stock compensation expense related to restricted stock.

A summary of the Company's non-vested options during the nine month period ended September 30, 2010 is presented below:

	Options	Weighted-average exercise price
Non-vested at January 1, 2010	1,500,639	\$ 2.26
Granted	203,826	28.37
Vested	(325,552)	5.55
Forfeited	(5,793)	14.76
Non-vested at September 30, 2010	1,373,120	\$ 10.22

An analysis of restricted stock issued is as follows:

Non-vested restricted stock as of December 31, 2009	8,453
Granted	
Vested	(4,310)
Non-vested restricted stock as of September 30, 2010	4,143

## 9. COMMITMENTS AND CONTINGENCIES

**Purchase Commitments**

The Company has entered into agreements to purchase equipment and components to construct furnaces and to complete building construction. These agreements will result in the Company purchasing equipment, components and land for a total cost of approximately \$10.1 million, with deliveries occurring through April 2011.

**Litigation**

From time to time, the Company experiences routine litigation in the normal course of its business. The management of the Company does not believe any pending litigation will have a material adverse effect on the financial condition or results of operations of the Company.

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

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

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

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

You should read this Quarterly Report, the documents that we reference in this Quarterly Report and have filed with the SEC as exhibits and our Annual Report on Form 10-K for the year ended December 31, 2009 with the understanding that our actual future results, levels of activity, performance and events and circumstances may be materially different from what we expect.

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

### **OVERVIEW**

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

We are a vertically-integrated manufacturer of high-quality sapphire substrates and optical windows that are used in a variety of high-growth, high-volume end-market applications. Our largest product line is two inch to six inch sapphire cores and wafers for use in LEDs and blue laser diodes for solid state lighting and electronic applications. For the LED market we sell two inch to four inch material primarily in core form and six and eight inch material primarily in polished wafer form. Eight inch wafers are sold primarily for research and development efforts at this time. In addition, we sell six inch sapphire wafers that are used for Silicon-on-Sapphire ( SOS ) RFICs, as well as products for military, aerospace, sensor and other applications. We have also extended our technology, which gives us the ability to produce cores and wafers of up to twelve inches in diameter to support next-generation LED and SOS RFIC production. We have also developed the ability to produce large diameter circular and rectangular sapphire windows for use in various optical window applications.

Our revenue consists of sales of sapphire materials sold in core, as-cut, as-ground and polished wafer forms in two, three, four, six and eight inch diameters as well as optical materials sold as blanks or polished windows. In 2010, our sales have been focused on core and large diameter polished wafers where our profit margins are higher. Products are made to varying specifications, such as crystal planar orientations and thicknesses.



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Historically, a significant portion of our revenue has been derived from sales to relatively few customers. For the three months ended September 30, 2010, we had four customers that accounted for approximately 17%, 16%, 15% and 11% of our revenue and for the three months ended September 30, 2009, we had two customers that accounted for approximately 28% and 24% of our revenue. For the nine months ended September 30, 2010, we had four customers that accounted for approximately 19%, 14%, 12% and 10% of our revenue and for the nine months ended September 30, 2009, we had four customers that accounted for approximately 23%, 20%, 13% and 11% of our revenue. Other than as discussed above, none of our customers accounted for more than 10% of our revenue for such periods. Although we are continuing 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.

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

Our revenue for the three and nine months ended September 30, 2009 was significantly impacted by the global recession. Much of the sapphire we sell into the marketplace goes into LED lighting for consumer electronics. Consumer spending on these products declined during the recession, which decreased demand for our products. Toward the end of 2009, demand for sapphire began to strengthen as consumers resumed spending on consumer electronics, driven, in part, by the introduction of new products such as LED backlit LCD televisions. In addition to the increased demand, we experienced higher average selling prices for our products in the three and nine months ended September 30, 2010.

We manufacture and ship our products from our facilities in the Chicago metropolitan area. We have approximately 102,600 square feet of manufacturing and office space. We have completed construction of a 65,000 square foot facility in Penang, Malaysia, which will process sapphire grown by us in our Illinois facilities into finished cores and wafers. This facility is now processing cores. We expect some wafer production will come on line at the end of the fourth quarter of 2010. We also acquired in April 2010 a 134,400 square foot building in Batavia, Illinois to expand our crystal growth operations. This facility will also begin operations in the fourth quarter of 2010.

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 manufacturing facilities based on customer orders. We purchase materials and supplies to support such 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 our suppliers.

Our operating expenses are 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 and expense, gains and losses on investments and currency translation. For the three and nine months ended September 30, 2010, interest income was \$43,000 and \$196,000, partially offset by a realized loss on currency translation of \$13,000 and \$72,000. For the three and nine months ended September 30, 2009, other income was \$133,000 and \$590,000 and consisted mainly of interest income.

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. A full valuation allowance is provided as management cannot conclude that it is more likely than not that our deferred tax assets will be realized. At December 31, 2009, we had approximately \$55.6 million in net operating loss carryforwards ( NOLs ). We believe that we are not restricted in our ability to use the full amount of the NOLs, nor is there a limit to the amount of NOLs that may be used in any given year, however, we will update our analysis in 2010 and the results of that analysis may indicate an ownership change. If an ownership change is determined, the utilization of the NOLs may be limited. As of September 30, 2010, no tax benefit has been recognized for these NOLs.

We anticipate our capital expenditures will be approximately \$45 million in 2010. These expenditures will be primarily focused on expansion projects in Illinois and Malaysia. Our capital expenditures in the three and nine months ended September 30, 2010 were \$15.2 million and \$34.9 million.

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### RESULTS OF CONSOLIDATED OPERATIONS THREE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

	Three months ended September 30, 2010      2009 (in millions)	
Revenue	\$ 20.5	\$ 5.7
Cost of goods sold	9.4	6.1
Gross profit (loss)	11.1	(0.4)
Operating expenses:		
General and administrative	2.4	1.3
Sales and marketing	0.3	0.3
Research and development	0.3	0.2
Total operating expenses	3.0	1.8
Income (loss) from operations	8.1	(2.2)
Other income	0.1	0.1
Income (loss) before income taxes	8.2	(2.1)
Income tax benefit	(.1)	
Net income (loss)	\$ 8.3	\$ (2.1)

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

	Three months ended September 30, 2010      2009 (percentage of total)	
Revenue	100%	100%
Cost of goods sold	46	107
Gross profit (loss)	54	(7)
Operating expenses:		
General and administrative	12	23
Sales and marketing	2	5
Research and development	1	4
Total operating expenses	15	32
Income (loss) from operations	39	(39)
Other income	1	2

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Income (loss) before income taxes	40	(37)
Income tax benefit		
Net income (loss)	40%	(37)%

*Revenue.* Revenue was \$20.5 million for the three months ended September 30, 2010 and \$5.7 million for the three months ended September 30, 2009, an increase of \$14.8 million. We experienced a significant increase in revenue across most product lines and diameters due to increased demand for our products due to an improved market and pricing environment. Revenue from the sale of core products for the three months ended September 30, 2010 increased by \$10.7 million, of which \$2.2 million was attributed to volume and \$8.5 million was due to an increase in pricing. This increase was partially offset by a decrease in as-cut and as-ground sales of \$283,000 attributable to focusing production on higher margin core products. We also increased our sales of polished wafers by \$4.2 million attributable to increased demand for these products from the LED markets. We also had higher revenue of \$168,000 from optical products due to increased sales of sapphire for military, sensor and instrumentation applications. While we have seen some softening of demand in the television backlighting segment of the LED market, overall demand for sapphire substrates remains strong and we expect additional increase in pricing for the remainder of 2010. However, the rate of increase will likely be slower than what we experienced in recent months.

*Gross profit (loss).* Gross profit was \$11.1 million for the three months ended September 30, 2010 compared to a gross loss of \$406,000 for the three months ended September 30, 2009, an increase of \$11.5 million. The increase in gross profit is primarily

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attributable to higher revenue of \$14.8 million and better utilization of equipment and staff, which led to improved operating leverage and higher throughput. In addition, sales of larger diameter products, which have a higher gross profit margin, increased by \$8.6 million. In 2009, with the decrease in orders due to poor market and economic conditions, we experienced lower utilization of equipment and staff which resulted in under-absorbed manufacturing costs of approximately \$702,000.

*General and administrative expenses.* G&A expenses were \$2.4 million for the three months ended September 30, 2010 and \$1.3 million for the three months ended September 30, 2009, an increase of \$1.1 million. The increase was due in part to increased employee compensation costs of \$921,000, of which \$556,000 was from increased bonus accrual as no bonus was earned in 2009. We also experienced increased costs of \$169,000 from additional training and other information technology expenses related to the startup of the Malaysian facility. Bad debt expense also increased \$40,000 due to an overall increase in the accounts receivable balance.

*Sales and marketing expenses.* Sales and marketing expenses were \$329,000 for the three months ended September 30, 2010 and \$310,000 for the three months ended September 30, 2009, an increase of \$19,000. The increase in sales and marketing expenses is attributable to additional employee compensation costs partially offset by a decrease in travel and commission expense.

*Research and development expenses.* R&D expenses were \$260,000 for the three months ended September 30, 2010 and \$216,000 for the three months ended September 30, 2009, an increase of \$44,000. The increase was primarily attributable to an increase in employee compensation costs of \$15,000 and additional spending on various projects of \$32,000.

*Other income (expense).* Other income (expense) was \$30,000 for the three months ended September 30, 2010 and \$134,000 for the three months ended September 30, 2009, a decrease in net other income of \$104,000. The decrease was primarily due to lower interest income of \$106,000 largely a result of lower interest rates on our investment portfolio.

**Table of Contents****RESULTS OF CONSOLIDATED OPERATIONS NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009**

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

	<b>Nine months ended September 30, 2010      2009 (in millions)</b>	
Revenue	\$ 47.8	\$ 11.3
Cost of goods sold	25.3	16.0
Gross profit (loss)	22.5	(4.7)
Operating expenses:		
General and administrative	6.9	3.4
Sales and marketing	0.9	0.8
Research and development	0.7	0.6
Loss on disposal of assets	0.3	
Total operating expenses	8.8	4.8
Income (loss) from operations	13.7	(9.5)
Other income (expense)	.1	.6
Income (loss) before income taxes	13.8	(8.9)
Income tax expense		
Net income (loss)	\$ 13.8	\$ (8.9)

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, 2010      2009 (percentage of total)</b>	
Revenue	100%	100%
Cost of goods sold	53	142
Gross profit (loss)	47	(42)
Operating expenses:		
General and administrative	14	30
Sales and marketing	2	7
Research and development	1	5
Loss on disposal	1	
Total operating expenses	18	42
Income (loss) from operations	29	(84)

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Other income (expense)		5
Income (loss) before income taxes	29	(79)
Income tax expense		
Net income (loss)	29%	(79)%

*Revenue.* Revenue was \$47.8 million for the nine months ended September 30, 2010 and \$11.3 million for the nine months ended September 30, 2009, an increase of \$36.5 million. We experienced a significant increase in revenue across most product lines and diameters due to increased demand for our products as the market rebounded significantly. Revenue from the sale of core products for the nine months ended September 30, 2010 increased by \$27.6 million, of which \$14.2 million was attributable to volume and \$13.4 million was due to an increase in pricing. We also increased our sales of polished wafers by \$9.6 million as demand for these products increased in both the LED and SOS RFIC markets. We also had higher revenue of \$947,000 from optical products due to increased sales of sapphire for military, sensor and instrumentation applications. This increase was partially offset by a decrease in as-cut sales of \$1.6 million attributed to focusing production on higher margin core products.

*Gross profit (loss).* Gross profit was \$22.5 million for the nine months ended September 30, 2010 and gross loss was \$4.7 million for the nine months ended September 30, 2009, an increase of \$27.2 million. The increase in gross profit is primarily attributable to higher revenue of \$36.5 million and better utilization of equipment and staff, which led to improved operating leverage and higher throughput. In addition, sales of larger diameter products, which have a higher gross profit margin, increased by \$23.6 million. In 2009, with the decrease in orders, we experienced lower utilization of equipment and staff which resulted in under-absorbed manufacturing costs of approximately \$5.2 million.

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*General and administrative expenses.* G&A expenses were \$6.9 million for the nine months ended September 30, 2010 and \$3.4 million for the nine months ended September 30, 2009, an increase of \$3.5 million. The increase was due to an increase in employee compensation costs of \$2.4 million, of which \$1.3 million was from increased bonus costs as no bonus was earned in 2009 and \$1.1 million was from annual salary increases and expenses associated with the issuance and exercise of employee stock options. Bad debt expense increased \$467,000 as 2009 included a reduction of our reserve on collection of an over 90 days past due receivable as well as an increase in the accounts receivables balance. Directors' costs increased \$151,000 due in part to \$65,000 of costs associated with accelerating the last year of vesting of certain restricted shares for a director who resigned from our board and an increase in compensation in 2010. We also experienced an increase in expenses of \$319,000 from additional recruiting, training, travel, information technology and other miscellaneous expenses related to the startup of the Malaysian facility.

*Sales and marketing expenses.* Sales and marketing expenses were \$892,000 for the nine months ended September 30, 2010 and \$799,000 for the nine months ended September 30, 2009, an increase of \$93,000. The increase in sales and marketing expenses is attributable to increased employee compensation costs primarily due to annual salary increases and employee stock options expense and increased travel expense.

*Research and development expenses.* R&D expenses were \$706,000 for the nine months ended September 30, 2010 and \$566,000 for the nine months ended September 30, 2009, an increase of \$140,000. The increase is attributable to higher employee compensation costs of \$71,000 and an increase in spending on projects.

*Other income (expense).* Other income (expense) was \$132,000 for the nine months ended September 30, 2010 and \$590,000 for the nine months ended September 30, 2009, a decrease in net other income of \$458,000. The decrease was primarily due to lower interest income of \$360,000 as a result of lower interest rates as well as a \$72,000 loss on currency translation not incurred in 2009.

## **LIQUIDITY AND CAPITAL RESOURCES**

We historically funded our operations using a combination of issuances of common stock and preferred stock, a working capital line of credit, term loans and cash generated from our operations.

As of September 30, 2010, we had cash and short term investments totaling \$83.1 million, including cash of \$1.9 million held in deposits at major banks, \$10.1 million invested in money market funds and short term investments in certificates of deposit, commercial paper, state and local bonds, and US treasury securities of \$71.1 million. Our long term investment consists of a \$2.0 million investment in Peregrine Semiconductor, Corp. (one of our customers) Series D1 preferred stock. In February 2008, we began experiencing failed auctions of our entire auction-rate securities portfolio, resulting in our inability to sell these securities in the short term. We held put options associated with an agreement with UBS, AG related to the auction-rate securities purchased through them. We exercised these put options on June 30, 2010 with settlement on July 1, 2010.

As noted above, we entered into an agreement with UBS, AG, which provided us with certain rights to sell to UBS, AG all of our auction-rate securities that were purchased through them. We had the option to sell these securities to UBS, AG at par value from June 30, 2010 through July 2, 2012.

Our right to sell the auction-rate securities to UBS, AG commencing on June 30, 2010, represented put options for a payment equal to the par value of the auction-rate securities. We exercised the put options on June 30, 2010 with a settlement date of July 1, 2010 for a payment equal to the par value of the auction-rate securities. During the nine months ended September 30, 2010 and 2009, we recorded a realized loss of \$55,279 and \$463,644, respectively, representing the changes in fair value of the put options. We also recorded during the nine months ended September 30, 2010 and 2009, a gain of \$63,466 and \$499,520, respectively, representing the changes in fair value of the auction-rate securities. Both the gain and loss from recording the change in fair value of the put options and auction-rate securities were recorded in gain (loss) on investments in the Consolidated Statements of Operations. The Company's investment policy no longer includes auction-rate securities as an approved investment.



**Table of Contents****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, 2010 and 2009:

	<b>Nine months ended September 30, 2010      2009 (in thousands)</b>	
Net income (loss)	\$ 13,759	\$ (8,875)
<b>Non-cash items:</b>		
Depreciation and amortization	4,239	3,976
Stock based compensation and other, net	1,892	646
<b>Total non-cash items:</b>	6,131	4,622
<b>Working capital:</b>		
Accounts receivable	(7,606)	(853)
Accounts payable	2,500	(1,572)
Other accruals	1,932	(514)
Inventories	(1,821)	635
Prepaid expenses and other current assets	(4,142)	2,132
<b>Total working capital items:</b>	(9,137)	(172)
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 10,753</b>	<b>\$ (4,425)</b>

Cash provided by operating activities was \$10.7 million for the nine months ended September 30, 2010. During such period, we generated net income of \$13.8 million and we incurred non-cash expenses of \$6.1 million, including depreciation and amortization expense of \$4.2 million and stock-based compensation expense of \$1.6 million. Cash from net working capital decreased \$9.1 million, which was comprised of an increase in accounts receivable of \$7.6 million due to higher sales volumes, an increase in accounts payable of \$2.5 million due to increased manufacturing production and timing of payments, an increase in other accruals of \$1.9 million consisting primarily of an increase in deposits of \$586,000 from customer prepayments, and an increase in accrued payroll of \$858,000 from increased headcount and bonus accrual. There was also an increase in prepaid expenses of \$4.1 million due to an increase in purchases of furnace construction and replacement parts for both the Illinois and Malaysia facilities, and an increase in inventory of \$1.8 million primarily due to increasing stock of raw material.

Cash used in operating activities was \$4.4 million for the nine months ended September 30, 2009. During such period, we generated a net loss of \$8.9 million and we incurred non-cash charges of \$4.6 million, including depreciation expense of \$4.0 million and stock-based compensation expense of \$682,000. Cash from net working capital decreased by \$172,000 comprised of an increase in accounts receivable of \$853,000 due to higher sales and extension of credit terms, a decrease in accounts payable of \$1.6 million due to decreased purchases, a decrease in inventory of \$635,000 due to sales product mix requirements, a decrease in spare parts of \$1.6 million primarily due to not replenishing stock used due to lower production volumes, a decrease in prepaid expenses of \$519,000 due to timing on insurance policies and furnace replacement parts, and a decrease in accrued payroll of \$352,000 due to the payout of bonuses earned in the first half of 2009.

**Cash flows from investing activities**

Net cash (used in) provided by investing activities was \$(65.3) million and \$3.2 million for the nine months ended September 30, 2010 and 2009, respectively. During the nine months ended September 30, 2010, we used approximately \$22.6 million on building and equipment for our new crystal growth facility in Batavia, Illinois, and approximately \$10.7 million on building and equipping of our new post crystal growth facility in Malaysia. We also used \$1.5 million to upgrade our current facilities and add to existing capacities in other post crystal growth areas. We used proceeds from our common stock offering completed June 21, 2010 of approximately \$55.2 million to purchase investment securities. This was partially offset by sales of investments of \$24.8 million which were used to fund operations and capital spending.

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Net cash provided by investing activities was \$3.2 million for the nine months ended September 30, 2009. During the nine months ended September 30, 2009, we used approximately \$2.8 million to purchase components used to construct additional crystal growth furnaces, approximately \$171,000 to expand our facility and approximately \$243,000 to upgrade existing capacity in other areas. This partially offset proceeds from sales of investments of \$6.4 million.

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

Net cash provided by (used in) financing activities was \$62.6 million and \$(2.5) million for the nine months ended September 30, 2010 and 2009, respectively. Net cash provided by financing activities for the nine months ended September 30, 2010 represents \$61.7 million in net proceeds from the common stock offering completed June 21, 2010, as well as proceeds from the exercise of stock options of \$1.4 million partially offset by an increase in restricted cash of \$525,000. Net cash used in financing activities for the nine months ended September 30, 2009 reflects stock repurchases of \$2.6 million.

**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 12 months. Our cash needs include cash required to fund our operations, and the capital needed to fund our planned expansions in the US and Asia. 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 debt financing, 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.

**Contractual obligations**

The contractual obligations presented in the table below represent our estimates of future payments under fixed contractual obligations and commitments at September 30, 2010. Changes in our business needs, as well as actions by third parties and other factors, may cause these estimates to change. Because these estimates are complex and necessarily subjective, our actual payments in future periods are likely to vary from those presented in the table. The following table sets forth information relating to our contractual obligations at September 30, 2010:

	Less than 1 year	1-3 years	Payments due in		Total
			3-5 years	More than 5 years	
			(in millions)		
Purchase order obligations	\$ 7,137,000				\$ 7,137,000
Building construction obligations	2,930,000				2,930,000
Total contractual obligations	\$ 10,067,000	\$	\$	\$	\$ 10,067,000

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### **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 transactions**

Rubicon Worldwide LLC's assets and liabilities are translated into US 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 US 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.

We have determined that the functional currency of Rubicon Sapphire Technology (Malaysia) SDN BHD is the US dollar. Rubicon Sapphire Technology (Malaysia) SDN BHD's assets and liabilities are translated into US 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 US 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 US 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 when:

*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 30 day 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. There are no significant judgments or estimates associated with our revenue recognition policies or processes. All of our revenue is denominated in US dollars.

#### **Inventory valuation**

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We value our inventory at the lower of cost or market. Market is determined based on net realizable value. Cost is determined for raw materials on a first-in, first-out basis and work in process and finished goods are based on actual costs. 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. Recoveries of previously written-down inventory are recognized only when the related inventory is sold and revenue has been recognized. Inventory reserves decreased in the nine months ended September 30, 2010 by \$1.0 million primarily on disposal of obsolete inventory, resetting of standard costs on certain inventory items to net realizable value and ability to sell previously determined excess quantities. 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 expense costs attributable to lower utilization of equipment and staff. For the nine months ended September 30, 2010 and 2009, we determined we were not operating at capacity and recorded as expense costs associated with lower utilization of equipment and staff of \$462,000 and \$5.2 million, respectively. With the improved demand, we believe that it is unlikely that additional significant adjustments for lower utilization of equipment and staff will occur for the remainder of 2010.

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### **Investments**

We invest available cash primarily in investment grade commercial paper, 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. Our long-term investments at September 30, 2010 consist of a \$2.0 million investment in Peregrine Semiconductor, Corp. (a customer) Series D-1 Preferred shares.

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, 2010, no impairment was recorded.

In October 2008, we entered into an agreement that provides us with the right, but not the obligation, to sell all our auction-rate securities to UBS, AG for par value during the period from June 30, 2010 to July 2, 2012 (the ARS Put Options). The ARS Put Options provide us with the opportunity to recover the estimated unrealized loss on our ARS investments. We recorded the fair value of the ARS Put Options upon receipt. We exercised these put options on June 30, 2010 with a settlement date of July 1, 2010. At September 30, 2010 we have no auction rate securities or auction-rate security put options in our investment portfolio. We valued the put options at their estimated fair value using a discounted cash flow model. Unrealized gains and losses related to the ARS Put Options were recognized in earnings. We valued the auction-rate securities and ARS Put Options using a discounted cash flow model that weights various factors including interest rates and expected holding period. Our investment policy no longer includes auction rate securities as an approved investment.

### **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 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. We believe that it is unlikely that significant adjustments to allowances for doubtful accounts will be necessary.

### **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 the vesting term of our options, a review of a peer group of companies, and expected exercise behavior. Until November 2007, we were operating as a private company, and, as a result, we were unable to use our actual price volatility data. Therefore, we estimate the volatility of our common stock based on volatility of similar entities over the expected term of our stock options. We base the risk-free interest rate that we use in the option pricing model on US 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 27.54% was based on our past history of forfeitures.

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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 \$533,000 and \$1.5 million in stock compensation expense during the three and nine months ended September 30, 2010, respectively.

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**Valuation methodologies employed**

All option grants made during the three months ended September 30, 2010 were granted at an exercise price per share equal to the closing market price of our common stock on 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.

The aggregate intrinsic value of all stock options outstanding at September 30, 2010 is \$18.1 million, based on the fair market value of the common stock at September 30, 2010.



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### **RECENT ACCOUNTING PRONOUNCEMENTS**

On January 21, 2010 the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, amending Accounting Standards Codification (ASC) 820 (formerly Statement of Financial Accounting Standards No. 157). New disclosures related to transfers in and out of Level 1 and Level 2 measurements and separate disclosures about purchases, shares, issuances, and settlements relating to Level 3 measurements are required. ASU 2010-06 clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the Level 3 measurements disclosures about purchases, shares, issuances, and settlements which is effective for fiscal years beginning after December 15, 2010. The adoption of ASU 2010-06 did not have a material impact on our financial condition or results of operations.

On February 24, 2010 the FASB issued ASU 2010-09, which amends ASC 855 to address certain implementation issues related to an entity's requirement to perform and disclose subsequent events procedures. ASU 2010-09 requires entities to evaluate subsequent events through the date the financial statements are issued. ASU 2010-09 is effective immediately for financial statements that are issued or available to be issued. The adoption of ASU 2010-09 did not have a material impact on our financial condition or results of operations.

In April 2010, the FASB issued ASU No. 2010-17 Revenue Recognition-Milestone Method (Topic 605): Milestone Method of Revenue Recognition. This standard provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for certain research and development transactions. Under this new standard, a company can recognize as revenue consideration that is contingent upon achievement of a milestone in the period in which it is achieved, only if the milestone meets all criteria to be considered substantive. ASU No. 2010-17 is effective for fiscal years beginning on or after June 15, 2010. ASU No. 2010-17 is not expected to have a material impact on our financial statements.

### **OFF-BALANCE SHEET ARRANGEMENTS**

As of September 30, 2010, there have been no material changes in the off-balance sheet arrangements disclosed in the Management's Discussion and Analysis section of our Annual Report on Form 10-K for the year ended December 31, 2009.

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

For the first nine months ended September 30, 2010, except as noted below, 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, 2009.

**Foreign currency exchange risk.** To date, substantially all of our international sales have been transacted in US dollars. With our expansion in Malaysia, we may have exposure to foreign currency exchange rates. We currently do not enter into foreign currency hedging transactions.

### **ITEM 4. CONTROLS AND PROCEDURES**

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

Based on evaluations at September 30, 2010, 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 management, including our certifying officers, believes that a controls system, no matter how well designed and operated, is based in part upon certain assumptions about the likelihood of future events, and therefore can only provide reasonable, not absolute assurance that the

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objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

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, 2010, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II**

**ITEM 1. LEGAL PROCEEDINGS**

From time to time we may be named in claims arising in the ordinary course of business. Currently, there are no legal proceedings or claims pending against us or involving us that, in the opinion of our management, could reasonably be expected to have a material adverse effect on our business or financial condition.

**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, 2009, 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, 2009.

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**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

**Recent Sales of Unregistered Securities**

None.

**Use of Proceeds**

Our Registration Statement on Form S-1 (333-145880) covering the initial public offering of our shares of common stock was declared effective by the SEC on November 15, 2007.

The net offering proceeds to us after deducting expenses totaled approximately \$81.0 million. As of September 30, 2010, we had used approximately \$7.6 million of the net proceeds to repay borrowings outstanding under the revolving line of credit financing agreement with Hercules Technology Growth Capital, Inc. and to pay related fees and expenses. We also have used \$5.7 million to repurchase shares of our common stock, \$2.0 million to purchase Series D-1 preferred shares of Peregrine Semiconductor Corp. (one of our customers) and \$59.1 million on capital expenditures and \$1.8 million for working capital and general corporate purposes. We intend to use the remaining \$4.8 million of the net proceeds for our production capacity expansion project, working capital and other general corporate purposes.

**Issuer Purchases of Equity Securities**

In November 2008, we announced a repurchase plan approved by our Board of Directors authorizing the purchase of up to \$15.0 million of our outstanding common stock over a period of two years. The stock repurchase program authorizes the Company to purchase shares of our common stock in the open market at times and prices considered appropriate by the Company depending upon prevailing market conditions and other corporate considerations. There was no stock repurchased for the three months ended September 30, 2010.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. REMOVED AND RESERVED**

None.

**ITEM 5. OTHER INFORMATION**

None.

**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.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on November 8, 2010.

Rubicon Technology, Inc.

By /s/ Raja M. Parvez  
Raja M. Parvez  
Chief Executive Officer and President  
(Principal Executive Officer)

By /s/ William F. Weissman  
William F. Weissman  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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**EXHIBIT INDEX**

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

<b>Exhibit 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, filed on November 1, 2007, to the registrant's Registration Statement on Form S-1 (File No. 333-145880)
3.2	Amended and Restated Bylaws of Rubicon Technology, Inc.	Filed as Exhibit 3.2 to Amendment No. 2, filed on November 1, 2007, to the registrant's Registration Statement on Form S-1 (File No. 333-145880)
10.1	Supply Agreement, dated as of July 27, 2010, by and between Rubicon Technology, Inc. and [***]	
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	

Confidential treatment has been requested for certain provisions of this Exhibit pursuant to Rule 24b-2 promulgated under the Securities Exchange Act of 1934, as amended.