Rubicon Technology, Inc.
Form 10-Q
November 08, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark one)

x **Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**
for the quarterly period ended September 30, 2012

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	**36-4419301**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
900 East Green Street	
Bensenville, Illinois	**60106**
(Address of Principal Executive Offices)	**(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 x 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 x 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	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 5, 2012 the Registrant had 22,537,296 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, 2012

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PART I FINANCIAL INFORMATION

ITEM 1. Consolidated Financial Statements
Rubicon Technology, Inc.

Consolidated balance sheets

	September 30, 2012 (unaudited)	December 31, 2011
	(in thousands other than share data)	
Assets		
Cash and cash equivalents	$ 7,601	$ 4,290
Restricted cash	171	189
Short-term investments	36,570	50,528
Accounts receivable, net	8,120	30,655
Accounts receivable, related parties	4,325	1,989
Inventories	45,811	22,823
Other inventory supplies	15,734	17,613
Prepaid expenses and other current assets	2,581	4,491
Deferred tax assets	2,619	3,078
Total current assets	123,532	135,656
Property and equipment, net	121,358	120,931
Investments		2,000
Other assets	1,583	1,365
Total assets	$ 246,473	$ 259,952
Liabilities and stockholders equity		
Accounts payable	$ 7,781	$ 12,831
Accrued payroll	1,371	1,578
Accrued and other current liabilities	1,195	1,570
Corporate income and franchise taxes	379	612
Advance payments	206	9
Total current liabilities	10,932	16,600
Deferred tax liability	9,547	15,121
Total liabilities	20,479	31,721
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, 45,000,000 shares authorized and 24,312,140 and 24,289,723 shares issued; 22,537,296 and 22,514,879 shares outstanding	24	24

Additional paid-in capital	333,613	332,119
Treasury stock, at cost, 1,774,844 shares	(12,148)	(12,148)
Accumulated other comprehensive income (loss)	626	(50)
Accumulated deficit	(96,121)	(91,714)
Total stockholders equity	225,994	228,231
Total liabilities and stockholders equity	$ 246,473	$ 259,952

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

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Rubicon Technology, Inc.

Consolidated statements of operations

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
	(unaudited) (in thousands, other than share data)			
Revenue	$ 19,942	$ 33,637	$ 47,152	$ 114,635
Cost of goods sold	17,497	17,516	48,104	47,339
Gross profit (loss)	2,445	16,121	(952)	67,296
Operating expenses:				
General and administrative	2,530	3,251	6,880	9,228
Sales and marketing	417	519	1,346	1,284
Research and development	639	466	1,712	1,303
(Gain) loss on disposal of assets			(5)	7
Income (loss) from operations	(1,141)	11,885	(10,885)	55,474
Other income:				
Interest income	12	56	68	207
Realized gain (loss) on foreign currency translation	277	(166)	308	(172)
Realized gain on investments	8		8	
Total other income (expense)	297	(110)	384	35
Income (loss) before income taxes	(844)	11,775	(10,501)	55,509
Income tax benefit (expense)	1,116	(3,589)	6,094	(18,311)
Net income (loss)	$ 272	$ 8,186	$ (4,407)	$ 37,198
Net income (loss) per common share				
Basic	$ 0.01	$ 0.36	$ (0.20)	$ 1.62
Diluted	$ 0.01	$ 0.35	$ (0.20)	$ 1.57
Weighted average common shares outstanding used in computing net income (loss) per common share				
Basic	22,524,611	22,822,286	22,519,171	22,948,980
Diluted	23,050,618	23,410,525	22,519,171	23,760,859

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

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Rubicon Technology, Inc.

Consolidated statements of comprehensive income (loss)

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
	(unaudited)			
	(in thousands)			
Net income (loss)	$ 272	$ 8,186	$ (4,407)	$ 37,198
Other comprehensive income (loss)				
Unrealized gain (loss) on investments, net of taxes	638	(62)	681	(81)
Unrealized gain (loss) on currency translation	(1)	1	(5)	
Other comprehensive income (loss)	637	(61)	676	(81)
Comprehensive income (loss)	$ 909	$ 8,125	($ 3,731)	$ 37,117

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

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Rubicon Technology, Inc.

Consolidated statements of cash flows

	Nine months ended September 30, 2012	2011
	(unaudited)	
	(in thousands)	
Cash flows from operating activities		
Net income (loss)	$ (4,407)	$ 37,198
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities		
Depreciation and amortization	8,958	6,842
Net (gain) loss on disposal of assets	(5)	7
Stock-based compensation	1,484	2,650
Deferred taxes	(5,574)	14,576
Excess tax benefits from stock-based compensation		(4,301)
Changes in operating assets and liabilities:		
Accounts receivable	20,199	(10,609)
Inventories	(22,726)	(5,826)
Other inventory supplies	2,006	(5,803)
Prepaid expenses and other assets	1,694	(2,188)
Accounts payable	(5,150)	(2,386)
Accrued payroll	(215)	(434)
Corporate income and franchise taxes	(229)	(154)
Advanced payments	197	(838)
Accrued and other current liabilities	(389)	2,064
Net cash (used in) provided by operating activities	(4,157)	30,798
Cash flows from investing activities		
Purchases of property and equipment	(9,390)	(40,656)
Proceeds from disposal of assets	10	
Purchases of investments	(202)	(191)
Proceeds from sale of investments	17,300	12,528
Net cash provided by (used in) investing activities	7,718	(28,319)
Cash flows from financing activities		
Proceeds from exercise of options	12	741
Restricted cash	18	19
Purchase of treasury stock		(5,482)
Excess tax benefits from stock-based compensation		4,301
Net cash provided by (used in) financing activities	30	(421)
Net effect of currency translation	(280)	226
Net increase in cash and cash equivalents	3,311	2,284
Cash and cash equivalents, beginning of period	4,290	16,073
Cash and cash equivalents, end of period	$ 7,601	$ 18,357

Supplemental disclosures of cash flow information		
Cash paid for income taxes	$	$ 6,050

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

Rubicon Technology, Inc.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

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, 2011. 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, 2012 are not necessarily indicative of results that may be expected for the year ending December 31, 2012.

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, corporate notes, FDIC guaranteed certificates of deposits, common stock, and government securities. Investments classified as available-for-sale securities are carried at fair market value with unrealized gains and losses recorded in accumulated other comprehensive 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, 2012, no impairment was recorded.

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Accounts receivable

The majority of the Company s accounts receivable is due from manufacturers serving the LED and Silicon-on-Sapphire (SoS) industries. Credit is extended based on an evaluation of the customer s financial condition. Accounts receivable are due based on contract terms and at stated amounts due from customers, net of an allowance for doubtful accounts.

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

The following table shows the activity of the allowance for doubtful accounts:

	September 30, 2012	December 31, 2011
	(in thousands)	
Beginning balance	$ 378	$ 194
Charges to costs and expenses	14	1,873
Accounts charged off, less recoveries	(4)	(1,689)
Ending balance	$ 388	$ 378

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, 2012	December 31, 2011
	(in thousands)	
Raw materials	$ 20,584	$ 7,835
Work in progress	19,862	9,776
Finished goods	5,365	5,212
	$ 45,811	$ 22,823

There is a high degree of volatility in the markets served by the Company with demand for its products constantly changing. Currently, larger diameter wafers are in greater demand than smaller diameter products. For the three months ended September 30, 2012, the Company decided to recycle some boules from inventory that might have produced lower than normal six inch yield and in that case would be used for smaller diameter products. Historically, boules put through a second growth cycle typically result in very high grade crystal which typically results in a higher yield of large diameter wafers. The recycling of boules reduced inventory and increased cost of goods sold for the three and nine months ended September 30, 2012 by $927,000.

Property and equipment

Property and equipment consisted of the following:

	September 30, 2012	December 31, 2011
	(in thousands)	
Land and land improvements	$ 4,133	$ 2,540
Buildings	30,208	26,915
Machinery, equipment and tooling	103,412	98,276
Leasehold improvements	7,696	7,712
Furniture and fixtures	941	834
Information systems	1,070	954
Construction in progress	16,670	17,530
Total cost	164,130	154,761
Accumulated depreciation and amortization	(42,772)	(33,830)
Property and equipment, net	$ 121,358	$ 120,931

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Revenue recognition

Revenues recognized include 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 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

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 will recognize research and development revenue in the period during which the related costs are incurred over the contractually defined period.

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.

Diluted net loss per share is the same as basic net loss per share for the nine months ended September 30, 2012 because the effects of potentially dilutive securities are anti-dilutive.

At September 30, 2012, the Company had the following anti-dilutive securities outstanding which were excluded from the calculation of diluted net loss per share for the nine months ended September 30, 2012:

	September 30, 2012
Warrants	169,042
Stock options	356,965

526,007

Accumulated comprehensive income (loss)

Accumulated comprehensive income (loss) is defined as the change in equity of a business enterprise from transactions and other events from non-owner sources. Comprehensive income (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. The following table shows the activity of accumulated comprehensive income (loss):

	September 30, 2012	December 31, 2011
	(in thousands)	
Beginning Balance	$ (50)	$ (10)
Unrealized gain (loss) on investments, net of taxes	681	(42)
Unrealized gain (loss) on currency translation	(5)	2
Ending Balance	$ 626	$ (50)

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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,		Nine months ended September 30,	
	2012	2011	2012	2011
	(in thousands)		(in thousands)	
Korea	$ 6,929	$ 20,324	$ 9,332	$ 37,309
United States	4,256	4,240	8,842	9,251
France	2,245		8,482	356
Australia	4,702		8,430	14
Taiwan	417	4,208	5,657	49,846
China	921	575	3,501	3,533
Japan	152	2,612	492	11,115
Other	320	1,678	2,416	3,211
Total Revenue	$ 19,942	$ 33,637	$ 47,152	$ 114,635

The following table summarizes revenue by product type:

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
	(in thousands)		(in thousands)	
Core	$ 1,344	$ 6,602	$ 9,417	$ 61,622
Polished	16,580	25,117	32,709	48,077
Optical	1,558	1,909	4,525	4,912
Research & Development	422		447	15
Other	38	9	54	9
Total Revenue	$ 19,942	$ 33,637	$ 47,152	$ 114,635

The following table summarizes assets by geographic region:

	September 30, 2012	December 31, 2011
	(in thousands)	
United States	$ 209,868	$ 223,430
Malaysia	36,575	36,492
Other	30	30
Total Assets	$ 246,473	$ 259,952

4. INVESTMENTS

The Company invests available cash primarily in investment grade commercial paper, corporate notes, FDIC guaranteed certificates of deposits, common stock, and government securities. The Company s short-term investments balance of $36.6 million as of September 30, 2012, is comprised of U.S. Treasury securities of $3.5 million, corporate notes and bonds of $11.3 million, commercial

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paper of $14.9 million, FDIC guaranteed certificates of deposit of $3.8 million and common stock of $3.1 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, 2012:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term Investments:				
U.S. Treasury securities and agency	$ 3,516	$	$ 1	$ 3,515
FDIC Guaranteed certificates of deposit	3,808		4	3,804
Common stock	2,000	1,105		3,105
Corporate notes/bonds	11,317		6	11,311
Commercial Paper	14,839		4	14,835
Total short-term investments	$ 35,480	$ 1,105	$ 15	$ 36,570

The following table presents the amortized cost and gross unrealized gains and losses on all securities at December 31, 2011:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term Investments:				
U.S. Treasury securities and agency	$ 4,500	$	$	$ 4,500
Corporate notes/bonds	37,085		37	37,048
Commercial Paper	8,992		12	8,980
Total short-term investments	$ 50,577	$	$ 49	$ 50,528
Long-term Investments:				
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 Company s fixed income available-for-sale securities consist of high quality, investment grade commercial paper, corporate notes, FDIC guaranteed certificates of deposits, common stock, 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.

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The following table summarizes the Company s financial assets measured at fair value on a recurring basis as of September 30, 2012:

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Cash Equivalents:				
Money market funds	$ 5,708	$	$	$ 5,708
Investments:				
Available-for-sales securities current				
U.S. Treasury securities and agency		3,515		3,515
FDIC Guaranteed certificates of deposit		3,804		3,804
Common stock	3,105			3,105
Corporate notes/bonds		11,311		11,311
Commercial paper		14,835		14,835
Total	$ 8,813	$ 33,465	$	$ 42,278

The following table summarizes the Company s financial assets measured at fair value on a recurring basis as of December 31, 2011:

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Cash Equivalents:				
Money market funds	$ 839	$	$	$ 839
Investments:				
Available-for-sales securities current:				
U.S. Treasury securities and agency		4,500		4,500
Corporate notes/bonds		37,048		37,048
Commercial paper		8,980		8,980
Total	$ 839	$ 50,528	$	$ 51,367

In addition to the debt securities noted above, the Company had approximately $2.0 million and $3.5 million of time deposits included in cash and cash equivalents as of September 30, 2012 and December 31, 2011, respectively.

5. RELATED PARTY TRANSACTIONS

In November 2008, the Company purchased 1,345,444 shares of Peregrine Series D-1 Preferred shares for a total of $2.0 million, which represented less than 1% of Peregrine s shares outstanding. The terms and stock price of the purchase were the same as for the other investors who participated. Peregrine is a customer of the Company. On August 8, 2012, Peregrine completed its initial public offering, which resulted in a conversion of the preferred shares to common stock at a ratio of 7.34:1, or 183,303 shares of common stock. There is a lock out period until February, 2013 during which the Company can not sell these shares. For the three and nine months ended September 30, 2012 the Company recorded an unrealized gain on investments of $1.1 million. For the three and nine months ended September 30, 2012, revenue from Peregrine was $8.7 million and $20.7 million, respectively. As of September 30, 2012 and December 31, 2011, accounts receivable from Peregrine were $4.3 million and $2.0 million, respectively. 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, 2012, the Company had two customers that accounted for approximately 44% and 35% of revenue, respectively, and for the three months ended September 30, 2011, the Company had one customer that accounted for approximately 60% of revenue. For the nine months ended September 30, 2012, the Company had two customers that accounted for approximately 44% and 20% of revenue, respectively, and for the nine months ended September 30, 2011, the Company had three customers that accounted for approximately 32%, 22% and 13% of revenue, respectively.

Customers individually representing more than 10% of trade receivables accounted for approximately 86% and 89% of accounts receivable as of September 30, 2012 and December 31, 2011, 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, 2012, the Company had reserved 2,142,719 shares of common stock for issuance upon the exercise of outstanding common stock options. Also, 2,190,004 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, 2012. In addition, 267,826 shares of the Company s common stock were reserved for future exercise of outstanding warrants as of September 30, 2012.

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Warrants

For the nine months ended September 30, 2012, 13,735 common stock warrants were exercised in full on a net exercise basis , which resulted in the Company issuing 2,188 shares of common stock to the warrant holders. At September 30, 2012 and December 31, 2011, there were 267,826 and 281,561 common stock warrants outstanding, respectively.

Treasury Stock

On August 4, 2011, the Company authorized a stock repurchase program to purchase up to $25.0 million of its common stock over a period of two years. The stock repurchase program authorizes the Company to repurchase its shares of common stock in the open market at times and prices considered appropriate by the Company depending upon prevailing market conditions and other corporate considerations. The treasury shares are accounted for using the cost method whereby the entire cost of the acquired stock is recorded as treasury stock. The Company did not repurchase any shares during the three and nine months ended September 30, 2012.

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, restricted stock units, performance awards and bonus shares. On June 22, 2011, the stockholders of the Company approved an amendment to the 2007 Plan to increase the maximum number of shares that may be awarded or sold under the 2007 Plan by 2,100,000, from 2,307,692 to 4,407,692 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 that it considers as a peer group as the basis for 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 expense is being allocated using the straight-line method. For the three and nine months ended September 30, 2012, the Company recorded $455,000 and $1.4 million, respectively, of stock compensation expense. For the three and nine months ended September 30, 2011, the Company recorded $857,000 and $2.5 million, respectively, of stock compensation expense. As of September 30, 2012, the Company has $3.6 million 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 2.29 years. The Company accounts for options issued prior to January 1, 2006 under the intrinsic value method.

The following table summarizes the activity of the stock incentive and equity plans as of September 30, 2012 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
At December 31, 2011	2,259,999	2,093,108	$ 13.45	42,587
Granted	(94,595)	77,250	9.74	17,345
Exercised		(2,885)	4.00	
Cancelled/forfeited	24,600	(24,754)	16.44	

At September 30, 2012	2,190,004	2,142,719	$ 13.27	59,932

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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, 2012 and 2011, there is no intrinsic value for options outstanding. The weighted average fair value per share of options granted for the nine months ended September 30, 2012 was $9.74 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 5.3 years, risk-free interest rates of 0.83%-1.04%, expected volatility of 52% and no dividend yield. The Company used an expected forfeiture rate of 16.59%.

For the three and nine months ended September 30, 2012, the Company recorded $41,000 and $122,000, respectively, of stock compensation expense related to restricted stock. For the three and nine months ended September 30, 2011, the Company recorded $41,000 and $125,000, 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, 2012 is presented below:

	Options	Weighted-average exercise price
Non-vested at January 1, 2012	1,313,177	$ 15.42
Granted	77,250	9.74
Vested	(402,163)	14.37
Forfeited	(21,650)	17.68
Non-vested at September 30, 2012	966,614	$ 15.36

An analysis of restricted stock issued is as follows:

Non-vested restricted stock as of December 31, 2011	1,931
Granted	17,345
Vested	(10,603)
Non-vested restricted stock as of September 30, 2012	8,673

9. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

The Company has entered into agreements to purchase equipment and components to construct and maintain furnaces. These agreements will result in the Company purchasing equipment or components for a total cost of approximately $3.3 million with deliveries occurring through February 2013.

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.

10. INCOME TAXES

The Company is subject to income taxes in the U.S. and Malaysia. In accordance with the provisions of ASC Topic 740 Income Taxes , the Company assesses on a quarterly basis its ability to realize its deferred tax assets. The tax provision for the three and nine months ended September 30, 2012 is based on an estimated effective tax rate which requires the Company to make its best estimate of annual pretax income. The Company recorded for the three and nine months ended September 30, 2012 a tax benefit of $1.1 million and $6.1 million, respectively. The tax benefit relates to 2012 and several previous tax years which includes $424,000 in income tax benefits related to recording unrecognized state tax credits from previous tax years. The Company has concluded that these amounts are immaterial to the consolidated financial statements for the three and nine months ended September 30, 2012. The Company recorded for the three and nine months ended September 30, 2011 a tax expense of $3.6 million and $18.3 million, respectively, for an effective tax rate of 30.5% and 33.0%, respectively. For the three and nine months ended September 30, 2012, the difference between the Company s effective tax rate and the U.S. federal 34% statutory rate was primarily related to profits recorded in the Company s Malaysia operation for which the Company has a tax holiday, intercompany interest taxable in the U.S., additional tax credits and the reversal of an unrecognized tax benefit.

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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 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, s 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, 2011 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 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. In addition, we have 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. Products are made to varying specifications, such as crystal planar orientations and thicknesses. We recognize research and development revenue in the period during which the related costs are incurred.

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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, 2012, we had two customers that accounted for approximately 79% of our revenue and for the three months ended September 30, 2011, we had one customer that accounted for approximately 60% of our revenue. For the nine months ended September 30, 2012, we had two customers that accounted for approximately 64% of our revenue and for the nine months ended September 30, 2011, we had three customers that accounted for approximately 67% 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.

We recognize revenue upon shipment to our customers and from our government contract as costs and fees are incurred. 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 is denominated in U.S. dollars.

We manufacture and ship our products from our facilities in the Chicago metropolitan area and from our facility in Penang, Malaysia. We have approximately 237,000 square feet of manufacturing and office space in Batavia, Franklin Park and Bensenville, Illinois and a 65,000 square foot facility in Penang, Malaysia, which processes 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 produces production volumes of polished wafers. In March 2012, we acquired additional land in Batavia, Illinois to expand our crystal growth capacity. We have not yet determined when we will begin construction on this facility.

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 expected 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.

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 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. A full valuation allowance was provided and no tax benefit was recorded until we could conclude that it is more likely than not that our deferred tax assets would be realized. During the nine months ended September 30, 2011, we concluded that based on the current level of sustainable profitability that generates taxable income, it is more likely than not that our deferred tax assets will be realizable. With the release of the valuation allowance, we began recording federal and certain state and non-U.S. income taxes attributable to the fiscal year s pre-tax income. The Illinois State Legislature has increased the corporate income tax rate which unfavorably impacts our effective tax rate. Our effective tax rate could fluctuate significantly on a quarterly basis and could be affected to the extent earnings are higher or lower than anticipated. Our effective tax rate could also fluctuate due to changes in the valuation of our deferred tax assets or liabilities, or by changes in tax laws, regulations, or accounting principles, as well as certain discrete items. At December 31, 2011, we had federal and state net operating loss carryforwards (NOLs) of $22.0 million and $42.0 million, respectively. The Illinois State Legislature has suspended the use of NOLs for taxable years ending after December 31, 2010 and before December 31, 2014. We believe 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, the results of an updated analysis of ownership changes may indicate an ownership change. If an ownership change is determined, the utilization of the NOLs may be limited.

We anticipate our capital expenditures will be between $11 million and $13 million for the full year 2012. These expenditures will be primarily for purchases of equipment for our Malaysia facility, our raw material processing and new product development. Our capital expenditures in the nine months ended September 30, 2012 were $9.4 million.

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RESULTS OF CONSOLIDATED OPERATIONS THREE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

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

	Three months ended September 30, 2012	Three months ended September 30, 2011
	(in millions)	
Revenue	$ 19.9	$ 33.6
Cost of goods sold	17.5	17.5
Gross profit	2.4	16.1
Operating expenses:		
General and administrative	2.5	3.2
Sales and marketing	0.4	0.5
Research and development	0.6	0.5
Total operating expenses	3.5	4.2
Income (loss) from operations	(1.1)	11.9
Other income (expense)	0.3	(0.1)
Income (loss) before income taxes	(0.8)	11.8
Income tax benefit (expense)	1.1	(3.6)
Net income	$ 0.3	$ 8.2

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

	Three months ended September 30, 2012	Three months ended September 30, 2011
	(percentage of total)	
Revenue	100%	100%
Cost of goods sold	88	52
Gross profit		