

Rubicon Technology, Inc.
Form 10-Q
November 09, 2011
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark one)

Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2011

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)

Edgar Filing: Rubicon Technology, Inc. - Form 10-Q

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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

900 East Green Street

Bensenville, Illinois
(Address of Principal Executive Offices)

60106
(Zip Code)

Registrant's Telephone Number, Including Area Code: (847) 295-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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 4, 2011 the Registrant had 22,574,679 shares of common stock, par value \$0.001 per share, outstanding.

Table of Contents

RUBICON TECHNOLOGY, INC.

Quarterly Report on Form 10-Q

For the quarterly period ended September 30, 2011

TABLE OF CONTENTS

| | Page |
|----------------------|--|
| Part I | |
| | <u>Financial Information</u> |
| Item 1. | 2 |
| | <u>Consolidated Financial Statements (unaudited)</u> |
| | 2 |
| | <u>Consolidated Balance Sheets (unaudited) September 30, 2011 and December 31, 2010</u> |
| | 2 |
| | <u>Consolidated Statements of Operations (unaudited) Three and nine months ended September 30, 2011 and 2010</u> |
| | 3 |
| | <u>Consolidated Statements of Cash Flows (unaudited) Nine months ended September 30, 2011 and 2010</u> |
| | 4 |
| | <u>Notes to Consolidated Financial Statements (unaudited)</u> |
| | 5 |
| Item 2. | 13 |
| | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> |
| Item 3. | 23 |
| | <u>Quantitative and Qualitative Disclosures About Market Risk</u> |
| Item 4. | 23 |
| | <u>Controls and Procedures</u> |
| Part II | |
| | <u>Other Information</u> |
| Item 1. | 24 |
| | <u>Legal Proceedings</u> |
| Item 1A. | 24 |
| | <u>Risk Factors</u> |
| Item 2. | 24 |
| | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> |
| Item 3. | 24 |
| | <u>Defaults Upon Senior Securities</u> |
| Item 4. | 24 |
| | <u>Reserved</u> |
| Item 5. | 24 |
| | <u>Other Information</u> |
| Item 6. | 24 |
| | <u>Exhibits</u> |
| <u>Signatures</u> | 25 |
| <u>Exhibit Index</u> | 26 |

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

| | September 30, 2011 (unaudited) | December 31, 2010 |
|--|---|----------------------|
| | (in thousands other than share data) | |
| Assets | | |
| Cash and cash equivalents | \$ 18,357 | \$16,073 |
| Restricted cash | 514 | 533 |
| Short-term investments | 53,713 | 66,131 |
| Accounts receivable, net | 29,285 | 18,676 |
| Inventories, net | 16,705 | 11,135 |
| Other inventory supplies | 13,457 | 7,821 |
| Prepaid expenses and other current assets | 4,052 | 1,862 |
| Deferred tax assets | 1,990 | |
| Total current assets | 138,073 | 122,231 |
| Property and equipment, net | 116,318 | 82,511 |
| Investments | 2,000 | 2,000 |
| Total assets | \$ 256,391 | \$206,742 |
| Liabilities and stockholders' equity | | |
| Accounts payable | \$ 6,765 | \$9,255 |
| Accrued payroll | 2,096 | 2,538 |
| Corporate income and franchise taxes | 253 | 407 |
| Advance payments | 265 | 1,103 |
| Accrued and other current liabilities | 3,326 | 1,345 |
| Total current liabilities | 12,705 | 14,648 |
| Deferred tax liability | 12,266 | |
| Total liabilities | 24,971 | 14,648 |
| 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 and 85,000,000 shares authorized and 24,289,523 and 24,210,644 shares issued; 22,614,679 and 22,960,669 shares outstanding | 24 | 23 |
| Additional paid-in capital | 335,205 | 327,515 |

Edgar Filing: Rubicon Technology, Inc. - Form 10-Q

| | | |
|---|-------------------|------------------|
| Treasury stock, at cost, 1,674,844 and 1,249,975 shares | (11,143) | (5,661) |
| Accumulated other comprehensive loss | (91) | (10) |
| Accumulated deficit | (92,575) | (129,773) |
| Total stockholders' equity | 231,420 | 192,094 |
| Total liabilities and stockholders' equity | \$ 256,391 | \$206,742 |

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, | |
|---|--|------------|------------------------------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| | (unaudited) | | | |
| | (in thousands, other than share data) | | | |
| Revenue , net | \$ 33,637 | \$ 20,522 | \$ 114,635 | \$ 47,825 |
| Cost of goods sold | 17,516 | 9,423 | 47,339 | 25,348 |
| Gross profit | 16,121 | 11,099 | 67,296 | 22,477 |
| Operating expenses: | | | | |
| General and administrative | 3,251 | 2,341 | 9,228 | 6,918 |
| Sales and marketing | 519 | 329 | 1,284 | 892 |
| Research and development | 466 | 260 | 1,303 | 706 |
| Loss on disposal of assets | | 29 | 7 | 334 |
| Income from operations | 11,885 | 8,140 | 55,474 | 13,627 |
| Other income: | | | | |
| Interest income | 56 | 43 | 207 | 196 |
| Realized loss on foreign currency translation | (166) | (13) | (172) | (72) |
| Realized gain on investments | | | | 8 |
| Total other (expense) income | (110) | 30 | 35 | 132 |
| Income before income taxes | 11,775 | 8,170 | 55,509 | 13,759 |
| Income tax (expense) benefit | (3,589) | 126 | (18,311) | |
| Net income | \$ 8,186 | \$ 8,296 | \$ 37,198 | \$ 13,759 |
| Net income per common share | | | | |
| Basic | \$ 0.36 | \$ 0.36 | \$ 1.62 | \$ 0.65 |
| Diluted | \$ 0.35 | \$ 0.35 | \$ 1.57 | \$ 0.61 |
| Weighted average common shares outstanding used in computing net income per common share | | | | |
| Basic | 22,822,286 | 22,923,900 | 22,948,980 | 21,319,485 |
| Diluted | 23,410,525 | 23,977,278 | 23,760,859 | 22,442,553 |

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

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

| | Nine months ended September 30, 2011 2010 (unaudited) | |
|--|---|-----------|
| | (in thousands) | |
| Cash flows from operating activities | | |
| Net income | \$ 37,198 | \$ 13,759 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 6,842 | 4,239 |
| Net loss on disposal of assets | 7 | 334 |
| Stock-based compensation | 2,650 | 1,566 |
| Realized gain on investments | | (8) |
| Deferred taxes | 14,576 | |
| Excess tax benefits from stock-based compensation | (4,301) | |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (10,609) | (7,606) |
| Inventories | (5,826) | (1,821) |
| Other inventory supplies | (5,803) | (3,927) |
| Prepaid expenses and other current assets | (2,188) | (215) |
| Accounts payable | (2,386) | 2,500 |
| Accrued payroll | (434) | 858 |
| Corporate income and franchise taxes | (154) | (20) |
| Advanced payments | (838) | 586 |
| Accrued and other current liabilities | 2,064 | 508 |
| Net cash provided by operating activities | 30,798 | 10,753 |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (40,656) | (34,896) |
| Proceeds from disposal of assets | | 42 |
| Purchases of investments | (191) | (55,201) |
| Proceeds from sale of investments | 12,528 | 24,800 |
| Net cash (used in) investing activities | (28,319) | (65,255) |
| Cash flows from financing activities | | |
| Proceeds from issuance of common stock, net of issuance costs of \$4,130 | | 61,723 |
| Proceeds from exercise of options | 741 | 1,378 |
| Restricted cash | 19 | (525) |
| Purchase of treasury stock | (5,482) | |
| Excess tax benefits from stock-based compensation | 4,301 | |
| Net cash (used in) provided by financing activities | (421) | 62,576 |
| Net effect of currency translation | 226 | 28 |
| Net increase in cash and cash equivalents | 2,284 | 8,102 |
| Cash and cash equivalents, beginning of period | 16,073 | 3,860 |

Edgar Filing: Rubicon Technology, Inc. - Form 10-Q

| | | |
|---|-----------|-----------|
| Cash and cash equivalents, end of period | \$ 18,357 | \$ 11,962 |
| Supplemental disclosures of cash flow information | | |
| Cash paid for income taxes | \$ 6,050 | \$ |
| Supplemental disclosures of non-cash transactions | | |
| Unrealized loss on investments | \$ 81 | \$ 1 |

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

Table of Contents

Rubicon Technology, Inc.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2011

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, 2010. 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, 2011 are not necessarily indicative of results that may be expected for the year ending December 31, 2011.

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 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.

Edgar Filing: Rubicon Technology, Inc. - Form 10-Q

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, 2011, 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 of 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. The Company valued ARS Put Options at fair value using a discounted cash flow model. Unrealized gains and losses related to the ARS Put Options were recognized in earnings. The Company exercised these put options on June 30, 2010. At September 30, 2011, the Company had no investments in ARS Put Options or auction rate securities. The Company's investment policy no longer allows 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, 2011 | December 31, 2010 |
|--|-----------------------|----------------------|
| | (in thousands) | |
| Raw materials | \$ 5,643 | \$ 5,196 |
| Work in progress | 7,647 | 3,135 |
| Finished goods | 3,813 | 3,358 |
| | 17,103 | 11,689 |
| Reserve for obsolescence and realization | (398) | (554) |
| | \$ 16,705 | \$ 11,135 |

Property and equipment

Property and equipment consisted of the following:

| | September 30, 2011 | December 31, 2010 |
|---|-----------------------|----------------------|
| | (in thousands) | |
| Land and land improvements | \$ 2,504 | \$ 2,500 |
| Buildings | 24,758 | 22,897 |
| Machinery, equipment and tooling | 89,991 | 56,956 |
| Leasehold improvements | 7,712 | 7,712 |
| Furniture and fixtures | 835 | 824 |
| Information systems | 954 | 869 |
| Construction in progress | 20,678 | 15,353 |
| Total cost | 147,432 | 107,111 |
| Accumulated depreciation and amortization | (31,114) | (24,600) |
| Property and equipment, net | \$ 116,318 | \$ 82,511 |

Revenue recognition

Edgar Filing: Rubicon Technology, Inc. - Form 10-Q

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.

Table of Contents

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

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

Net income per share of common stock is as follows for the three and nine months ended September 30, 2011 and 2010:

| | Three months ended September 30, | | Nine months ended September 30, | |
|------------------------------|-------------------------------------|----------|------------------------------------|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| Net income (in thousands) | \$ 8,186 | \$ 8,296 | \$ 37,198 | \$ 13,759 |
| Net income per common share: | | | | |
| Basic | \$ 0.36 | \$ 0.36 | \$ 1.62 | \$ 0.65 |
| Diluted | \$ 0.35 | \$ 0.35 | \$ 1.57 | \$ 0.61 |

Weighted average common shares outstanding used in computing net income per common share :

| | | | | |
|---------|------------|------------|------------|------------|
| Basic | 22,822,286 | 22,923,900 | 22,948,980 | 21,319,485 |
| Diluted | 23,410,525 | 23,977,278 | 23,760,859 | 22,442,553 |

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.

Comprehensive income (Loss)

Comprehensive income (loss) is computed as net income (loss) plus certain other items that are recorded directly to stockholders' equity. In addition to net income (loss), the components of comprehensive income (loss) also include foreign currency translation adjustments. There were no material changes to comprehensive income (loss) during the three and nine month periods ended September 30, 2011.

Recent accounting pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRS*, (ASU 2011-04). These amendments, effective for the interim and annual periods beginning on or after December 15, 2011 (early adoption is prohibited), result in common definition of fair value and common requirements for measurement of and disclosure requirements between US GAAP and IFRS. ASU 2011-04 clarifies or changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. The adoption of ASU 2011-04 is not expected to have a material impact on the Company's financial condition or results of operation.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income*, (ASU 2011-05) which amends current comprehensive income guidance. This guidance is effective retrospectively for the interim and annual periods beginning on or after December 15, 2011 (early adoption is permitted), requires presentation of total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The pronouncement does not change the current option for presenting components of other comprehensive income, gross, or net of the effect of income taxes, provided that such tax effects are presented in the statement in which other comprehensive income is presented or disclosed in the notes to the financial statements. Additionally, the pronouncement does not affect the calculation or reporting of earnings per share. The pronouncement also does not change the items which must be reported in other comprehensive income, how such items are measured, or when such items must be reclassified to net income. The adoption of ASU 2011-05 is

Edgar Filing: Rubicon Technology, Inc. - Form 10-Q

not expected to have a material impact on the Company's financial condition or results of operation.

Reclassifications

Certain prior period amounts on the balance sheet have been reclassified to conform to the current period presentation.

Table of Contents**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 | | Nine months ended | |
|---------------|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2011 | September 30, 2010 | September 30, 2011 | September 30, 2010 |
| | (in thousands) | | (in thousands) | |
| Asia | \$ 27,718 | \$ 19,216 | \$ 101,802 | \$ 41,739 |
| North America | 4,648 | 1,000 | 10,100 | 5,040 |
| Europe | 1,271 | 306 | 2,733 | 1,046 |
| Total Revenue | \$ 33,637 | \$ 20,522 | \$ 114,635 | \$ 47,825 |

The following table summarizes assets by geographic region:

| | September 30, 2011 | December 31, 2010 |
|---------------|--------------------|-------------------|
| | (in thousands) | |
| North America | \$ 221,509 | \$ 186,511 |
| Asia | 34,882 | 20,231 |
| Total Assets | \$ 256,391 | \$ 206,742 |

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 \$53.7 million as of September 30, 2011, is comprised of US Treasury securities of \$4.5 million, corporate notes and bonds of \$39.2 million and commercial paper of \$10.0 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).

Until July 1, 2010, the Company held auction-rate securities as part of its investment portfolio. 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. 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 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. 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 allows auction rate securities as an approved investment.

The Company's long-term investment at September 30, 2011 consists of a \$2.0 million investment in Peregrine Semiconductor, Corp. (a customer) Series D-1 Preferred shares and is accounted for as a cost method investment. The value is adjusted for impairment based on review

Edgar Filing: Rubicon Technology, Inc. - Form 10-Q

of Peregrine's financial position. No impairment was noted as of September 30, 2011.

Table of Contents

The following table presents the amortized cost and gross unrealized gains and losses on all securities at September 30, 2011:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|-------------------|------------------------------|-------------------------------|------------------|
| | (in thousands) | | | |
| Short-term Investments: | | | | |
| US Treasury securities and agency (taxable) | \$ 4,500 | \$ | \$ (1) | \$ 4,499 |
| Corporate Notes and Bonds (taxable) | 39,313 | | (67) | 39,246 |
| Commercial Paper (taxable) | 9,988 | | (20) | 9,968 |
| Total short-term investments | \$ 53,801 | \$ | \$ (88) | \$ 53,713 |
| 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 and government securities. The Company values these securities based on pricing from pricing vendors, who may use quoted prices in active markets for identical assets (Level 1 inputs) or inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs) in determining fair value. The valuation techniques used to measure the fair value of the Company's financial instruments having Level 2 inputs were derived from non-binding market consensus prices that are corroborated by observable market data, quoted market prices for similar instruments, or pricing models, such as discounted cash flow techniques.

The following table summarizes the Company's financial assets measured at fair value on a recurring basis as of September 30, 2011:

| | Level 1 | Level 2 | Level 3 | Total |
|--|----------------|---------|---------|-----------|
| | (in thousands) | | | |
| Cash Equivalents: | | | | |
| Money market funds | \$ 15,570 | \$ | \$ | \$ 15,570 |
| Investments: | | | | |
| Available-for-sales securities - current | | | | |
| US Treasury securities and agency | | 4,499 | | 4,499 |
| Corporate notes/bonds | | 39,246 | | 39,246 |

Edgar Filing: Rubicon Technology, Inc. - Form 10-Q

| | | | | |
|------------------|-----------|-----------|----|-----------|
| Commercial paper | | 9,968 | | 9,968 |
| Total | \$ 15,570 | \$ 53,713 | \$ | \$ 69,283 |

Table of Contents

The following table summarizes the Company's financial assets measured at fair value on a recurring basis as of December 31, 2010:

| | Level 1 | Level 2 | Level 3 | Total |
|---|------------------|------------------|-----------|------------------|
| | (in thousands) | | | |
| Cash Equivalents: | | | | |
| Money market funds | \$ 10,042 | \$ | \$ | \$ 10,042 |
| Investments: | | | | |
| Available-for-sales securities - current: | | | | |
| US Treasury securities and agency | | 9,496 | | 9,496 |
| Corporate notes/bonds | | 38,081 | | 38,081 |
| Commercial paper | | 18,554 | | 18,554 |
| Total | \$ 10,042 | \$ 66,131 | \$ | \$ 76,173 |

In addition to the debt securities noted above, the Company had approximately \$2.8 million and \$6.0 million of time deposits included in cash and cash equivalents as of September 30, 2011 and December 31, 2010, 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 represents 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. For the three and nine months ended September 30, 2011, revenue from Peregrine was \$2.4 million and \$3.0 million, respectively. As of September 30, 2011 and December 31, 2010, accounts receivable from Peregrine were \$1.1 million and \$630,000, 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, 2011, the Company had one customer that accounted for approximately 60% of revenue and for the three months ended September 30, 2010, the Company had four customers that accounted for approximately 17%, 16%, 15% and 11% of revenue. For the nine months ended September 30, 2011, the Company had three customers that accounted for approximately 32%, 22% and 13% of revenue and for the nine months ended September 30, 2010, the Company had four customers that accounted for approximately 19%, 14%, 12% and 10% of revenue.

Customers individually representing more than 10% of trade receivables accounted for approximately 81% and 62% of accounts receivable as of September 30, 2011 and December 31, 2010, 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**

On June 22, 2011, the shareholders of the Company approved a reduction of the shares of common stock authorized with a par value of \$0.001 by 40,000,000, from 85,000,000 to 45,000,000. As of September 30, 2011 the Company had reserved 1,882,192 shares of common stock for issuance upon the exercise of outstanding common stock options. Also, 2,471,124 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, 2011. In addition, 281,561 shares of the Company's common stock were reserved for future exercise of outstanding warrants as of September 30, 2011.

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 certain stockholders of the Company sold 834,000 shares of common stock. The Company raised a total of \$65.9 million in gross proceeds from the offering, or approximately \$61.8 million in net proceeds after deducting the underwriting discount and commissions of \$3.5 million and estimated other offering costs of approximately \$642,000. The Company did not receive any of the proceeds

Edgar Filing: Rubicon Technology, Inc. - Form 10-Q

from the sale of common stock by the selling stockholders.

Warrants

For the three and nine months ended September 30, 2011, no common stock warrants were exercised. At September 30, 2011 and December 31, 2010, there were 281,561 common stock warrants outstanding.

Table of Contents**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. For the three and nine months ended September 30, 2011, the Company repurchased 424,869 shares at an average price of \$12.90 for \$5.5 million.

In November 2008, the Company authorized a stock repurchase program to purchase up to \$15.0 million of common stock over a period of two years. The stock repurchase program authorized the Company to repurchase shares of its common stock in the open market at times and prices considered appropriate by the Company depending upon prevailing market conditions and other corporate considerations. During 2010, no shares were repurchased and the program terminated on its terms on December 31, 2010.

8. STOCK INCENTIVE PLANS

The Company sponsored a stock option plan, the 2001 Plan, which allowed for the grant 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 shareholders 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 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 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, 2011, the Company recorded \$857,000 and \$2.5 million, respectively, of stock compensation expense. For the three and nine months ended September 30, 2010, the Company recorded \$533,000 and \$1.5 million, respectively, of stock compensation expense. As of September 30, 2011, the Company has \$5.1 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 2.51 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, 2011 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, 2010 | 643,850 | 1,830,397 | \$ 12.98 | 34,863 |
| Authorized | 2,100,000 | | | |
| Granted | (171,374) | 163,650 | 22.42 | 7,724 |
| Exercised | | (73,228) | 10.80 | |
| Expired | (139,979) | | | |
| Cancelled/forfeited | 38,627 | (38,627) | 20.69 | |

Edgar Filing: Rubicon Technology, Inc. - Form 10-Q

| | | | | | |
|-----------------------|-----------|-----------|----|-------|--------|
| At September 30, 2011 | 2,471,124 | 1,882,192 | \$ | 13.83 | 42,587 |
|-----------------------|-----------|-----------|----|-------|--------|

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, 2011 there is no intrinsic value for options outstanding. At September 30, 2010, the intrinsic value, based on the fair market value of the common

Table of Contents

stock for options outstanding, was \$18.1 million. The weighted average fair value per share of options granted for the nine months ended September 30, 2011 was \$22.42 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 5.0 years, risk-free interest rates of 1.87%-2.24%, expected volatility of 51% and no dividend yield. The Company used an expected forfeiture rate of 24.53%.

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. For the three and nine months ended September 30, 2010, the Company recorded \$19,000 and \$92,000, 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, 2011 is presented below:

| | Options | Weighted-average exercise price |
|----------------------------------|-----------|------------------------------------|
| Non-vested at January 1, 2011 | 1,339,384 | \$ 14.12 |
| Granted | 163,650 | 23.48 |
| Vested | (297,208) | 9.41 |
| Forfeited | (34,875) | 20.35 |
| Non-vested at September 30, 2011 | 1,170,951 | \$ 16.28 |

An analysis of restricted stock issued is as follows:

| | |
|--|---------|
| Non-vested restricted stock as of December 31, 2010 | 1,762 |
| Granted | 7,724 |
| Vested | (5,624) |
| Non-vested restricted stock as of September 30, 2011 | 3,862 |

9. COMMITMENTS AND CONTINGENCIES**Purchase Commitments**

The Company has entered into agreements to purchase equipment and components to construct furnaces. These agreements will result in the Company purchasing equipment or components for a total cost of approximately \$8.5 million with deliveries occurring through February 2012.

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 US 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. During the nine months ended September 30, 2011, the Company concluded that based on the current level of sustainable profitability that generates taxable income, that it is more likely than not that the Company's deferred tax assets will be realizable. The Company recognized a tax benefit of \$3.3 million to record current and long-term deferred tax assets. With the release of the valuation allowance, the Company began recording federal and certain state and non-US income taxes attributable to the fiscal year's pre-tax income. The tax provision and usage of net operating losses is based on an estimated effective tax rate which requires the Company to make its best estimate of annual pretax income. During the three months ended September 30, 2011 changes to these projections resulted in a change in the amount of stock compensation tax benefits that can be recognized in 2011. As a result, adjustments were made to excess tax benefits from stock-based compensation charged to additional paid in capital and timing on recognizing

Edgar Filing: Rubicon Technology, Inc. - Form 10-Q

deferred tax liabilities. The Company recorded for the three and nine months ended September 30, 2011, a tax provision of \$3.6 million and \$18.3 million, respectively, for an effective tax rate of 30.4% and 32.9%.

Table of Contents

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

All statements, other than statements of historical facts, included in this Quarterly Report on Form 10-Q 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, and 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, 2010 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. 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.

Table of Contents

Historically, a significant portion of our revenue has been derived from sales to relatively few customers. For the three months ended September 30, 2011, we had one customer that accounted for approximately 60%, of our revenue and for the three months ended September 30, 2010, we had four customers that accounted for approximately 17%, 16%, 15% and 11% of our revenue. For the nine months ended September 30, 2011, we had three customers that accounted for approximately 32%, 22% and 13% of our revenue and for the nine months ended September 30, 2010, we had four customers that accounted for approximately 19%, 14%, 12% and 10% 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. 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.

We manufacture and ship our products from our facilities in the Chicago metropolitan area and from our facility in Penang, Malaysia. We have approximately 102,600 square feet of manufacturing and office space in Franklin Park and Bensenville, Illinois. In 2010, we completed construction of a 65,000 square foot facility in Penang, Malaysia, which is processing sapphire grown by us in our Illinois facilities into finished cores and wafers. Our Malaysia facility currently finishes essentially all cores and is now producing production volumes of six inch polished wafers. During the nine months ended September 30, 2011, this facility was qualified by a key customer and was awarded an ISO 9001 certification. We also acquired in April 2010 a 134,400 square foot building in Batavia, Illinois to expand our crystal growth operations. This facility began operations in the fourth quarter of 2010 and additional capacity became available during the nine months ended September 30, 2011.

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 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. At December 31, 2010, we had \$49.5 million in net operating loss carryforwards (NOLs). We have updated our analysis of ownership changes that limit the utilization of the NOLs. This analysis shows an ownership change, but we believe that we are not restricted in our ability to use the full amount of the NOLs. 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 will 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. We recognized a tax benefit of \$3.3 million to record current and long-term deferred tax assets during the nine months ended September 30, 2011. With the release of the valuation allowance, we began recording federal and certain state and non-US income taxes attributable to the fiscal year's pre-tax income. The reversal of the valuation allowance favorably impacts our effective tax rate in 2011. The Illinois State Legislature has suspended the use of NOLs for taxable years ending after December 31, 2010 and before December 31, 2014 and 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 adversely affected to the extent earnings are 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. We expect our full year tax rate to be approximately 33%.

We anticipate our capital expenditures will be approximately \$50 million to \$55 million for the full year 2011. These expenditures will be primarily focused on equipping our crystal growth facility in Batavia, Illinois and post crystal growth facility in Penang, Malaysia and purchasing land and beginning construction on our next crystal growth facility in Illinois. Our capital expenditures in the three and nine months ended September 30, 2011 were \$15.3 million and \$40.7 million, respectively.

Table of Contents**RESULTS OF CONSOLIDATED OPERATIONS THREE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010**

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

| | Three months ended September 30, 2011 2010 (in millions) | |
|-----------------------------------|--|---------------|
| Revenue | \$ 33.6 | \$ 20.5 |
| Cost of goods sold | 17.5 | 9.4 |
| Gross profit | 16.1 | 11.1 |
| Operating expenses: | | |
| General and administrative | 3.2 | 2.4 |
| Sales and marketing | 0.5 | 0.3 |
| Research and development | 0.5 | 0.3 |
| Total operating expenses | 4.2 | 3.0 |
| Income from operations | 11.9 | 8.1 |
| Other income (expense) | (0.1) | 0.1 |
| Income before income taxes | 11.8 | 8.2 |
| Income tax (expense) benefit | (3.6) | 0.1 |
| Net income | \$ 8.2 | \$ 8.3 |

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

| | Three months ended September 30, 2011 2010 (percentage of total) | |
|-----------------------------------|--|-----------|
| Revenue | 100% | 100% |
| Cost of goods sold | 52 | 46 |
| Gross profit | 48 | 54 |
| Operating expenses: | | |
| General and administrative | 10 | 12 |
| Sales and marketing | 2 | 2 |
| Research and development | 1 | 1 |
| Loss on disposal of assets | | |
| Total operating expenses | 13 | 15 |
| Income from operations | 35 | 39 |
| Other income (expense) | | 1 |
| Income before income taxes | 35 | 40 |

Edgar Filing: Rubicon Technology, Inc. - Form 10-Q

| | | |
|------------------------------|------|-----|
| Income tax (expense) benefit | (11) | |
| Net income | 24% | 40% |

Revenue. Revenue was \$33.6 million for the three months ended September 30, 2011 and \$20.5 million for the three months ended September 30, 2010, an increase of \$13.1 million. We experienced a significant increase in revenue in large diameter polished product lines due to increased demand for our products, offset by lower demand on core products. Revenue from the sale of core products for the three months ended September 30, 2011 decreased by \$8.3 million, primarily due to a decrease in the volume of core sales as softness in the LED backlighting market has impacted the LED chip manufacturers. We also directed more of our crystal production to the large diameter wafer product. As a result, we increased our sales of polished wafers by \$20.4 million as demand for these products increased in both the LED and SOS RFIC markets. In addition, we had higher revenue of \$1.0 million from optical products due to increased sales of sapphire for sensor and instrumentation applications. We believe demand for core products will continue to be weak in the fourth quarter of 2011 and as a result pricing for core products is currently down. While demand for large diameter polished wafers has been strong through the third quarter of 2011, the prolonged weakness in the LED market could impact demand for this product as well in the fourth quarter of 2011.

Gross profit. Gross profit was \$16.1 million for the three months ended September 30, 2011 compared to a gross profit of \$11.1 million for the three months ended September 30, 2010, an increase of \$5.0 million. The increase in gross profit is primarily

Table of Contents

attributable to increased sales volume on our polished products partially offset by a lower core sales volume which were at higher margins for the three months ended September 30, 2010. Due to softness in the LED market, pricing from core products decreased significantly in the third quarter of 2011 and we expect continued softening in pricing in the fourth quarter 2011, which will adversely affect gross margins.

General and administrative expenses. G&A expenses were \$3.2 million for the three months ended September 30, 2011 and \$2.4 million for the three months ended September 30, 2010, an increase of \$910,000. The increase was due in part to increased employee compensation costs of \$387,000 from annual salary increases and expenses associated with employee stock option expense, increased investor relations expense of \$298,000 primarily due to higher outside resources associated with investor and media relations consulting costs, and increased bad debt expense of \$95,000 due to overall higher accounts receivable balances and timing of customers' payments. We also incurred increased travel costs of \$87,000 due to increased international and investor relations travel and increased recruiting costs of \$61,000.

Sales and marketing expenses. Sales and marketing expenses were \$519,000 for the three months ended September 30, 2011 and \$329,000 for the three months ended September 30, 2010, an increase of \$190,000. The increase in sales and marketing expenses is attributable to additional employee compensation costs and additional travel expenses.

Research and development expenses. R&D expenses were \$466,000 for the three months ended September 30, 2011 and \$260,000 for the three months ended September 30, 2010, an increase of \$206,000. The increase was primarily attributable to additional employee compensation costs of \$61,000, additional spending on various projects of \$119,000, and increased travel costs of \$26,000.

Other income. Other income (expense) was (\$110,000) for the three months ended September 30, 2011 and \$30,000 for the three months ended September 30, 2010, a decrease in other income of \$140,000. The decrease was primarily due to an increase in the realized loss on foreign currency translation of \$153,000.

Income tax expenses. Income tax expenses were \$3.6 million for the three months ended September 30, 2011 and a benefit of \$126,000 for the three months ended September 30, 2010, an increase of \$3.7 million. Our effective tax rate was 30.4% for the three months ended September 30, 2011. For the three months ended September 30, 2010, we reduced our tax accrual by \$126,000 as we determined we would not be subject to alternative minimum tax during 2010. The tax provision is based on an estimated annual effective rate which requires us to make our best estimate of annual pretax income. To the extent this pretax income varies from estimates made at the end of the most recent interim period, the actual tax provision recognized in 2011 could be different than the forecasted amount used to estimate the tax provision for the three months ended September 30, 2011. Based on our current estimated pretax income, we expect our full year tax rate to be approximately 33.0%.

RESULTS OF CONSOLIDATED OPERATIONS NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

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

| | Nine months ended September 30, 2011 2010 (in millions) | |
|---------------------------------|---|-------------|
| Revenue | \$ 114.6 | \$ 47.8 |
| Cost of goods sold | 47.4 | 25.3 |
| Gross profit | 67.2 | 22.5 |
| Operating expenses: | | |
| General and administrative | 9.2 | 6.9 |
| Sales and marketing | 1.3 | 0.9 |
| Research and development | 1.3 | 0.7 |
| Loss on disposal of assets | | 0.3 |
| Total operating expenses | 11.8 | 8.8 |
| Income from operations | 55.4 | 13.7 |
| Other income | 0.1 | 0.1 |

Edgar Filing: Rubicon Technology, Inc. - Form 10-Q

| | | |
|----------------------------|---------|---------|
| Income before income taxes | 55.5 | 13.8 |
| Income tax expense | (18.3) | |
| Net income | \$ 37.2 | \$ 13.8 |

Table of Contents

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

| | Nine months ended September 30, | |
|---------------------------------|------------------------------------|------------|
| | 2011 | 2010 |
| | (percentage of total) | |
| Revenue | 100% | 100% |
| Cost of goods sold | 41 | 53 |
| Gross profit | 59 | 47 |
| Operating expenses: | | |
| General and administrative | 8 | 14 |
| Sales and marketing | 1 | 2 |
| Research and development | 1 | 1 |
| Loss on disposal of assets | | 1 |
| Total operating expenses | 10 | 18 |
| Income from operations | 48 | 29 |
| Other | | |
| Income before income taxes | 48 | 29 |
| Income tax expense | (16) | |
| Net income | 32% | 29% |

Revenue. Revenue was \$114.6 million for the nine months ended September 30, 2011 and \$47.8 million for the nine months ended September 30, 2010, an increase of \$66.8 million. We experienced a significant increase in revenue across most product lines and diameters due to increased demand for our products which led to a large price increase in the first half of 2011. Revenue from the sale of core products for the nine months ended September 30, 2011 increased by \$27.7 million, of which \$32.4 million due to an increase in pricing is partially offset by a decrease of \$4.7 million due to lower volume. We directed most of our additional crystal growth production capacity to support the growing demand for six inch polished wafers. As a result, we increased our sales of polished wafers by \$37.1 million primarily on higher volume of \$34.0 and higher pricing of \$3.1 million, as demand for these products increased in both the LED and SOS RFIC markets. We also had higher revenue of \$2.2 million from optical products due to increased sales of sapphire for sensor and instrumentation applications. We expect the demand for our core products to be lower for the remainder of 2011 due to the lower demand in the LED backlighting market with improvement beginning in the first quarter of 2012. While demand for large diameter polished wafers has been strong throughout 2011, the prolonged weakness in the LED market could impact demand for this product as well for the remainder of 2011.

Gross profit. Gross profit was \$67.2 million for the nine months ended September 30, 2011 and \$22.5 million for the nine months ended September 30, 2010, an increase of \$44.7 million. The increase in gross profit is primarily attributable to higher revenue due to increased core pricing in the first half of 2011 and higher volume sales of polished wafers. We have experienced a softening in core prices and volumes and expect that to impact our gross profit for the remainder of 2011.

General and administrative expenses. G&A expenses were \$9.2 million for the nine months ended September 30, 2011 and \$6.9 million for the nine months ended September 30, 2010, an increase of \$2.3 million. The increase was primarily due to an increase in employee compensation costs of \$859,000 from annual salary increases and expenses associated with employee stock options. Bad debt expense increased \$312,000 as a result of higher receivables balance and timing of customers' payments. Also, investor relations expense increased \$544,000, primarily due to increased outside support services and investor relation consulting, increased audit fees of \$117,000, increased tax consulting expense of \$127,000 and increased executive travel expenses of \$189,000, primarily due to increased frequency in travel outside the US. G&A expenses for the Malaysia facility were also \$196,000 higher as the facility began to incur G&A expenses starting in the third quarter of 2010.

Sales and marketing expenses. Sales and marketing expenses were \$1.3 million for the nine months ended September 30, 2011 and \$892,000 for the nine months ended September 30, 2010, an increase of \$392,000. The increase in sales and marketing expenses is attributable to increased

Edgar Filing: Rubicon Technology, Inc. - Form 10-Q

employee compensation costs primarily due to annual salary increases, employee stock options expense and additional sales hires to support expansion as well as increased travel expenses.

Research and development expenses. R&D expenses were \$1.3 million for the nine months ended September 30, 2011 and \$706,000 for the nine months ended September 30, 2010, an increase of \$597,000. The increase is primarily attributable to higher employee compensation costs of \$192,000 and an increase in spending on various projects of \$375,000.

Other income. Other income was \$35,000 for the nine months ended September 30, 2011 and \$132,000 for the nine months ended September 30, 2010, a decrease in other income of \$97,000. The decrease was primarily due to an increase in losses on currency translation transactions.

Table of Contents

Income tax expenses. Income tax expenses were \$18.3 million for the nine months ended September 30, 2011. Due to our tax net operating loss position, there were no income taxes for the nine months ended September 30, 2010. Our effective tax rate was 33.0% for the nine months ended September 30, 2011. During the nine months ended September 30, 2011, management concluded that based on the current level of sustainable profitability that generates taxable income, that 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-US income taxes attributable to the fiscal year's pre-tax income at the statutory rates adjusted for various tax benefits that lower the rate. The tax provision is based on an estimated annual effective rate which requires us to make our best estimate of annual pretax income. To the extent this pretax income varies from estimates made at the end of the most recent interim period, the actual tax provision recognized in 2011 could be different than the forecasted amount used to estimate the tax provision for the nine months ended September 30, 2011. Based on our current estimated pretax income, we expect our full year tax rate to be approximately 33.0%.

LIQUIDITY AND CAPITAL RESOURCES

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

As of September 30, 2011, we had cash and short term investments totaling \$72.1 million, including cash of \$2.8 million held in deposits at major banks, \$15.6 million invested in money market funds and \$53.7 million invested in commercial paper, corporate notes and bonds and US treasury securities. 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 all of our auction-rate securities purchased through them, which represented all of our auction-rate securities. We had the option to sell these securities to UBS, AG at par value from June 30, 2010 through July 2, 2012. We exercised these put options on June 30, 2010 with settlement on July 1, 2010 for a payment equal to full par value of the auction-rate securities.

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. During the nine months ended September 30, 2010, we recorded a realized loss of \$55,000, representing the changes in fair value of the put options. We also recorded a realized gain \$63,000 during the nine months ended September 30, 2010, 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. Our investment policy no longer allows auction-rate securities as an approved investment.

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, 2011 and 2010:

| | Nine months ended September 30, 2011 2010 (in millions) | |
|---|---|---------|
| Net income | \$ 37.2 | \$ 13.8 |
| Non-cash items: | | |
| Depreciation and amortization | 6.8 | 4.2 |
| Stock based compensation and other, net | 2.7 | 1.9 |
| Deferred taxes | 14.6 | |
| Excess tax benefits from stock-based compensation | (4.3) | |
| Total non-cash items: | 19.8 | 6.1 |
| Working capital: | | |
| Accounts receivable | (10.6) | (7.6) |
| Inventories | (5.8) | (1.8) |
| Prepaid expenses and other current assets | (8.0) | (4.1) |
| Accounts payable | (2.4) | 2.5 |
| Other accruals | 0.6 | 1.9 |

| | | |
|--|----------------|----------------|
| Total working capital items: | (26.2) | (9.1) |
| Net cash provided by operating activities | \$ 30.8 | \$ 10.8 |

Table of Contents

Cash provided by operating activities was \$30.8 million for the nine months ended September 30, 2011. During such period, we generated net income of \$37.2 million and we incurred non-cash expenses of \$19.8 million, including depreciation and amortization expense of \$6.8 million and stock-based compensation expense of \$2.7 million. We also incurred a non-cash expense of \$14.6 from deferred taxes partially offset by a \$4.3 million tax benefit related to stock based compensation. During such period, cash from net working capital decreased \$26.2 million, which was comprised of an increase in accounts receivable of \$10.6 million due to timing of collections, an increase in prepaid expenses of \$8.0 million primarily due to an increase in purchases of furnace construction and replacement parts and other items used in the polishing of wafers, an increase in inventory of \$5.8 million on slower core sales, and a decrease in accounts payable of \$2.4 million due to timing of payments partially offset by an increase in other accruals of \$638,000.

Cash provided by operating activities was \$10.8 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 compensation expenses of \$858,000 from increased headcount. 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 added stock of raw material.

Cash flows from investing activities

Net cash used in investing activities was \$28.3 million and \$65.2 million for the nine months ended September 30, 2011 and 2010, respectively. During the nine months ended September 30, 2011, we used approximately \$26.9 million on building improvements and equipment for our new crystal growth facility in Batavia, Illinois, and approximately \$4.3 million to upgrade our other facilities and add existing capacity in other post crystal growth areas. We also used \$9.4 million to continue to equip our post crystal growth facility in Penang, Malaysia. This was partially offset by sales of investments of \$12.5 million used to fund operations, capital spending and to repurchase some of our common stock. 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.

We are continuing to equip our facilities in both Batavia, Illinois and Malaysia. It is difficult to predict the timing of capital expenditures on these projects, but we estimate our total capital expenditures for 2011 to be approximately \$50 million to \$55 million, which includes purchasing land and beginning construction on our next crystal growth facility in Illinois.

Cash flows from financing activities

Net cash (used in) provided by financing activities was (\$421,000) and \$62.5 million for the nine months ended September 30, 2011 and 2010, respectively. Net cash provided by financing activities for the nine months ended September 30, 2011 represents \$4.3 million in excess tax benefits related to stock based compensation, and \$741,000 in net proceeds from the exercise of stock options, partially offset by \$5.5 million used in the purchase of treasury stock. 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.

Table of Contents**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, 2011. 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, 2011:

| | Total | Payments due in | | | |
|----------------------------------|--------|---------------------|-------------------------------|--------------|----------------------|
| | | Less than 1 year | 1-3 years (in millions) | 3-5 years | More than 5 years |
| Purchase order obligations | \$ 7.6 | \$ 7.6 | | | |
| Building improvement obligations | \$ 0.9 | \$ 0.9 | | | |
| Total contractual obligations | \$ 8.5 | \$ 8.5 | \$ | \$ | \$ |

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Foreign currency translation and transaction

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

Table of Contents

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 payment terms. Customers are subject to a credit review process that evaluates each customer's financial position and its ability to pay. We determine collectibility 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.

All of our revenue is denominated in US dollars.

Inventory valuation

We value our inventory at the lower of cost or market. Market is determined based on net realizable value. Cost for raw materials, work in process and finished goods are based on actual costs on a first-in, first-out basis. 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. 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, we determined we were not operating at capacity and recorded as expense costs associated with lower utilization of equipment and staff of \$462,000. With the improved demand, we believe that it is unlikely that significant adjustments for lower utilization of equipment and staff will occur in 2011.

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), net 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, 2011, 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, 2011, no impairment was recorded.

Edgar Filing: Rubicon Technology, Inc. - Form 10-Q

In October 2008, we entered into an agreement that provided 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 provided 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, 2011 we have no auction rate securities or put options in our investment portfolio. We valued the auction-rate securities and ARS Put Options 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. Our investment policy no longer allows auction-rate securities as an approved investment.

Table of Contents

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 24.53% was based on our past history of forfeitures.

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 \$857,000 and \$2.5 million in stock compensation expense during the three and nine months ended September 30, 2011. All option grants made during the three and nine months ended September 30, 2011 and 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.

Based on the fair market value of the common stock at September 30, 2011, there is no aggregate intrinsic value of all stock options outstanding at September 30, 2011.

Income tax valuation allowance

Evaluating the need for and amount of a valuation allowance for deferred tax assets often requires significant judgment and extensive analysis of all the positive and negative evidence available to determine whether all or some portion of the deferred tax assets will not be realized. A valuation allowance must be established for deferred tax assets when it is more likely than not (a probability level of more than 50 percent) that they will not be realized. In general, realization refers to the incremental benefit achieved through the reduction in future taxes payable or an increase in future taxes refundable from the deferred tax assets, assuming that the underlying deductible differences and carryforwards are the last items to enter into the determination of future taxable income. In determining our valuation allowance, we consider the source of taxable income, including taxable income in prior carryback years, future reversals of existing temporary differences, the required use of tax planning strategies, and future taxable income exclusive of reversing temporary differences and carryforwards. During the nine months ended September 30, 2011, management concluded that based on the current level of sustainable profitability that generates taxable income, that it is more likely than not that our deferred tax assets will be realizable. With the release of the valuation allowance, federal and certain state and non-US income taxes attributable to the fiscal year's pre-tax income were provided for in the period. The reversal of the valuation allowance favorably impacted our effective tax rate.

Table of Contents

RECENT ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, *Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and IFRS*, (ASU 2011-04). These amendments, effective for the interim and annual periods beginning on or after December 15, 2011 (early adoption is prohibited), result in common definition of fair value and common requirements for measurement of and disclosure requirements between US GAAP and IFRS. ASU 2011-04 clarifies or changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. The adoption of ASU 2011-04 is not expected to have a material impact on our financial condition or results of operation.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (ASC Topic 220): Presentation of Comprehensive Income*, (ASU 2011-05) which amends current comprehensive income guidance. This guidance is effective retrospectively for the interim and annual periods beginning on or after December 15, 2011 (early adoption is permitted), requires presentation of total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The pronouncement does not change the current option for presenting components of other comprehensive income, gross, or net of the effect of income taxes, provided that such tax effects are presented in the statement in which other comprehensive income is presented or disclosed in the notes to the financial statements. Additionally, the pronouncement does not affect the calculation or reporting of earnings per share. The pronouncement also does not change the items which must be reported in other comprehensive income, how such items are measured, or when such items must be reclassified to net income. The adoption of ASU 2011-05 is not expected to have a material impact on our financial condition or results of operation.

OFF-BALANCE SHEET ARRANGEMENTS

As of September 30, 2011, 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, 2010.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

For the first nine months ended September 30, 2011, 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, 2010.

ITEM 4. CONTROLS AND PROCEDURES

Management's evaluation of disclosure controls and procedures

Based on evaluations at September 30, 2011, our chief executive officer and chief financial officer (together, our certifying officers), with the participation of the management team, have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that material information relating to the Company is accumulated and communicated to management, including our certifying officers, as appropriate to allow timely decisions regarding required disclosures.

Changes in internal control over financial reporting

Our certifying officers have concluded that there were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the three months ended September 30, 2011, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**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, 2010, 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, 2010.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**Recent Sales of Unregistered Securities**

None.

Issuer Purchases of Equity Securities

In August 2011, we announced a repurchase plan approved by our Board of Directors authorizing the purchase of up to \$25.0 million of our outstanding common stock over a period of two years. The stock repurchase program authorizes us to purchase shares of our common stock in the open market at times and prices considered appropriate by us depending upon prevailing market conditions and other corporate considerations.

The following table provides information about purchases made during the quarter ended September 30, 2011 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

| | Total number of shares purchased (a) | Average price paid per share (b) | Total number of shares purchased as part of publically announced Plans or Programs (c) | Approximate dollar value that may yet be purchased under the Plans or Programs (d) |
|--|--|--|---|--|
| July 1, 2011 - July 31, 2011 | | \$ | | \$ |
| August 1, 2011 - August 31, 2011 | 365,000 | \$ 13.00 | 365,000 | \$ 20,254,850 |
| September 1, 2011 - September 30, 2011 | 59,869 | \$ 12.30 | 59,869 | \$ 19,518,475 |
| Total | 424,869 | \$ 12.90 | 424,869 | \$ 19,518,475 |

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. RESERVED

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.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on November 9, 2011.

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)

Table of Contents

EXHIBIT INDEX

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

| Exhibit No. | Description | Incorporation by Reference |
|--------------------|---|---|
| 3.1 | Eighth Amended and Restated Certificate of Incorporation of Rubicon Technology, Inc. | Filed as Exhibit 3.1 to Amendment No. 2, to the registrant's Registration Statement on Form S-1 (File No. 333-145880) filed on November 1, 2007 |
| 3.2 | Amendment No. 1 to Eight Amended and Restated Certificate of Incorporation | Filed as Appendix A to the registrant's Definitive Proxy statement on Schedule 14A, filed on April 29, 2011 |
| 3.3 | Amended and Restated Bylaws of Rubicon Technology, Inc. | Filed as Exhibit 3.3 to Amendment No. 2, to the registrant's Registration Statement on Form S-1 (File No. 333-145880) filed on November 1, 2007 |
| 31.1 | Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | |
| 31.2 | Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | |
| 32.1 | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | |
| 101 | The following materials from our quarterly report on Form 10-Q for the quarter ended September 30, 2011 are formatted in eXtensible Business Reporting Language (XBRL): (i) consolidated balance sheets, (ii) consolidated statements of operation, (iii) consolidated statements of cash flows and (iv) notes to the consolidated financial statements | |