

AXT INC
Form 10-Q
May 12, 2008

**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 March 31, 2008

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 000-24085

AXT, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
Incorporation or organization)

94-3031310
(I.R.S. Employer
Identification No.)

4281 Technology Drive, Fremont, California 94538

(Address of principal executive offices) (Zip code)

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(510) 683-5900

(Registrant's telephone number, including area code)

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 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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at April 30, 2008
Common Stock, \$0.001 par value	30,408,403

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AXT, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands, except per share data)

	March 31, 2008	December 31, 2007
Assets:		
Current assets:		
Cash and cash equivalents	\$ 23,225	\$ 18,380
Short-term investments	16,217	20,825
Accounts receivable, net of allowances of \$187 and \$379 as of March 31, 2008 and December 31, 2007, respectively	16,693	12,149
Inventories, net	29,077	24,781
Prepaid expenses and other current assets	5,405	3,569
Assets held for sale		5,140
Total current assets	90,617	84,844
Property, plant and equipment, net	17,120	15,986
Restricted deposits	6,550	6,700
Other assets	5,468	5,242
Total assets	\$ 119,755	\$ 112,772
Liabilities and stockholders' equity:		
Current liabilities:		
Accounts payable	\$ 8,973	\$ 4,328
Accrued liabilities	4,279	4,326
Current portion of long-term debt	735	450
Income taxes payable	633	390
Total current liabilities	14,620	9,494
Long-term debt, net of current portion	6,100	6,250
Other long-term liabilities	2,983	3,778
Total liabilities	23,703	19,522
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, \$0.001 par value per share; 2,000 shares authorized; 883 shares issued and outstanding as of March 31, 2008 and December 31, 2007.	3,532	3,532
Common stock, \$0.001 par value per share; 70,000 shares authorized; 30,395 and 30,358 shares issued and outstanding as of March 31, 2008 and December 31, 2007, respectively	30	30
Additional paid-in capital	186,187	185,949
Accumulated deficit	(96,584)	(98,543)
Accumulated other comprehensive income	2,887	2,282
Total stockholders' equity	96,052	93,250
Total liabilities and stockholders' equity	\$ 119,755	\$ 112,772

See accompanying notes to condensed consolidated financial statements.

AXT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share data)

	Three Months Ended March 31,	
	2008	2007
Revenue	\$ 19,634	\$ 12,526
Cost of revenue	13,413	7,121
Gross profit	6,221	5,405
Operating expenses:		
Selling, general and administrative	3,667	3,703
Research and development	504	460
Impairment on assets held for sale	83	
Total operating expenses	4,254	4,163
Income from operations	1,967	1,242
Interest income, net	124	224
Other income (expense), net	428	(11)
Income before provision for income taxes	2,519	1,455
Provision for incomes taxes	560	111
Net income	\$ 1,959	\$ 1,344
Net income per share:		
Basic	\$ 0.06	\$ 0.04
Diluted	\$ 0.06	\$ 0.04
Shares used in computing net income per share:		
Basic	30,367	29,798
Diluted	31,585	31,324

See accompanying notes to condensed consolidated financial statements.

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AXT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Three Months Ended March 31,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 1,959	\$ 1,344
Adjustments to reconcile net income to net cash used in operations:		
Depreciation	478	321
Accretion of marketable securities premium/discount		(29)
Impairment on assets held for sale	83	
Stock-based compensation	170	120
Realized loss (gain) on sale of investments	(459)	10
Changes in assets and liabilities:		
Accounts receivable, net	(4,366)	1,112
Inventories	(4,028)	(4,096)
Prepaid expenses	(1,701)	380
Other assets	(185)	(191)
Accounts payable	4,469	(658)
Accrued liabilities	(100)	684
Income taxes	221	(49)
Other long-term liabilities	(902)	(464)
Net cash used in operating activities	(4,361)	(1,516)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(986)	(1,167)
Proceeds from sale of assets held for sale	5,057	
Purchases of marketable securities	(6,808)	(5,113)
Proceeds from sale of marketable securities	11,328	3,060
Decrease in restricted deposits	150	150
Net cash provided by (used in) investing activities	8,741	(3,070)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	68	3,708
Long-term debt payments	(150)	(229)
Long-term debt proceeds	274	
Net cash provided by financing activities	192	3,479
Effect of exchange rate changes on cash and cash equivalents	273	55
Net increase (decrease) in cash and cash equivalents	4,845	(1,052)
Cash and cash equivalents at the beginning of the period	18,380	16,116
Cash and cash equivalents at the end of the period	\$ 23,225	\$ 15,064

See accompanying notes to condensed consolidated financial statements.

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AXT, INC. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation

The accompanying condensed consolidated financial statements of AXT, Inc. (AXT , the Company , we, us, and our refer to AXT, Inc. and its consolidated subsidiaries) are unaudited, and have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the year-end condensed consolidated balance sheet data was derived from our audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of our management, the unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, considered necessary to present fairly the financial position, results of operations and cash flows of AXT and our subsidiaries for all periods presented.

Our management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ materially from those estimates.

The results of operations are not necessarily indicative of the results to be expected in the future or for the full fiscal year. It is recommended that these condensed consolidated financial statements be read in conjunction with our consolidated financial statements and the notes thereto included in our 2007 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2008.

Note 2. Accounting for Stock-Based Compensation

Effective January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), *Share-Based Payment*, (SFAS 123(R)). SFAS 123(R) establishes accounting for stock-based awards exchanged for employee services. Accordingly, stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized as expense over the employee requisite service period. All of our stock compensation is accounted for as an equity instrument. We previously applied Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations and provided the required pro forma disclosures of SFAS No. 123, *Accounting for Stock-Based Compensation* .

We elected the modified prospective transition method for adopting SFAS 123(R). Under this method, the provisions of SFAS 123(R) apply to all awards granted or modified after the date of adoption. The unrecognized expense of awards not yet vested at the date of adoption will be recognized in net income in the periods after the date of adoption using the same Black-Scholes valuation method and assumptions determined under the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, as disclosed in our previous quarterly and annual reports.

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The effect of recording stock compensation for the three months ended March 31, 2008 and 2007 was as follows (in thousands, except per share data):

	Three Months Ended March 31,	
	2008	2007
Stock-based compensation in the form of employee stock options, included in:		
Cost of revenue	\$ 16	\$ 13
Selling, general and administrative	122	89
Research and development	32	18
Total stock-based compensation	170	120
Tax effect on stock-based compensation		
Net effect on net income	\$ 170	\$ 120
Effect on basic net income per share	\$	\$
Effect on diluted net income per share	\$	\$

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As of March 31, 2008, the total compensation costs related to unvested stock-based awards granted to employees under our stock option plan but not yet recognized was approximately \$1,391,000 net of estimated forfeitures of \$449,000. This cost will be amortized on a straight-line basis over a weighted-average period of approximately 2.4 years and will be adjusted for subsequent changes in estimated forfeitures. We elected not to capitalize any stock-based compensation to inventory as of March 31, 2008 and December 31, 2007, due to the immateriality of the amount.

The amortization of stock compensation under SFAS 123(R) for the period after our January 1, 2006 adoption is based on the single-option approach.

We estimate the fair value of stock options using a Black-Scholes valuation model, consistent with the provisions of SFAS 123(R), and Securities and Exchange Commission Staff Accounting Bulletin No. 107. There were no stock option grants made in the three months ended March 31, 2007. The fair value of our stock options granted to employees for the three months ended March 31, 2008 was estimated using the following weighted-average assumptions:

	Three Months Ended March 31, 2008
Expected term (in years)	4.0
Volatility	60.79%
Expected dividend	0%
Risk-free interest rate	2.69%
Estimated forfeitures	14.64%
Weighted-average fair value	\$ 5.09

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The following table summarizes the stock option transactions during the three months ended March 31, 2008 (in thousands, except per share data):

	Shares	Weighted-average Exercise Price	Weighted-average Remaining Contractual Life (in years)	Aggregate Intrinsic Value
Options outstanding as of December 31, 2007	2,477	\$ 2.95		
Granted	2	5.09		
Exercised	(38)	1.82		
Canceled	(34)	7.00		
Options outstanding as of March 31, 2008	2,407	2.91	6.79	\$ 5,732
Options vested and expected to vest as of March 31, 2008	2,164	\$ 2.83	6.61	\$ 5,351
Options exercisable as of March 31, 2008	1,650	\$ 2.45	6.00	\$ 4,677

As of December 31, 2007, options to purchase 1,638,139 shares at a weighted average exercise price of \$2.56 per share were vested and exercisable.

The aggregate intrinsic value in the table above represents the total pretax intrinsic value, based on our closing price of \$4.77 as of March 31, 2008, which would have been received by the optionholder had all optionholders exercised their options as of that date. The total number of in-the-money options exercisable as of March 31, 2008 was 1,919,444.

The options outstanding and exercisable as of March 31, 2008 were in the following exercise price ranges:

Range of Exercise Price	Options Outstanding as of March 31, 2008			Options Exercisable as of March 31, 2008		
	Shares	Weighted-average Exercise Price	Weighted-average Remaining Contractual Life	Shares	Weighted-Average Exercise Price	
\$ 1.17 - \$ 1.38	1,213,281	\$ 1.28	6.66	936,458	\$ 1.29	
\$ 1.39 - \$ 1.44	11,500	\$ 1.41	7.14	8,042	\$ 1.41	
\$ 1.45 - \$ 2.24	445,863	\$ 2.17	5.09	430,571	\$ 2.17	
\$ 2.25 - \$ 6.31	677,995	\$ 4.95	8.43	216,431	\$ 3.54	
\$ 6.32 - \$41.50	58,500	\$ 19.17	3.35	58,500	\$ 19.17	
	2,407,139	\$ 2.91	6.79	1,650,002	\$ 2.45	

The total intrinsic value of options exercised for the three months ended March 31, 2008 and 2007, was \$128,000 and \$70,000, respectively. Cash received from option exercises for the three months ended March 31, 2008 and 2007 was \$68,000 and \$45,000, respectively.

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A summary of activity related to restricted stock awards for the three months ended March 31, 2008 is presented below:

	Shares	Weighted-Average Grant Date Fair Value
Non-vested restricted stock shares outstanding at beginning of the quarter	23,480	\$ 4.26
Restricted stock shares granted		\$
Restricted stock shares vested		\$
Non-vested restricted stock shares outstanding as of March 31, 2008	23,480	\$ 4.26

As of March 31, 2008, we had \$76,000 of unrecognized compensation expense, net of forfeitures, related to restricted stock awards, which will be recognized over the weighted average period of 2.43 years. During the three months ended March 31, 2008, no shares of restricted stock vested.

Note 3. Investments and Fair Value Measurements

Our cash, cash equivalents and investments, and strategic investments in privately-held companies are classified as follows (in thousands):

	March 31, 2008			December 31, 2007				
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value
Classified as:								
Cash	\$ 8,308	\$	\$	\$ 8,308	\$ 10,818	\$	\$	\$ 10,818
Cash equivalents:								
Money market fund	14,917			14,917	7,562			7,562
Total cash equivalents	14,917			14,917	7,562			7,562
Total cash and cash equivalents	23,225			23,225	18,380			18,380
Investments:								
U.S. Treasury and agency securities								