Rubicon Technology, Inc.
Form 10-Q
August 07, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark one)

x Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended June 30, 2009 or

¨ Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
for the transition period from ______ to ______

Commission file number 001-33834

RUBICON TECHNOLOGY, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**36-4419301**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
9931 Franklin Avenue	
Franklin Park, Illinois	**60131**
(Address of Principal Executive Offices)	**(Zip Code)**

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

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

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

As of August 6, 2009 the Registrant had 20,039,743 shares of common stock, par value $.001 per share, outstanding.

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RUBICON TECHNOLOGY, INC.

Quarterly Report on Form 10-Q

For the quarterly period ended June 30, 2009

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PART I FINANCIAL INFORMATION

ITEM 1. Consolidated Financial Statements
Rubicon Technology, Inc.

Consolidated balance sheets

	June 30, 2009 (unaudited)	December 31, 2008
	(in thousands other than share data)	
Assets		
Cash and cash equivalents	$ 2,993	$ 7,629
Restricted cash	8	5
Short-term investments	44,546	37,328
Accounts receivable, net of allowances of $219 and $629	2,274	2,542
Inventories, net	7,970	7,882
Spare parts	2,558	3,569
Prepaid expenses and other current assets	832	1,357
Total current assets	61,181	60,312
Investments	2,000	12,696
Property and equipment, net	38,337	39,337
Total assets	$ 101,518	$ 112,345
Liabilities and stockholders equity		
Accounts payable	$ 1,316	$ 2,440
Accrued payroll	277	677
Corporate income and franchise taxes	94	255
Accrued and other current liabilities	420	580
Total current liabilities	2,107	3,952
Commitments and contingencies (Note 9)		
Stockholders equity		
Preferred stock, $0.001 par value, 5,000,000 undesignated shares authorized, no shares issued or outstanding		
Common stock, $0.001 par value, 85,000,000 shares authorized and 21,289,718 and 21,279,692 shares issued and outstanding	21	21
Additional paid-in capital	261,038	260,581
Treasury stock, at cost, 1,249,975 and 730,733 shares	(5,661)	(3,084)
Accumulated other comprehensive income	80	129
Accumulated deficit	(156,067)	(149,254)
Total stockholders equity	99,411	108,393

Total liabilities and stockholders equity	$ 101,518	$ 112,345

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

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Rubicon Technology, Inc.

Consolidated statements of operations

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
	(unaudited)			
	(in thousands, other than share data)			
Revenue	$ 3,205	$ 11,530	$ 5,543	$ 22,038
Cost of goods sold	4,867	7,193	9,813	13,837
Gross profit (loss)	(1,662)	4,337	(4,270)	8,201
Operating expenses:				
General and administrative	1,025	2,061	2,160	3,945
Sales and marketing	246	245	489	481
Research and development	198	233	350	500
Income (loss) from operations	(3,131)	1,798	(7,269)	3,275
Other income (expense):				
Interest income	150	441	407	1,301
Interest expense				(2)
Realized gain on investments	36		49	
Total other income (expense)	186	441	456	1,299
Income (loss) before income taxes	(2,945)	2,239	(6,813)	4,574
Income tax expense		61		124
Net income (loss)	$ (2,945)	$ 2,178	$ (6,813)	$ 4,450
Net income (loss) per common share				
Basic	$ (0.15)	$ 0.10	$ (0.34)	$ 0.22
Diluted	$ (0.15)	$ 0.10	$ (0.34)	$ 0.20
Weighted average common shares outstanding used in computing net income (loss) per common share				
Basic	20,026,270	20,899,421	20,153,215	20,725,532
Diluted	20,026,270	22,337,443	20,153,215	22,352,049

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

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Rubicon Technology, Inc.

Consolidated statements of cash flows

	Six months ended June 30, 2009	Six months ended June 30, 2008
	(unaudited) (in thousands)	
Cash flows from operating activities		
Net income (loss)	$ (6,813)	$ 4,450
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	2,614	2,049
Stock-based compensation	453	376
Realized gain on investments	(49)	
Changes in operating assets and liabilities:		
Accounts receivable	268	(2,738)
Inventories	(88)	(885)
Spare parts	1,011	(1,383)
Prepaid expenses and other current assets	525	167
Accounts payable	(1,124)	3,024
Accrued payroll	(400)	(427)
Deferred revenue		(500)
Corporate income and franchise taxes	(161)	(160)
Accrued and other current liabilities	(160)	(333)
Net cash (used in) provided by operating activities	(3,924)	3,640
Cash flows from investing activities		
Purchases of property and equipment	(1,614)	(10,872)
Proceeds from sale of investments	3,478	6,731
Net cash provided by (used in) investing activities	1,864	(4,141)
Cash flows from financing activities		
Payment of issuance costs of initial public offering		(38)
Proceeds from exercise of options	4	591
Restricted cash	(3)	(4)
Payments on capital lease		(29)
Purchase of treasury stock	(2,577)	
Net cash (used in) provided by financing activities	(2,576)	520
Net increase (decrease) in cash and cash equivalents	(4,636)	19
Cash and cash equivalents, beginning of period	7,629	4,380
Cash and cash equivalents, end of period	$ 2,993	$ 4,399

Supplemental disclosure of cash flow information				
Cash paid during the year for interest	$		$	2
Supplemental disclosures of non-cash transactions				
Unrealized loss on investments	$	49	$	712

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

Rubicon Technology, Inc.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2009

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 accounting principles generally accepted in the United States for complete consolidated financial statements and should be read in conjunction with the Company s annual report filed on Form 10-K for the fiscal year ended December 31, 2008. 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 six month periods ended June 30, 2009 are not necessarily indicative of results that may be expected for the year ending December 31, 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Rubicon Worldwide LLC. All intercompany transactions and balances have been eliminated in consolidation.

Investments

The Company invests available cash primarily in investment grade commercial paper, corporate notes and government securities. While the Company s investment policy no longer includes auction-rate securities as an approved investment, the Company continues to hold auction-rate securities purchased prior to the policy change. The Company also holds put options associated with an agreement with UBS, AG (see Auction-rate securities put options below). Investments classified as available-for-sale securities are carried at fair market value with unrealized gains and losses recorded in accumulated other comprehensive income (loss). Investments in trading securities are reported at fair value, with both realized and unrealized gains and losses recorded in other income (expense), in the Consolidated Statement of Operations. Investments in which the Company has the ability and intent, if necessary, to liquidate in order to support its current operations, are classified as short-term.

The Company reviews its available-for-sale securities investments at the end of each quarter for other-than-temporary declines in fair value based on the specific identification method. The Company considers various factors in determining whether an impairment is other-than-temporary, including the severity and duration of the impairment, changes in underlying credit ratings, forecasted recovery, its ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value and the probability that the scheduled cash payments will continue to be made. When the Company concludes that an other-than-temporary impairment has resulted, the difference between the fair value and carrying value is written off and recorded as a charge on the Consolidated Statement of Operations. As of June 30, 2009, no impairment was recorded.

Auction-rate securities put options (ARS Put Options)

In October 2008, the Company entered into an agreement that provides the Company with the right, but not the obligation, to sell all its auction-rate securities to UBS, AG for par value during the period from June 30, 2010 to July 2, 2012. The ARS Put Options will provide 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 included it in short-term investments at June 30, 2009 and in other long-term assets at December 31, 2008. In accordance with SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS No. 115 (SFAS No. 159), which was adopted by the Company on January 1, 2008, the Company elected fair value accounting for the ARS Put Options. Unrealized gains and losses related to the ARS Put Options are recognized in earnings. See Note 4 Investments for additional information regarding the ARS Put Options.

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Treasury Stock

The Company records treasury stock purchases under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock.

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:

	June 30, 2009	December 31, 2008
	(in thousands)	
Raw materials	$ 4,547	$ 4,295
Work in progress	1,562	1,775
Finished goods	2,560	2,401
	8,669	8,471
Reserve for obsolescence and realization	(699)	(589)
	$ 7,970	$ 7,882

Property and equipment

Property and equipment consisted of the following:

	June 30, 2009	December 31, 2008
	(in thousands)	
Machinery, equipment and tooling	$ 44,852	$ 42,322
Leasehold improvements	6,968	6,881
Furniture and fixtures	715	715
Information systems	546	546
Construction in progress	4,359	5,362
Total cost	57,440	55,826
Accumulated depreciation and amortization	(19,103)	(16,489)
Property and equipment, net	$ 38,337	$ 39,337

Revenue recognition

The Company recognizes revenue from product sales when earned in accordance with Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition. Revenue is recognized when, and if, evidence of an arrangement is obtained and the other criteria to support revenue recognition are met, including:

Persuasive evidence of an arrangement exists. The Company requires evidence of a purchase order with the customer specifying the terms and specifications of the product to be delivered, typically in the form of a signed quotation or purchase order from the customer.

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

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

Collection of the resulting receivable is reasonably assured. The Company s standard arrangement with customers includes 30 day payment terms. Customers are subject to a credit review process that evaluates the customers financial position and their ability to pay. Collectability is determined by considering the length of time the customer has been in business and history of collections. If it is determined that collection is not probable, no 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 as defined under Emerging Issues Task Force Issue (EITF) No. 00-21, Revenue Arrangements with Multiple Deliverables.

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Net income (loss) per common share

Net income (loss) per share of common stock is as follows for the three and six months ended June 30, 2009 and 2008:

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Net income (loss) (in thousands)	$ (2,945)	$ 2,178	$ (6,813)	$ 4,450
Net income (loss) per common share:				
Basic	$ (0.15)	$ 0.10	$ (0.34)	$ 0.22
Diluted	$ (0.15)	$ 0.10	$ (0.34)	$ 0.20
Weighted average common shares outstanding used in:				
Basic	20,026,270	20,899,421	20,153,215	20,725,532
Diluted	20,026,270	22,337,443	20,153,215	22,352,049

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

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

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

	Six months ended June 30, 2009
Warrants	206,218
Stock options	645,441
	851,659

Recent accounting pronouncement

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FASB Staff Position (FSP) amends Statement of Financial Accounting Standards (SFAS) No. 107, Disclosures About Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. This FSP is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The FSP does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this FSP requires comparative purposes at initial adoption. The adoption of this FSP did not have a material effect on the determination or reporting of the Company s financial results.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. This FSP amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The FSP does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending after initial adoption. The adoption of this FSP did not have a material effect on the determination or reporting of the Company s financial results.

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In April 2009, the FASB issued FSP FAS 157-4, Determining Fair Value When the Volume and level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This FSP provides additional guidance for estimating fair value in accordance with SFAS No. 157, Fair Value Measurements, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The FSP does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending after initial adoption. The adoption of this FSP did not have a material effect on the determination or reporting of the Company s financial results.

Effective January 1, 2009, the Company implemented SFAS No. 157, Fair Value Measurements, for our nonfinancial assets and liabilities that are remeasured at fair value on a non-recurring basis. See Note 4 for disclosures associated with adoption of this standard.

Subsequent Events

In May 2009, the FASB issued SFAS No. 165, Subsequent Events. SFAS No. 165 sets forth: (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in financial statements, (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The Company has evaluated the period beginning July 1, 2009 through August 7, 2009, the date its financial statements were issued, and concluded there were no events or transactions occurring during this period that required recognition or disclosure in its financial statements.

3. SEGMENT INFORMATION

The Company has determined that it operates in only one segment in accordance with SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information, 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 June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	(in thousands)		(in thousands)	
Asia	$ 2,178	$ 6,196	$ 2,715	$ 11,932
North America	922	5,079	2,537	9,582
Europe	105	255	291	524
Revenue	$ 3,205	$ 11,530	$ 5,543	$ 22,038

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 $44.5 million as of June 30, 2009, is comprised of US Treasury securities of $18.6 million, auction-rate securities and put options of $10.6 million, corporate notes and bonds of $9.0 million, FDIC guaranteed certificates of deposit of $3.1 million and commercial paper of $3.2 million. The Company s short-term investments except for the auction-rate securities and put options and long-term 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).

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While the Company s investment policy no longer includes auction-rate securities as an approved investment, the Company continues to hold auction-rate securities purchased prior to the policy change. 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. All of these auction-rate securities are AAA rated by one or more of the major credit rating agencies and have contractual maturities from 2036 to 2045. Further, all of these securities are collateralized by student loans, and approximately 99% of the collateral qualifies under the Federal Family Education Loan Program and is guaranteed by the US government. The Company is receiving the underlying cash flows (interest and redemptions) on all its auction-rate securities. The Company is unable to predict if these funds will become available before their maturity dates. The Company also holds put options associated with an agreement with UBS, AG related to the auction-rate securities purchased through them. It is the Company s intent to exercise these put options at the first available date therefore, the auction-rate securities and the related put options have been classified as short-term investments as of June 30, 2009. The auction-rate securities are trading securities recorded at fair value and unrealized gains and losses are reported as part of gain on investments in the Consolidated Statements of Operations. The Company s long-term investments at June 30, 2009, consist of a $2.0 million investment in Peregrine Semiconductor, Corp. (a customer) Series D-1 Preferred shares.

As noted above, in October 2008 the Company entered into an agreement with UBS, AG, which provides the Company certain rights to sell to UBS, AG the auction-rate securities that were purchased through them. As of June 30, 2009, the Company held $10.7 million par value auction-rate securities purchased from UBS, AG. The Company has the option to sell these securities to UBS, AG at par value from June 30, 2010 through July 2, 2012. UBS, AG, at its discretion, may purchase or sell these securities on the Company s behalf at any time provided the Company receives par value for the securities sold. The issuers of the auction-rate securities continue to have the right to redeem the securities at their discretion. The agreement also permits the Company to establish a demand revolving credit line in an amount equal to the par value of the securities at a net no cost. If the Company s debt is determined to be rated below investment grade or is not rated, the amount that can be borrowed is limited to 75% of the market value of the auction-rate securities. As of June 30, 2009, the Company had no loans outstanding under this agreement.

The Company s right to sell the auction-rate securities to UBS, AG, commencing on June 30, 2010, represents put options for a payment equal to the par value of the auction-rate securities. The Company elected the fair value option under SFAS 159. During the three and six months ended June 30, 2009, the Company recorded a gain (loss) of $32,191 and ($473,272), representing the changes in fair value of the put options. The Company also recorded during the three and six months ended June 30, 2009, a gain of $3,987 and $522,921, representing the changes in fair value of the auction-rate securities. Both the gain and loss from recording the change in fair value of the put options and auction-rate securities were recorded in gain on investments in the Consolidated Statements of Operations.

The Company values the auction-rate securities and put options using a discounted cash model that weights various factors including interest rates and expected holding period. The investment in Peregrine Semiconductor, Corp. Peregrine is valued at a pre-money valuation of Peregrine as determined by an investor group in the fourth quarter of 2008 and is adjusted as needed based on a review of Peregrine s financial position. The Company believes this is a fair value of these investments at June 30, 2009.

The following table presents the amortized cost, and gross unrealized gains and losses on all securities at June 30, 2009:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in thousands)		
Short-term Investments:				
U.S. Treasury securities and agency (taxable)	$ 18,566	$ 48	$	$ 18,614
FDIC guaranteed certificates of deposit (taxable)	3,120			3,120
Corporate Notes and Bonds (taxable)	8,952	44		8,996
Commercial Paper (taxable)	3,171			3,171
Auction-rate securities	9,507			9,507
Auction-rate securities put options	1,138			1,138
Total short-term investments	$ 44,454	$ 92	$	$ 44,546
Long-term Investments:				
Peregrine Semiconductor, Corp. Series D-1 Preferred shares	$ 2,000	$	$	$ 2,000

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Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS No.157). In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 157 2, Effective Date of FASB Statement No. 157, which provides a one year deferral of the effective date of SFAS 157 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. Therefore, the Company has adopted the provisions of SFAS No. 157 with respect to its financial assets and liabilities only. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under SFAS No. 157 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 under SFAS No. 157 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard 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 adoption of SFAS No. 157 did not have a material impact on the Company s results of operations and financial condition.

The following table summarizes the Company s financial assets measured at fair value on a recurring basis in accordance with SFAS No. 157 as of June 30, 2009:

	Level 1	Level 2	Level 3	Total
Cash Equivalents:				
Money market funds	$ 2,735	$	$	$ 2,735
Investments:				
Available-for-sales securities current		33,901		33,901
Available-for-sales securities non-current			2,000	2,000
Trading securities current			10,645	10,645
Total	$ 2,735	$ 33,901	$ 12,645	$ 49,281

Level 3 assets consist of AAA-rated municipal bonds with an auction reset feature (auction-rate securities) whose underlying assets are generally student loans which are substantially backed by the federal government, auction-rate security put options and Peregrine Series D-1 Preferred shares. As of June 30, 2009, it is the Company s intent to exercise the auction-rate security put options at the first available date, therefore, the Company has classified its investment in auction-rate securities as short-term investments. These investments were valued at fair value as of June 30, 2009. The following table provides a summary of changes in fair value of the Company s Level 3 financial assets as of June 30, 2009:

	Level 3
Balance at January 1, 2009	$ 12,696
Redemption of auction-rate security	(100)
Net recognized gains and (losses)	49
Balance at June 30, 2009	$ 12,645

In addition to the debt securities noted above, the Company had approximately $258,000 of time deposits included in cash and cash equivalents as of June 30, 2009.

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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 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 six months ended June 30, 2009, revenue from Peregrine was $298,890 and $743,600. As of June 30, 2009, accounts receivable from Peregrine was $298,890. 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 June 30, 2009, the Company had two customers that accounted for approximately 30% and 27% of its revenue and for the three months ended June 30, 2008, the Company had four customers that accounted for approximately 30%, 15%, 13% and 11% of its revenue. For the six months ended June 30, 2009, the Company had five customers that accounted for approximately 20%, 17%, 16%, 13% and 10% of its revenue and for the six months ended June 30, 2008, the Company had four customers that accounted for approximately 36%, 16%, 14% and 11% of its revenue.

Customers individually representing more than 10% of trade receivables accounted for approximately 73% and 61% of accounts receivable as of June 30, 2009 and December 31, 2008, respectively. The Company grants credit to customers based on an evaluation of their financial condition. Losses from credit sales are provided for in the financial statements.

7. STOCKHOLDERS EQUITY

Common Stock

As of June 30, 2009, the Company had 85,000,000 shares of common stock authorized with a par value of $0.001 and the Company had reserved 1,907,224 shares of common stock for issuance upon the exercise of outstanding common stock options. Also, 1,315,767 shares of the Company s common stock were reserved for future grants of stock options (or other similar equity instruments) under the Company s 2001 Equity Plan (the 2001 Plan) and 2007 Stock Incentive Plan (the 2007 Plan) as of June 30, 2009. In addition, 336,705 shares of the Company s common stock were reserved for future exercise of outstanding warrants as of June 30, 2009.

Warrants

For the three and six months ended June 30, 2009, no common stock warrants were exercised. At June 30, 2009 and December 31, 2008, there were 336,705 common stock warrants outstanding.

Treasury Stock

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 authorizes 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. 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 months ended June 30, 2009, no shares were repurchased. For the six months ended June 30, 2009, the Company repurchased 519,242 shares at an average price of $4.96 for $2.6 million.

8. STOCK INCENTIVE PLANS

The Company sponsors a stock option plan, the 2001 Plan, which allows for the grant of incentive and nonqualified stock options for the purchase of common stock. Each option entitles the holder to purchase one share of common stock at the specified option exercise price. The exercise price of each incentive stock option granted must not be less than the fair market value on the grant date. After the completion of the Company s IPO, its Board of Directors determined not to grant any additional awards under the 2001 Plan. Management and the Board of Directors determine vesting periods and expiration dates at the time of the grant.

In August 2007, the Company adopted the 2007 Plan, which allows for the grant of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards and bonus shares. The maximum number of shares which may be awarded or sold under the 2007 Plan is 2,307,692 shares. The compensation committee of the Board of Directors administers the plan. The compensation 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.

Upon the adoption of SFAS 123R, the Company began using the Black-Scholes option pricing model to value stock options. The Company uses historical stock prices of companies which it considers as a peer group as the basis for its volatility assumptions. The assumed risk-free rates were based on US Treasury rates in effect at the time of grant with a term consistent with the expected option lives. The expected term is based upon the 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 six months ended June 30, 2009, the Company recorded $198,191 and $360,493, respectively, of stock compensation expense related to the adoption of SFAS 123R. For the three and six months ended June 30, 2008, the Company recorded $159,063 and $324,623, respectively, of stock compensation expense related to the adoption of SFAS 123R. As of June 30, 2009, the Company has $2,775,596 of total unrecognized compensation cost related to nonvested awards granted under the Company s stock-based plans that it expects to recognize over a weighted-average period of 2.83 years. Under the prospective method of adoption of SFAS 123R, the Company continues to account for options issued prior to January 1, 2006 under the intrinsic value method of APB 25.

The following table summarizes the activity of the stock incentive and equity plans as of June 30, 2009 and changes during the six 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, 2008	2,072,170	1,160,847	$ 8.00	26,503
Authorized				
Granted	(768,328)	759,968	4.01	8,360
Exercised		(1,666)	2.27	
Cancelled/forfeited	11,925	(11,925)	4.58	
At June 30, 2009	1,315,767	1,907,224	$ 6.43	34,863

The fair value per share of options granted for the six months ended June 30, 2009 was $4.01 and the fair value of each option grant was estimated at the date of grant using the Black-Scholes option-pricing model using an expected term of 5.2 years, risk-free interest rate of 1.41%, expected volatility of 50% and no dividend yield. The Company used an expected forfeiture rate of 30.39%.

For the three and six months ended June 30, 2009, the Company recorded $28,500 and $56,999, respectively, of stock compensation expense related to restricted stock. For the three and six months ended June 30, 2008, the Company recorded $28,504 and $51,078, respectively, of stock compensation expense related to restricted stock.

For the six months ended June 30, 2009, the Company issued 8,360 shares of common stock to outside directors of the Company as a portion of the directors compensation. The fair value of $35,605 was recorded as stock compensation expense.

A summary of the Company s non-vested options during the six month period ended June 30, 2009 is presented below:

	Options	Weighted-average exercise price
Non-vested at January 1, 2009	581,131	$ 9.18
Granted	759,968	4.01
Vested	(69,371)	5.99
Forfeited	(10,903)	4.74
Non-vested at June 30, 2009	1,260,825	$ 6.28

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An analysis of restricted stock issued is as follows:

Non-vested restricted stock as of December 31, 2008	14,651
Granted	
Vested	(1,437)
Non-vested restricted stock as of June 30, 2009	13,214

9. COMMITMENTS AND CONTINGENCIES

Purchase Commitments

The Company has entered into agreements to purchase equipment or components to construct furnaces. These agreements will result in the Company purchasing equipment or components for a total cost of approximately $1,180,000 with deliveries occurring through December 2009.

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.

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

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

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

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

You should read this Quarterly Report, the documents that we reference in this Quarterly Report and have filed with the SEC as exhibits and our Annual Report on Form 10-K for the year ended December 31, 2008 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 four inch sapphire wafers for use in LEDs and blue laser diodes for solid state lighting and electronic applications. 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 to manufacture eight inch products to support next-generation LED, RFIC and optical window applications and are developing the capability to produce even larger products.

Our revenue consists of sales of sapphire materials sold in core, as-cut, as-ground and polished forms in two, three, four and six 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.

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Historically, a significant portion of our revenue has been derived from sales to relatively few customers. For the three months ended June 30, 2009, we had two customers that accounted for approximately 30% and 27% of our revenue and for the three months ended June 30, 2008 we had four customers that accounted for approximately 30%, 15%, 13% and 11% of our revenue. For the six months ended June 30, 2009, we had five customers that accounted for approximately 20%, 17%, 16%, 13% and 10% of our revenue and for the six months ended June 30, 2008, we had four customers that accounted for approximately 36%, 16%, 14%, and 11% of our revenue. Other than as discussed above, none of our customers accounted for more than 10% of our revenue for such periods. Although we are attempting 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 United States. 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. The current economic crisis has resulted in weak demand for LED and SOS products, which has significantly reduced orders and sales of our sapphire substrates. Demand for LED substrates in certain markets began to improve in the second quarter of this year driven largely by the continued adoption of LED backlit laptops and the introduction of LED backlit LCD televisions. We anticipate that demand for LED substrates will continue to gradually improve over the second half of 2009. However, the market continues to be volatile so the amount of increase and product mix is difficult to predict. The weak demand has resulted in lower average selling prices for our products as well as the underutilization of our manufacturing facilities which have negatively impacted our gross margins in 2009.

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 Franklin Park, Illinois and Bensenville, Illinois manufacturing facilities based on customer orders. We purchase materials and supplies to support such demand. We are subject to variations in the cost of raw materials and consumables from period to period because we do not have long-term fixed-price agreements with our suppliers.

Our operating expenses are comprised of sales and marketing, research and development (R&D), and general and administrative (G&A) expenses. G&A expenses consist primarily of salaries and associated costs for employees in finance, human resources, information technology and administrative activities, charges for accounting, legal, and insurance fees, and stock-based compensation under Statement of Financial Accounting Standards No. 123(R), Share-Based Payment (SFAS 123R). The majority of our stock-based compensation relates to administrative personnel and is accounted for as a general and administrative expense.

Other income (expense) consists of interest income and expense and gains and losses on investments. For the six months ended June 30, 2008, interest expense was $2,000. We repaid most of our outstanding indebtedness with a portion of the proceeds from our IPO in November 2007 and repaid the remainder in February 2008. We do not expect to incur interest expense for the next twelve months. Proceeds from our IPO were invested in available-for-sale and trading securities.

We account for income taxes under the asset and liability method whereby the expected future tax consequences of temporary differences between the book value and the tax basis of assets and liabilities are recognized as deferred tax assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to be recognized. A full valuation allowance is provided as management cannot conclude that it is more likely than not that our deferred tax assets will be realized. At June 30, 2009, we had approximately $42.0 million in net operating loss carryforwards (NOLs). We believe that we are not restricted in our ability to use the full amount of the NOLs, nor is there a limit to the amount of NOLs that may be used in any given year.

Because of the current economic environment, it is difficult to predict capital expenditures needed to support or enhance our current operations, but we anticipate it will be approximately $10.0 million in 2009. These expenditures will be primarily focused on research and development and cost savings initiations and will be incurred mostly in the second half of 2009. Our capital expenditures in the second quarter of 2009 were $1.1 million.

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RESULTS OF CONSOLIDATED OPERATIONS THREE MONTHS ENDED JUNE 30, 2009 AND 2008

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

	Three months ended June 30, 2009	Three months ended June 30, 2008
	(in millions)	
Revenue	$ 3.2	$ 11.5
Cost of goods sold	4.9	7.2
Gross profit (loss)	(1.7)	4.3