

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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, 2019**

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 Incorporation or Organization	I.R.S. Employer Identification No.
900 East Green Street Bensenville, Illinois	60106
Address of Principal Executive Offices	Zip Code

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>
Accelerated filer	<input type="checkbox"/>
Smaller reporting company	<input checked="" type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$.001 per share	RBCN	The NASDAQ Stock Market
Preferred Shares Purchase Rights		

As of November 1, 2019, the Registrant had 2,706,463 shares of common stock, par value \$.001 per share, outstanding.

RUBICON TECHNOLOGY, INC.
Quarterly Report on Form 10-Q
For the quarterly period ended September 30, 2019

TABLE OF CONTENTS

	Page
Part I Financial Information	1
Item 1. Financial Statements	
Condensed Consolidated Financial Statements (unaudited)	
Condensed Consolidated Balance Sheets – September 30, 2019 (unaudited) and December 31, 2018	1
Condensed Consolidated Statements of Operations (unaudited) – Three and nine months ended September 30, 2019 and 2018	2
Condensed Consolidated Statements of Comprehensive Income / Loss (unaudited) – Three and nine months ended September 30, 2019 and 2018	3
Condensed Consolidated Statements of Stockholders' Equity (unaudited) – Three and nine months ended September 30, 2019 and 2018	4
Condensed Consolidated Statements of Cash Flows (unaudited) – Nine months ended September 30, 2019 and 2018	6
Notes to Condensed Consolidated Financial Statements (unaudited)	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	18

Item 3. Quantitative and Qualitative Disclosures About Market Risk	29
Item 4. Controls and Procedures	29
Part II Other Information	30
Item 6. Exhibits	30
Signatures	31
Exhibit Index	32

PART I FINANCIAL INFORMATION

Rubicon Technology, Inc.

Condensed Consolidated Balance Sheets

	September 30, 2019	December 31, 2018
	(unaudited)	
	(in thousands, other than share data)	
Assets		
Cash and cash equivalents	\$ 9,718	\$ 11,241
Restricted cash	167	169
Short-term investments	15,428	14,356
Accounts receivable, net	346	733
Inventories	1,798	2,130
Other inventory supplies	143	183
Prepaid expenses and other current assets	111	109
Assets held for sale	4,145	4,145
Total current assets	<u>31,856</u>	<u>33,066</u>
Property and equipment, net	2,689	2,728
Total assets	<u>\$ 34,545</u>	<u>\$ 35,794</u>
Liabilities and stockholders' equity		
Accounts payable	\$ 250	\$ 400
Accrued payroll	71	28
Accrued and other current liabilities	506	345
Corporate income and franchise taxes	288	286
Accrued real estate taxes	112	96
Advance payments	22	39
Total current liabilities	<u>1,249</u>	<u>1,194</u>
Total liabilities	<u>1,249</u>	<u>1,194</u>
Commitments and contingencies (Note 7)		
Stockholders' equity		
Preferred stock, \$.001 par value, 1,000,000 undesignated shares authorized, no shares issued or outstanding	—	—
Common stock, \$.001 par value, 8,200,000 shares authorized; 2,955,253 and 2,919,542 shares issued; 2,706,463 and 2,733,601 shares outstanding	29	29
Additional paid-in capital	376,307	375,979
Treasury stock, at cost, 248,790 and 185,941 shares	(12,714)	(12,213)
Accumulated other comprehensive income/(loss)	(1)	(2)
Accumulated deficit	(330,325)	(329,193)
Total stockholders' equity	<u>33,296</u>	<u>34,600</u>
Total liabilities and stockholders' equity	<u>\$ 34,545</u>	<u>\$ 35,794</u>

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

Rubicon Technology, Inc.

Condensed Consolidated Statements of Operations

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(unaudited)			
	(in thousands, other than share data)			
Revenue	\$ 583	\$ 978	\$ 2,272	\$ 2,818
Cost of goods sold	585	885	1,899	2,738
Gross profit/(loss)	<u>(2)</u>	<u>93</u>	<u>373</u>	<u>80</u>
Operating expenses:				
General and administrative	585	488	1,939	1,802
Sales and marketing	111	73	275	298
Research and development	—	33	—	108
Gain on disposal of assets	(122)	(1,124)	(273)	(2,738)
Income/(loss) from operations	<u>(576)</u>	<u>623</u>	<u>(1,568)</u>	<u>610</u>
Other income:				
Interest income	107	99	368	237

Unrealized gain/(loss) on investments	119	—	14	—
Realized gain/(loss) on investments	6	—	72	—
Realized gain/(loss) on foreign currency translation	(2)	(6)	(2)	(8)
Total other income	230	93	452	229
Income/(loss) before income taxes	(346)	716	(1,116)	839
Income tax expense	(6)	(6)	(16)	(19)
Net income/(loss)	\$ (352)	\$ 710	\$ (1,132)	\$ 820
Net income/(loss) per common share				
Basic	\$ (0.13)	\$ 0.26	\$ (0.42)	\$ 0.30
Diluted	\$ (0.13)	\$ 0.26	\$ (0.42)	\$ 0.30
Weighted average common shares outstanding used in computing net income (loss) per common share				
Basic	2,691,815	2,733,597	2,708,765	2,732,722
Diluted	2,691,815	2,739,593	2,708,765	2,736,720

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

2

Rubicon Technology, Inc.

Condensed Consolidated Statements of Comprehensive Income (Loss)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
	(unaudited)			
	(in thousands)			
Net income (loss)	\$ (352)	\$ 710	\$ (1,132)	\$ 820
Other comprehensive income (loss):				
Unrealized gain (loss) on investments, net of tax	—	(2)	2	(1)
Other comprehensive income (loss)	—	(2)	2	(1)
Comprehensive income (loss)	\$ (352)	\$ 708	\$ (1,130)	\$ 819

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

3

Rubicon Technology, Inc.

Condensed Consolidated Statements of Stockholders' Equity For the Three and Nine Months Ended September 30, 2019

	Common stock		Treasury stock		Additional paid-in capital	Stockholders' equity		
	Shares	Amount	Shares	Amount		Accum other comp (loss)	Accum deficit	Total stockholders' equity
	(in thousands other than share data)							
Balance at January 1, 2019	2,919,542	\$ 29	(185,941)	\$ (12,213)	\$ 375,979	\$ (2)	\$ (329,193)	\$ 34,600
Stock-based compensation	—	—	—	—	20	—	—	20
Common stock issued, net of shares withheld for employee taxes	6,415	—	—	—	36	—	—	36
Purchase of common stock, at cost	—	—	(62,849)	(501)	—	—	—	(501)
Unrealized gain (loss) on investments, net of tax	—	—	—	—	—	3	—	3
Net loss	—	—	—	—	—	—	(780)	(780)
Balance at June 30, 2019	2,925,957	\$ 29	(248,790)	\$ (12,714)	\$ 376,035	\$ 1	\$ (329,973)	\$ 33,378
Stock-based compensation	—	—	—	—	8	—	—	8
Common stock issued, net of shares withheld for employee taxes	29,296	—	—	—	264	—	—	264
Unrealized gain (loss) on investments, net of tax	—	—	—	—	—	(2)	—	(2)
Net loss	—	—	—	—	—	—	(352)	(352)
Balance at September 30, 2019	2,955,253	\$ 29	(248,790)	\$ (12,714)	\$ 376,307	\$ (1)	\$ (330,325)	\$ 33,296

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

4

**Condensed Consolidated Statements of Stockholders' Equity
For the Three and Nine Months Ended September 30, 2018**

	Common stock		Treasury stock		Additional paid-in capital	Stockholders' equity		
	Shares	Amount	Shares	Amount		Accum other comp (loss)	Accum deficit	Total stockholders' equity
	(in thousands other than share data)							
Balance at January 1, 2018	2,910,334	\$ 29	(177,484)	\$ (12,148)	\$ 375,611	\$ (3)	\$ (330,156)	\$ 33,333
Stock-based compensation	—	—	—	—	21	—	—	21
Restricted stock issued	6,592	—	—	—	71	—	—	71
Common stock issued, net of shares withheld for employee taxes	1,467	—	—	—	200	—	—	200
Unrealized gain (loss) on investments, net of tax	—	—	—	—	—	1	—	1
Net income	—	—	—	—	—	—	110	110
Balance at June 30, 2018	2,918,393	\$ 29	(177,484)	\$ (12,148)	\$ 375,903	\$ (2)	\$ (330,046)	\$ 33,736
Stock-based compensation	—	—	—	—	13	—	—	13
Common stock issued, net of shares withheld for employee taxes	790	—	—	—	46	—	—	46
Unrealized gain (loss) on investments, net of tax	—	—	—	—	—	(2)	—	(2)
Net income	—	—	—	—	—	—	710	710
Balance at September 30, 2018	2,919,183	\$ 29	(177,484)	\$ (12,148)	\$ 375,962	\$ (4)	\$ (329,336)	\$ 34,503

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

5

Rubicon Technology, Inc.

Condensed Consolidated Statements of Cash Flows

	Nine months ended September 30,	
	2019	2018
	(unaudited) (in thousands)	
Cash flows from operating activities		
Net income (loss)	\$ (1,132)	\$ 820
Adjustments to reconcile net income (loss) to net cash used in operating activities		
Depreciation and amortization	127	309
Net gain on sale or disposal of assets	(273)	(2,738)
Stock-based compensation	525	359
Changes in operating assets and liabilities:		
Accounts receivable	388	(68)
Inventories	332	468
Other inventory supplies	39	74
Prepaid expenses and other assets	(3)	130
Accounts payable	(143)	(321)
Accrued payroll	43	(21)
Accrued real estate taxes	(9)	(206)
Corporate income and franchise taxes	2	(15)
Advanced payments	(16)	(18)
Accrued and other current liabilities	(36)	(145)
Net cash used in operating activities	(156)	(1,372)
Cash flows from investing activities		
Purchase of property and equipment	(64)	(2,280)
Proceeds from sale or disposal of assets	273	10,387
Purchases of investments	(1,606)	(8,314)
Proceeds from sale of investments	536	184
Net cash used in investing activities	(861)	(23)
Cash flows from financing activities		
Taxes paid related to net share settlement of equity awards	(7)	(9)
Purchases of common stock	(501)	—
Net cash used in financing activities	(508)	(9)
Net effect of currency translation	—	—
Net decrease in cash, cash equivalents and restricted cash	(1,525)	(1,404)
Cash, cash equivalents and restricted cash, beginning of period	11,410	11,725
Cash, cash equivalents and restricted cash, end of period	\$ 9,885	\$ 10,321

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

6

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2019

1. BASIS OF PRESENTATION**Interim financial data**

The accompanying unaudited condensed 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, 2018. The condensed consolidated balance sheet as of December 31, 2018 set forth herein was derived from audited financial statements. 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, 2019, are not necessarily indicative of results that may be expected for the year ending December 31, 2019.

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 Technology Worldwide LLC, Rubicon DTP LLC, Rubicon Technology BP LLC, Rubicon Sapphire Technology (Malaysia) SDN BHD and Rubicon Technology Hong Kong Limited. All intercompany transactions and balances have been eliminated in consolidation.

Investments

The Company invests available cash primarily in U.S. Treasury securities, investment grade commercial paper, FDIC guaranteed certificates of deposit, common stock and corporate notes. Investments classified as available-for-sale debt securities are carried at fair value with unrealized gains and losses recorded in accumulated other comprehensive income/(loss). Investments in equity securities are reported at fair value, with both realized and unrealized gains and losses recorded as unrealized gain/(loss) on investments and realized gain on investments, in other income/(expense), in the consolidated statements of operations. Investments in which the Company has the ability and intent, if necessary, to liquidate are classified as short-term.

The Company reviews its available-for-sale debt 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 statements of operations.

Accounts receivable

The majority of the Company's accounts receivable is due from defense subcontractors, industrial manufacturers, fabricators and resellers. Credit is extended based on an evaluation of the customer's financial condition. Accounts receivable are due based on contract terms and at stated amounts due from customers, net of an allowance for doubtful accounts. Losses from credit sales are provided for in the financial statements.

Accounts outstanding longer than the contractual payment terms are considered past due. The Company determines its allowance by considering a number of factors, including length of time customer's account is past due, customer's current ability to pay and the condition of the general economy and industry as a whole. The Company writes off accounts receivable when they are deemed uncollectible and such write-offs, net of payments received, are recorded as a reduction to the allowance for doubtful accounts.

7

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The Company records treasury stock purchases under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock. In November 2018, the Company's Board of Directors authorized a program to repurchase up to \$3 million of the Company's common stock ("Common Stock"). The Company's share repurchase program does not obligate it to acquire any specific number of shares. Under the program, shares may be repurchased in privately negotiated and/or open market transactions. The timing, price and volume of repurchases are based upon market conditions, relevant securities laws and other factors. The stock repurchase plan expires on November 19, 2021 and may be terminated at any time.

On June 10, 2019, the Company acquired 12,818 shares of Common Stock at a price of \$8.12 per share from Michael Mikolajczyk, the Company's Chairman of the Audit Committee and the Board of Directors. This purchase was unanimously approved by all of the disinterested directors of the Company.

There were no share repurchases during the three months ended September 30, 2019.

Inventories

Inventories are valued at the lower of cost or net realizable value. Net realizable value is determined based upon an estimated selling price in the ordinary course of business less reasonably predictable costs of completion and disposal. Raw materials cost is determined using the first-in, first-out method, and work-in-process and finished goods costs are determined on a standard cost basis, which includes materials, labor and manufacturing 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.

The Company establishes inventory reserves when conditions exist that suggest inventory may be in excess of anticipated demand or is obsolete based on customer specifications. The Company evaluates the ability to realize the value of its inventory based on a combination of factors, including forecasted sales, estimated current and future market value and changes in customers' product specifications. The Company's method of estimating excess and obsolete inventory has remained consistent for all periods presented.

8

Inventories consisted of the following:

	September 30, 2019	December 31, 2018
	(in thousands)	
Raw materials	\$ 468	\$ 468
Work-in-process	917	1,322
Finished goods	413	340
	<u>\$ 1,798</u>	<u>\$ 2,130</u>

Property and equipment

Property and equipment consisted of the following:

	September 30, 2019	December 31, 2018
	(in thousands)	
Machinery, equipment and tooling	\$ 3,340	\$ 3,293
Buildings	1,711	1,686
Information systems	835	819
Land and land improvements	594	594
Furniture and fixtures	8	8
Total cost	6,488	6,400
Accumulated depreciation and amortization	(3,799)	(3,672)
Property and equipment, net	<u>\$ 2,689</u>	<u>\$ 2,728</u>

Assets held for sale and long-lived assets

When circumstances, such as adverse market conditions, indicate that the carrying value of a long-lived asset may be impaired, the Company performs an analysis to review the recoverability of the asset's carrying value. The Company makes estimates of the undiscounted cash flows (excluding interest charges) from the expected future operations of the asset. These estimates consider factors such as expected future operating income, operating trends and prospects, as well as the effects of demand, competition and other factors. If the analysis indicates that the carrying value is not recoverable from future cash flows, an impairment loss is recognized to the extent that the carrying value exceeds the estimated fair value. The estimated fair value of assets is determined using appraisal techniques, which assume the highest and best use of the asset by market participants, considering the use of the asset that is physically possible, legally permissible and financially feasible at the measurement date. Any impairment losses are recorded as operating expenses which reduce net income.

For the year ended December 31, 2018, the Company reviewed the current fair value of its assets and concluded no adjustments were needed. Additionally, no adjustments were recorded for the three and nine months ended September 30, 2019. The Company will continue to assess its long-lived assets to ensure the carrying amount of these assets is still appropriate given any changes in the asset usage, marketplace and other factors used in determining the current fair value.

In September 2018, the Company completed the sale of its manufacturing and office facility located in Batavia, Illinois, with a net book value of \$5.9 million. The selling price for the property was \$6.7 million. The Company realized net proceeds of approximately \$6.4 million after the payment of real estate taxes, brokerage and legal fees, transfer taxes and other expenses, and recorded a gain on sale of this asset of \$504,000.

In the nine months ended September 30, 2018, the Company completed individual sales and held auctions for equipment and consumable assets located at each of its U.S. properties, resulting in the sale of a significant amount of its excess U.S. assets, which had a total net book value of \$1.6 million. Additionally, the Company completed sales of Malaysia equipment with a total net book value of \$131,000. Based on these sales, a gain on disposal of equipment and consumable assets of \$2.2 million was recorded for the nine months ended September 30, 2018. Unsold excess Malaysia equipment continued to be classified as current assets held for sale at September 30, 2018. See Note 9 – Subsequent Events related to Malaysia equipment.

The Company collected its payment for \$125,000 during the three months ended September 30, 2019 related to a settled dispute. For the nine months ended September 30, 2019, the Company sold \$76,000 of excess consumable assets and received a total of \$200,000 related to such settled dispute. Unsold excess Malaysia equipment continued to be classified as current assets held for sale at September 30, 2019 and December 31, 2018. See Note 9 – Subsequent Events related to Malaysia equipment.

The Company is pursuing the sale of its parcel of land in Batavia, Illinois, and the sale or lease of its 65,000 square-foot facility located in Penang, Malaysia. Although the Company cannot assure the timing of these sales, these properties were classified as current assets held for sale at September 30, 2019 and December 31, 2018, as it is the Company's intention to complete these sales within the next twelve-month period. The Company cannot guarantee that it will be able to successfully complete the sale or lease of these assets.

Revenue recognition

The Company recognizes revenue in accordance with ASC Topic 606, *Revenue From Contracts with Customers* ("Topic 606"), when performance obligations under a purchase order or signed quotation are satisfied. The Company's business practice commits the Company to manufacture and deliver product upon acceptance of a customer's purchase order or signed quotation ("agreement"). The agreement with the customer includes specifications of the product to be delivered, price, expected ship date and payment terms. The Company's agreements generally do not contain variable, financing, rights of return or non-cash components. There are no up-front costs to develop the production process. The performance obligation is satisfied at the point in time (single performance obligation) when the product is manufactured to the customer's specification, as performance does not create an asset with an alternative use to the Company. Accordingly, the Company recognizes revenue when the product is shipped, and control of the product, title and risk of loss have been transferred to the customer. The Company grants credit terms considering normal collection risk. If there is doubt about collection, full prepayment for the order is required. Any payments received prior to shipment are recorded as deferred revenue and included in advance payments in the consolidated balance sheets.

Government Contracts

In 2012, the Company signed a contract with the Air Force Research Laboratory to produce large-area sapphire windows on a cost plus fixed fee basis. The deliverables under this contract included development of machinery and technology to be able to produce large-area sapphire windows, prove the concept of growing large windows with that equipment and delivery of large-area sapphire windows. The Company recorded research and development revenue related to this contract on a gross basis over the contractually defined period of time as the obligations were completed, using the input method of measuring progress, which recognizes revenue as resources are consumed, labor hours expended and costs are incurred, plus a portion of the fixed fee. For the three and nine months ended September 30, 2018, the same amount of revenue of \$56,000 was recorded. As the Company has completed this contract in 2018, all revenues corresponding to the total value of the contract of \$4.7 million have been recognized as of December 31, 2018. Therefore, no additional research and development revenue was recorded for the three and nine months ended September 30, 2019. At September 30, 2019, the estimated costs to complete the contract were in excess of the contract value. In reviewing its current estimates, the Company expects its remaining payments to be approximately \$200,000, which has previously been accrued.

The Company does not provide maintenance or other services and it does not have sales that involve bill & hold arrangements, multiple elements or deliverables. However, the Company does provide product warranty for up to 90 days, for which the Company has accrued a warranty reserve of \$3,000 and \$8,000 at September 30, 2019 and December 31, 2018, respectively.

Net income/(loss) per common share

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

Diluted net income/(loss) per common share was the same as basic net income/(loss) per common share for the three and nine months ended September 30, 2019 and 2018, because the effects of potentially dilutive securities did not have a material impact on the calculation of diluted net income/(loss) per share. The Company had outstanding options exercisable into 32,839 and 26,812 shares of the Company's common stock that would have had an anti-dilutive effect at September 30, 2019 and 2018, respectively.

New accounting pronouncements adopted

In February 2016, the FASB issued ASU No. 2016-02 ("ASU 2016-02"), *Leases (Topic 842)*, which modifies the lease recognition requirements and requires entities to recognize the assets and liabilities arising from leases on the balance sheet. ASU 2016-02 requires entities to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. ASU 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The Company's adoption of ASU 2016-02 did not have a material impact on its consolidated financial statements, as the Company does not have any material lease arrangements.

In February 2018, the FASB issued ASU No. 2018-02 ("ASU 2018-02"), *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Comprehensive Income*. The new guidance allows companies to reclassify stranded tax effects resulting from the Tax Act, from accumulated other comprehensive income to retained earnings. The guidance also requires certain new disclosures regardless of the election. Early adoption is permitted. The Company's adoption of ASU 2018-02 did not have a material impact on its consolidated financial statements.

In June 2018, the FASB issued ASU No. 2018-07 ("ASU 2018-07"), *Compensation - Stock Compensation (Topic 718): Improvements to Non-Employee Share-Based Payment Accounting*. These amendments expand the scope of Topic 718, *Compensation - Stock Compensation* which currently only includes share-based payments to employees to include share-based payments issued to non-employees for goods or services. Consequently, the accounting for share-based payments to non-employees and employees will be substantially aligned. ASU 2018-07 supersedes Subtopic 505-50, *Equity - Equity-Based Payments to Non-Employees*. The guidance is effective for public companies for the interim and annual periods beginning after December 15, 2018. Early adoption is permitted, but no earlier than a company's adoption date of Topic 606, *Revenue from Contracts with Customers*. At this time, the Company does not recognize the existence of any non-employee relationships involving share-based payments; therefore, the Company's adoption of ASU 2018-07 did not have a material impact on the Company's financial statements.

3. INVESTMENTS

The Company invests its available cash primarily in U.S. Treasury securities, investment grade commercial paper, FDIC guaranteed certificates of deposit, common stock and corporate notes. Investments classified as available-for-sale debt securities are carried at fair value with unrealized gains and losses recorded in accumulated other comprehensive income/(loss). Investments in equity securities are reported at fair value, with both realized and unrealized gains and losses recorded as unrealized gain/(loss) on investments and realized gain on investments, in other income/(expense), in the consolidated statements of operations.

The following table presents the amortized cost and gross unrealized losses on all securities at September 30, 2019:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(in thousands)			
Short-term investments:				
U.S. Treasury securities	\$ 14,604	\$	\$	\$ 14,604
Common stock	735	294	(205)	824
Total short-term investments	<u>\$ 15,339</u>	<u>\$ 294</u>	<u>\$ (205)</u>	<u>\$ 15,428</u>

The following table presents the amortized cost and gross unrealized losses on all securities at December 31, 2018:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(in thousands)			
Short-term investments:				
U.S. Treasury securities	\$ 14,357	—	(1)	14,356
Total short-term investments	<u>\$ 14,357</u>	<u>\$ —</u>	<u>\$ (1)</u>	<u>\$ 14,356</u>

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 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 debt securities consist of U.S. Treasury securities, high-quality investment grade commercial paper, FDIC guaranteed certificates of deposit and corporate notes. Investments in equity securities consist of common stock. 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, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(in thousands)			
Cash equivalents:				
Money market funds	\$ 4,135	\$ —	\$ —	\$ 4,135
Investments:				
Available-for-sale securities — current:				
U.S. Treasury securities	—	14,604	—	14,604
Common stock	824	—	—	824
Total	<u>\$ 4,959</u>	<u>\$ 14,604</u>	<u>\$ —</u>	<u>\$ 19,563</u>

12

The following table summarizes the Company's financial assets measured at fair value on a recurring basis as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(in thousands)			
Cash equivalents:				
Money market funds	\$ 2,821	\$ —	\$ —	\$ 2,821
Investments:				
Available-for-sale securities — current:				
U.S. Treasury securities	—	14,356	—	14,356
Total	<u>\$ 2,821</u>	<u>\$ 14,356</u>	<u>\$ —</u>	<u>\$ 17,177</u>

There are no terms or conditions restricting the Company from redeeming any of its investments.

In addition to the debt securities noted above, the Company had approximately \$5.6 million and \$8.4 million of time deposits included in cash and cash equivalents as of September 30, 2019 and December 31, 2018, respectively.

4. SIGNIFICANT CUSTOMERS

For the three months ended September 30, 2019, the Company had four customers individually that accounted for approximately 26%, 13%, 12%, and 11% of revenue. For the three months ended September 30, 2018, the Company had four customers individually that accounted for approximately 32%, 12%, 12% and 10% of revenue. For the nine months ended September 30, 2019, the Company had three customers that accounted for approximately 21%, 16% and 12% of revenue. For the nine months ended September 30, 2018, the Company had four customers that accounted for approximately 21%, 11%, 11% and 10% of revenue. No other customer accounted for 10% or more of the Company's revenues during the three and nine months ended September 30, 2019 and 2018.

Customers individually representing more than 10% of trade receivables accounted for approximately 59% and 79% of accounts receivable as of September 30, 2019 and December 31, 2018, respectively.

5. STOCKHOLDERS' EQUITY

Common shares reserved

As of September 30, 2019, the Company had reserved 77,842 shares of common stock for issuance upon the exercise of outstanding common stock options and vesting of RSUs. Also, 280,386 shares of the Company's common stock were reserved for future grants of stock options and RSUs (or other similar equity instruments) under the Rubicon Technology, Inc. 2016 Stock Incentive Plan (the "2016 Plan") as of September 30, 2019.

Preferred stock

At the Company's 2018 annual meeting ("2018 Annual Meeting") of stockholders, an amendment to the Company's Eighth Amended and Restated Certificate of Incorporation (as amended, the "Certificate of Incorporation") was approved to decrease the Company's authorized number of shares of preferred stock from 5,000,000 shares to 1,000,000 shares. Subsequent to receiving stockholder approval at the 2018 Annual Meeting, the Company filed with the Secretary of State of the State of Delaware a Certificate of Amendment to decrease the authorized number of preferred shares, consequently reducing the number of total authorized shares from 13,200,000 to 9,200,000.

6. STOCK INCENTIVE PLANS

In August 2007, the Company adopted the Rubicon Technology Inc. 2007 Stock Incentive Plan, which was amended and restated effective in June 2011 (the "2007 Plan"), and which allowed for the grant of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock, RSUs, performance awards and bonus shares. The maximum number of shares that could be awarded under the 2007 Plan was 440,769 shares. Options granted under the 2007 Plan entitled the holder to purchase shares of the Company's common stock at the specified option exercise price, which could not be less than the fair value of the common stock on the grant date. On June 24, 2016, the plan terminated with the adoption of the Rubicon Technology, Inc. 2016 Stock Incentive Plan, (the "2016 Plan"). Any existing awards under the 2007 Plan remain outstanding in accordance with their current terms under the 2007 Plan.

13

In June 2016, the Company's stockholders approved adoption of the 2016 Plan effective as of March 17, 2016, which allows for the grant of incentive stock options,

non-statutory stock options, stock appreciation rights, restricted stock, RSUs, performance awards and bonus shares. The Compensation Committee of the Board administers the 2016 Plan. The committee determines the type of award to be granted, the fair value, the number of shares covered by the award, and the time when the award vests and may be exercised.

Pursuant to the 2016 Plan, 280,386 shares of the Company's common stock plus any shares subject to outstanding awards under the 2007 Plan that subsequently expire unexercised, are forfeited without the delivery of shares, or are settled in cash, will be available for issuance under the 2016 Plan. The 2016 Plan will automatically terminate on March 17, 2026, unless the Company terminates it sooner.

The following table summarizes the activity of the stock incentive and equity plans as of September 30, 2019, 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 shares issued	Number of RSUs outstanding
At January 1, 2019	295,067	69,083	\$ 12.10	99,570	50,176
Granted	(51,925)	1,000	8.34	—	925
Exercised/issued	—	—	—	—	(6,098)
Cancelled/forfeited	37,244	(37,244)	12.31	—	—
At September 30, 2019	280,386	32,839	\$ 11.49	99,570	45,003

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 value of the common stock at September 30, 2019, there was \$85,655 of intrinsic value arising from 29,500 stock options exercisable and outstanding.

The Company uses the Black-Scholes option pricing model to value stock options. The Company uses historical stock price average to determine its volatility assumptions. The assumed risk-free rates were based on U.S. Treasury rates in effect at the time of grant with a term consistent with the expected option lives. The expected term is based upon the vesting term of the Company's options. The forfeiture rate of 28.99% is based on the history of forfeited options. The expense is allocated using the straight-line method. For the three and nine months ended September 30, 2019, the Company recorded \$6,000 and \$19,000, respectively, of stock option compensation expense. For the three and nine months ended September 30, 2018, the Company recorded \$8,000 and \$38,000, respectively, of stock option compensation expense. As of September 30, 2019, the Company had \$38,000 of total unrecognized compensation cost related to non-vested stock option awards granted under the Company's stock-based plans that it expects to recognize over the weighted-average period of 1.0 year.

A summary of the Company's non-vested options during the nine months ended September 30, 2019, is presented below:

	Options	Weighted-average exercise price
Non-vested options at January 1, 2019	21,992	\$ 6.86
Granted	1,000	8.34
Vested	(9,878)	6.95
Cancelled/forfeited	(2,248)	6.10
Non-vested options at September 30, 2019	10,866	\$ 7.08

Pursuant to an employment agreement, the Company granted 30,902 and 59,098 RSUs to a key executive in 2018 and 2017, respectively.

The following table summarizes the award vesting terms for the remaining unvested RSUs under this grant:

Number of RSUs	Target price
15,000	\$ 11.00
15,000	\$ 12.50
15,000	\$ 14.00

The RSUs vest in the amounts set forth above on the first date the 15-trading day average closing price of the Company's common stock equals or exceeds the corresponding target price for the common stock before May 12, 2021. At the time the negotiation of the terms of the employment agreement began, the closing price of the common stock was \$5.50. On the date of grant, the closing price of the common stock was \$6.30.

The Company used a Monte Carlo simulation model valuation technique to determine the fair value of RSUs granted because the awards vest based upon achievement of market price targets. The Monte Carlo simulation model utilizes multiple input variables that determine the probability of satisfying the market condition stipulated in the award and calculates the fair value of each RSU.

The daily expected stock price volatility is based on a three-year historical volatility of the Company's common stock. The daily expected dividend yield is based on annual expected dividend payments. The average daily risk-free interest rate is based on the three-year treasury yield as of the grant date. Each of the tranches is calculated to have its own fair value and requisite service period. The fair value of each tranche is amortized over the requisite or derived service period which is up to four years.

For the three and nine months ended September 30, 2019, the Company recorded \$0 and \$7,000, respectively, of RSU expense. For the three months and nine months ended September 30, 2018, the Company recorded \$50,000 and \$256,000, respectively, of RSU expense. As of September 30, 2019, there was no compensation cost related to the non-vested RSUs remaining.

A summary of the Company's RSUs for the nine month period ended September 30, 2019, is presented below:

	RSUs outstanding	Weighted average price at time of grant	Aggregate intrinsic value
Non-vested RSUs as of January 1, 2019	50,176	\$ 6.31	
Granted	925	7.95	
Vested	(6,098)	7.40	
Cancelled	—	—	
Non-vested RSUs at September 30, 2019	45,003	\$ 6.20	\$ 279,011

For the three and nine months ended September 30, 2019, the Company recorded \$2,000 and \$7,000, respectively, of stock compensation expense related to restricted stock. For the three and nine months ended September 30, 2018, the Company recorded \$49,000 and \$110,000, respectively, of stock compensation expense related to restricted stock.

In 2018, all non-employee directors received an annual fee of \$20,000 cash, payable quarterly. From January 1, 2018, to the 2018 Annual Meeting of Stockholders, the directors in the aggregate earned \$15,000 in stock, which was equal to 1,878 shares of restricted common stock. Thereafter, at every Annual Meeting, beginning in 2018, each non-employee director receives \$10,000 in RSUs which vest on the day immediately preceding the next following Annual Meeting of Stockholders.

For the three months ended September 30, 2019, no RSUs were issued to our directors. As of September 30, 2019 and December 31, 2018, outstanding non-vested restricted stock shares were 0 and 2,454 respectively.

For the nine months ended September 30, 2018, 1,878 shares of restricted common stock were issued to outside directors.

An analysis of restricted stock outstanding is as follows:

Non-vested restricted stock as of January 1, 2019	2,454
Granted	—
Vested	(2,454)
Non-vested restricted stock as of September 30, 2019	—

7. COMMITMENTS AND CONTINGENCIES

Litigation

From time to time, the Company experiences routine litigation in the normal course of its business.

In the third quarter of 2018, the Company received a summons from Bartmann, Perales & Dolter, LLC, the lessor of the Franklin Park, Illinois, property the Company had previously occupied, alleging that the Company owes \$175,000 in overdue rent payments, property taxes and restoration costs. The Company intends to vigorously defend the allegation and has asserted a counterclaim pursuant to the terms of the lease agreement for reimbursement of costs and expenses to maintain the condition and repair of said property. The management of the Company does not believe this pending litigation will have a material adverse effect on the financial condition or results of operations or cash flows of the Company.

Contingent Payments Related to Direct Dose

In May 2019, the Company formed Rubicon DTP LLC (“Rubicon DTP”) in order to launch a Direct to Patient (DTP) pharmacy solution under the brand names - Direct Dose Rx and Rubicon Rx. On May 17, 2019, the Company acquired certain equipment and other assets from an Indiana based pharmacy operation (“Seller”), including its licenses to operate in 11 states. Direct Dose Rx is focused on the delivery of prescription medication, over-the-counter drugs and vitamins (“Meds”) to patients being discharged from skilled nursing facilities and hospitals. Rubicon Rx delivers Meds to patients at their homes.

The Company has a contingent liability to Seller in the amount of \$500,000 in the event that, for the time period between May 17, 2019 and December 31, 2019, Rubicon DTP’s revenue is equal to or greater than \$4,185,000.

The Company has an additional contingent liability to Seller in the amount of \$500,000 in the event that, for the time period between January 1, 2020 and December 31, 2020, Rubicon DTP’s revenue is equal to or greater than \$7,500,000.

The Company has an additional contingent liability to Seller if Rubicon DTP is sold for greater than \$12 million on or before May 17, 2022, in an amount equal to one of the following: (a) if the aggregate consideration paid for Rubicon DTP is greater than \$12 million, but equal to or less than \$30 million, then \$1.5 million; (b) if the aggregate consideration paid for Rubicon DTP is greater than \$30 million, but equal to or less than \$60 million, then \$2.0 million; (c) if the aggregate consideration paid for Rubicon DTP is greater than \$60 million, but less than \$100 million, then \$3.0 million; or (d) if the total consideration paid for Rubicon DTP is greater than or equal to \$100 million, then \$4.5 million.

Although it is possible that the Company meets one or more of the various targets and is required to make some or all of the above described payments, the Company believes the likelihood is remote.

8. INCOME TAXES

In 2017, the U.S. enacted the Tax Cuts and Jobs Act (the “Act”) which, among other provisions, reduced the U.S. corporate tax rate from 35% to 21% effective January 1, 2018. The SEC issued guidance, Staff Accounting Bulletin 118, on accounting for the tax effects of the Act. The guidance allows the Company to record provisional amounts for those impacts, with the requirement that the accounting be completed in a period not to exceed one year from the date of enactment. The Company has completed its accounting for the tax effects of enactment of the Act. The deemed inclusion from the repatriation tax increased from \$3.9 million at the time of provision to \$5.0 million at the time the calculation was finalized for the 2018 tax return. The increase of the inclusion related primarily to the refinement of Malaysia earnings and profits. As the Company is in a full valuation allowance position, an equal benefit adjustment was recorded for the impact of the increase of the deemed repatriation tax.

The Company is subject to taxation in the U.S., Malaysia and in a U.S. state jurisdiction. On a quarterly basis, the Company assesses the recoverability of deferred tax assets and the need for a valuation allowance. Such evaluations involve the application of significant judgment, and multiple factors, both positive and negative, are considered. For the period ended September 30, 2019, a valuation allowance has been included in the 2019 forecasted effective tax rate. The Company is in a cumulative loss position for the past three years, which is considered significant negative evidence that is difficult to overcome on a “more likely than not” standard through objectively verifiable data. Under the accounting standards, objective verifiable evidence is given greater weight than subjective evidence such as the Company’s projections for future growth. Based on an evaluation in accordance with the accounting standards, as of December 31, 2015, a valuation allowance has been recorded against the net U.S. deferred tax assets in order to measure only the portion of the deferred tax assets that are more likely than not to be realized based on the weight of all available evidence. At September 30, 2019, the Company continues to be in a three-year cumulative loss position, therefore, until an appropriate level of profitability is attained, the Company expects to maintain a full valuation allowance on its U.S. and Malaysia net deferred tax assets. Any U.S. and Malaysia tax benefits or tax expense recorded on the Company’s consolidated statements of operations will be offset with a corresponding adjustment from the use of the net operating loss (“NOL”) carryforward asset which currently has a full valuation allowance. In the event that the Company changes its determination as to the amount of deferred tax assets that can be realized, the Company will adjust its valuation allowance with a corresponding impact to the provision for income taxes in the period in which such determination is made.

The tax provision for the nine months ended September 30, 2019, is based on an estimated combined statutory effective tax rate. The Company reported for the three and nine months ended September 30, 2019, a tax expense of \$6,000 and \$16,000, respectively, for an effective tax rate of 1.83% and 1.46%, respectively. For the three and nine months ended September 30, 2019 the difference between the Company's effective tax rate and the U.S. federal 21% statutory rate and state 6.2% (net of federal benefit) statutory rate was primarily related to the change in the Company's U.S. and Malaysia valuation allowances, U.S. research and development credit, Malaysia foreign tax rate differential and Malaysia withholding taxes on intercompany loan interest.

9. SUBSEQUENT EVENTS

On October 18, 2019, the Company completed the sale of all of its manufacturing equipment in Malaysia for \$490,000 in cash and other consideration. This equipment had been classified as held for sale and had a book value of \$180,000. The transaction resulted in a gain of \$310,000.

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

Forward Looking Statements

All statements, other than statements of historical facts, included in this Quarterly Report on Form 10-Q, including statements 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" within the meaning of the safe harbor provisions of the U.S. 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," "forecast," "prospects," "goals," "potential," "likely," and the like, and/or future-tense or conditional constructions such as "will," "may," "could," "should," etc. (or the negative thereof). Items contemplating or making assumptions about actual or potential future sales, market size and trends or operating results also constitute forward-looking statements.

Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. Before investing in our common stock, investors should be aware that the occurrence of the risks, uncertainties and events described in the section entitled "Risk Factors" in our Annual Report on Form 10-K, for the year ended December 31, 2018, 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, 2018, 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. and our consolidated subsidiaries.

OVERVIEW

Rubicon Technology Worldwide LLC – Sapphire

We are a vertically integrated, advanced materials provider specializing in monocrystalline sapphire for applications in optical and industrial systems. We use our proprietary crystal growth technology to produce high-quality sapphire products to meet our customers' exacting specifications. We believe that we continue to have a reputation as one of the highest quality sapphire producers in the market. We provide optical and industrial sapphire products in various shapes and sizes, including round and rectangular windows and blanks, domes, tubes and rods.

Historically, we have also provided sapphire products to the LED and mobile device markets, which are the largest markets for sapphire. However, given competitive pressures in those markets, in the fourth quarter of 2016 we announced our decision to limit our focus in to the optical and industrial sapphire markets and exit the LED market. Following this decision, we developed a plan to close our Malaysia facility, and scale down and consolidate remaining operations in the U.S.

In 2018, we completed individual sales and held auctions for assets located in Malaysia and at each of our U.S. properties, resulting in the sale of certain of our excess equipment and consumable assets. We continue to seek buyers for a few pieces of our remaining unsold Malaysia equipment. In 2018, we completed the sale of our manufacturing and office facility located in Batavia, Illinois. We are pursuing the sale of our parcel of land in Batavia, Illinois, and the sale or lease of our 65,000 square-foot manufacturing facility in Penang, Malaysia. The timing on the sale or lease of this real estate is difficult to predict.

We operate in a very competitive market. Our ability to expand our optical and industrial business and acceptance of new product offerings are difficult to predict.

In addition, our current optical and industrial sapphire business serves smaller markets than our historical undertakings, therefore, we are actively evaluating the acquisition of profitable companies outside of the sapphire market to utilize our substantial NOL carryforwards.

Historically, a significant portion of our revenue has been derived from sales to relatively few customers. For the three months ended September 30, 2019, we had had four customers individually that accounted for approximately 26%, 13%, 12%, and 10% of revenue. For the three months ended September 30, 2018, we had four customers individually that accounted for approximately 32%, 12%, 12% and 10% of revenue. For the nine months ended September 30, 2019, we had had three customers individually that accounted for approximately 21%, 16% and 12% of revenue. For the nine months ended September 30, 2018, we had four customers individually that accounted for approximately 21%, 11%, 11% and 10% of revenue. Our principal customers have been defense subcontractors, industrial manufacturers, fabricators and resellers. No other customer accounted for 10% or more of our revenues during the three and nine months ended September 30, 2019 and 2018. We expect our sales to continue to be concentrated among a small number of customers. However, we also expect that our significant customers may change from time to time.

We recognize revenue based upon the shipping terms with our customers. Delays in product orders or changes to the timing of shipments could cause our quarterly revenue to vary significantly. We sell our products on a global basis, and historically derived a significant portion of our revenue from customers outside of the U.S., with the majority of our sales to the Asian and European markets. Following the decision to limit our focus to the optical and industrial sapphire markets, a major

source of our revenue is derived from the North American market. All of our revenue and accounts receivable are denominated in U.S. dollars. Substantially all of our revenue is generated by our direct sales force and we expect this to continue in the future.

We manage direct sales, grow and fabricate sapphire parts and ship from our facility located in Bensenville, Illinois. Previously, we leased this property, and it served as the headquarters of our operations and one of our growth facilities. In 2018, we vacated our leased Franklin Park, Illinois, facility due to the expiration of our lease. Additionally, in 2018, we completed the purchase of our Bensenville property and consolidated all of our operations into this facility.

Our cost of goods sold consists primarily of manufacturing materials, labor, manufacturing-related overhead, such as utilities, depreciation, provisions for excess and obsolete inventory reserves, idle plant charges, outsourcing costs, freight and warranties. We purchase materials and supplies to support current and future demand for our products. We are subject to variations in the cost of consumable assets from period to period because we do not have long-term fixed-price agreements with our suppliers. We currently outsource some of our production processes and needs.

Our operating expenses are comprised of sales and marketing, and general and administrative (“G&A”) expenses. G&A expenses consist primarily of compensation and associated costs for finance, human resources, information technology and administrative activities, including charges for accounting, legal services and insurance. Additionally, the majority of our stock-based compensation relates to administrative personnel and is accounted for as a G&A expense.

Other income consists of interest income, unrealized gain/(loss) on investments, realized gain on investments and realized gain/(loss) on 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. Our analysis of ownership changes that limit the utilization of our NOL carryforwards as of December 31, 2018, shows no impact on such utilization. In order to protect our NOL carryforwards, in December 2017, we implemented a stockholders’ rights plan. We are in a cumulative loss position for the past three years. Based on an evaluation in accordance with the accounting standards, a valuation allowance has been recorded against the net U.S. and Malaysia deferred tax assets in order to measure only the portion of the deferred tax assets that are more likely than not to be realized based on the weight of all available evidence. Until an appropriate level of profitability is attained, we expect to maintain a full valuation allowance on our U.S. and Malaysia net deferred tax assets.

We continue to review a variety of strategic alternatives with a goal of providing greater value to our stockholders. These alternatives could result in, among other things, further modifying or eliminating certain of our operations, selling material assets, seeking additional financing, selling the business, making investments, effecting a merger, consolidation or other business combination, partnering or other collaboration agreements, or potential acquisitions or recapitalizations, or we may continue to operate with our current business plan and strategy. We cannot provide assurance that this process will result in the consummation of any transaction, or that the consummation of any transaction will provide greater value to our stockholders.

Rubicon DTP LLC d/b/a Direct Dose Rx

In May 2019, the Company formed Rubicon DTP LLC in order to launch a Direct to Patient (DTP) pharmacy solution under the brand names - Direct Dose Rx and Rubicon Rx. On May 17, 2019, pursuant to the Asset Purchase Agreement (“Direct Dose APA”), by and among Wellfount Corporation, Rubicon DTP LLC, and Rubicon Technology, Inc., dated as of May 17, 2019, the Company acquired certain equipment and operating assets from an Indiana based pharmacy operation, including its licenses to operate in 11 states. Direct Dose Rx is focused on the delivery of prescription medication, over-the-counter drugs and vitamins (“Meds”) to skilled nursing facilities and hospitals for patients that are being discharged. Rubicon Rx will deliver Meds to patients at their homes.

Rubicon is in the process of negotiating agreements with drug wholesalers, applying for licenses with pharmacy benefit management companies (PBMs) and renewing or creating partnerships with skilled nursing facilities (SNFs). Direct Dose Rx and Rubicon Rx are currently operated from a leased facility located in Indianapolis, Indiana.

For additional terms relating to the acquisition, including certain earn-out payments (i) for the year ending December 31, 2019 and 2020 and (ii) upon the sale of the Company’s pharmacy operations if it occurs prior to May 17, 2022, please review the Asset Purchase Agreement (“Direct Dose APA”), by and among Wellfount Corporation, Rubicon DTP LLC, and Rubicon Technology, Inc., dated as of May 17, 2019 included in the Company’s Report 10-Q for the period ending June 30, 2019, which was filed with the Securities and Exchange Commission on August 14, 2019.

RESULTS OF CONSOLIDATED OPERATIONS THREE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

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

	Three months ended September 30,	
	2019	2018
	(in thousands)	
Revenue	\$ 583	\$ 978
Cost of goods sold	585	885
Gross profit (loss)	(2)	93
Operating expenses:		
General and administrative	585	488
Sales and marketing	111	73
Research and development	—	33
Gain on sale or disposal of assets	(122)	(1,124)
Total operating expenses	574	(530)
Income (loss) from operations	(576)	623
Other income	230	93
Income (loss) before income taxes	(346)	716
Income tax expense	6	6
Net income (loss)	\$ (352)	\$ 710

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

	Three months ended September 30,	
	2019	2018
	(percentage of total)	
Revenue	100%	100%
Cost of goods sold	100	91
Gross profit (loss)	0	9

Operating expenses:		
General and administrative	100	50
Sales and marketing	19	7
Research and development	—	3
Gain on sale or disposal of assets	(21)	(115)
Total operating expenses	98	(54)
Income (loss) from operations	(99)	64
Other income	39	10
Income (loss) before income taxes	(59)	73
Income tax expense	1	—
Net income (loss)	(60)%	73%

20

Revenue. Revenue was \$583,000 and \$978,000 for the three months ended September 30, 2019 and 2018, respectively, a decrease of \$395,000. This decrease in revenue from our optical and industrial sapphire business was due to a significant decrease in demand, timing of orders and an emphasis on limiting our sales to orders with a minimum gross profit.

Gross profit/(loss). Gross profit/(loss) was \$(2,000) and \$93,000 for the three months ended September 30, 2019 and 2018, respectively, a decrease of \$95,000. This decline was primarily attributable to our fixed costs and a significant decrease in demand.

General and administrative expenses. General and administrative expenses were \$585,000 and \$488,000 for the three months ended September 30, 2019 and 2018, respectively, an increase of \$97,000. The increase was largely attributable to additional costs related to the start-up and management of Direct Dose Rx.

Sales and marketing expenses. Sales and marketing expenses were \$111,000 and \$73,000 for the three months ended September 30, 2019 and 2018, respectively, an increase of \$38,000. The increase in sales and marketing expenses was primarily attributable to additional expenses related to Direct Dose Rx.

Research and development expenses. Research and development expenses were \$33,000 for the three months ended September 30, 2018. We did not record any expenses attributable to research and development in the three months ended September 30, 2019, which resulted in a decrease of \$33,000. This was attributable to a temporary suspension of research and development activities.

Gain on sale or disposal of assets. For the three months ended September 30, 2019, we recorded a gain on sale or disposal of excess equipment of \$122,000. In 2018, we held multiple auctions and completed individual sales of certain of our excess equipment and consumable assets located in the U.S. and Malaysia. As the result of these sales, for the three months ended September 30, 2018, we recorded a gain on disposal of assets of \$1,124,000 on fully depreciated and previously written down equipment, small tools and consumable assets.

Other income. Other income was \$230,000 and \$93,000 for the three months ended September 30, 2019 and 2018, respectively, an increase of \$137,000.

Income tax (benefit) expense. In accordance with ASC740 “Accounting for Income Taxes” (“ASC740”), we evaluate our deferred income tax assets quarterly to determine if valuation allowances are required or should be adjusted. At September 30, 2019, we continue to be in a three-year cumulative loss position; therefore, until an appropriate level of profitability is attained, we expect to maintain a valuation allowance on net deferred tax assets related to future U.S. and Malaysia tax benefits and will no longer accrue tax benefits or tax expense on our Consolidated Statements of Operations. The tax provision for the three months ended September 30, 2019, is based on an estimated combined statutory effective tax rate. For the three months ended September 30, 2019, the difference between the Company’s effective tax rate of 1.83% and the U.S. federal 21% statutory rate and state 6.2% (net of federal benefit) statutory rate was primarily related to the change in our U.S. and Malaysia NOL valuation allowances, U.S. research and development credit, Malaysia foreign tax rate differential and Malaysia withholding taxes on intercompany loan interest.

21

RESULTS OF CONSOLIDATED OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

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

	Nine months ended September 30,	
	2019	2018
	(in thousands)	
Revenue	\$ 2,272	\$ 2,818
Cost of goods sold	1,899	2,738
Gross profit (loss)	373	80
Operating expenses:		
General and administrative	1,939	1,802
Sales and marketing	275	298
Research and development	—	108
Gain on sale or disposal of assets	(273)	(2,738)
Total operating expenses	1,941	(530)
Income/(Loss) from operations	(1,568)	610
Other income	452	229
Income (loss) before income taxes	(1,116)	839
Income tax expense	16	19
Net income (loss)	\$ (1,132)	\$ 820

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

	Nine months ended September 30,	
	2019	2018
	(percentage of total)	
Revenue	100%	100%
Cost of goods sold	84	97

Gross profit	16	3
Operating expenses:		
General and administrative	85	64
Sales and marketing	12	11
Research and development	—	4
Gain on sale or disposal of assets	(12)	(97)
Total operating expenses	85	(19)
Income/(Loss) from operations	(69)	22
Other income	20	8
Income (loss) before income taxes	(49)	30
Income tax expense	1	1
Net income (loss)	(50)%	29%

Revenue. Revenue was \$2,272,000 and \$2,818,000 for the nine months ended September 30, 2019 and 2018, respectively, a decrease of \$546,000. This decrease in revenue from our optical and industrial sapphire business was due to a significant decrease in demand, timing of orders and an emphasis on limiting our sales to orders with a minimum gross profit.

Gross profit/(loss). Gross profit/(loss) was \$373,000 and \$80,000 for the nine months ended September 30, 2019 and 2018, respectively, an increase of \$293,000. This improvement was primarily attributable to an increase in pricing and a decrease in production costs of \$191,000 and reduced scrap of \$75,000 as a result of improved production efficiency, partially offset by the impact of a significant decrease in demand in our third quarter.

General and administrative expenses. General and administrative expenses were \$1,939,000 and \$1,802,000 for the nine months ended September 30, 2019 and 2018, respectively, an increase of \$137,000. The increase was largely attributable to the additional management costs related to Direct Dose Rx. This was partially offset by a decrease in the administrative office maintenance, connectivity and business insurance costs of \$137,000 for the nine month period in 2019 and lower audit and tax consulting expense of \$82,000. The general and administrative expenses for the nine months ended September 30, 2018 was lower due to an adjustment of \$43,000 due to the reimbursement of legal expenses, which was related to a recovery of certain SEC compliance counsel costs.

Sales and marketing expenses. Sales and marketing expenses were \$275,000 and \$299,000 for the nine months ended September 30, 2019 and 2018, respectively, a decrease of \$24,000. The decrease in sales and marketing expenses was primarily attributable to a decrease in employee compensation costs on a lower headcount and a decrease in exhibition and travel expenses, partially offset by expenses related to Direct Dose Rx.

Research and development expenses. Research and development expenses were \$108,000 for the nine months ended September 30, 2018. We did not record any expenses attributable to the research and development in the nine months ended September 30, 2019, which resulted in a decrease of \$108,000. This was attributable to a temporary suspension of research and development activities.

Gain on sale or disposal of assets. For the nine months ended September 30, 2019, we recorded a gain on sale or disposal of excess equipment of \$273,000. In 2018, we held multiple auctions and completed individual sales of certain of our excess equipment and consumable assets located in the U.S. and Malaysia. As the result of these sales, for the nine months ended September 30, 2018, we recorded a gain on disposal of assets of \$2,738,000 on fully depreciated and previously written down equipment, small tools and consumable assets.

Other income. Other income was \$452,000 and \$229,000 for the nine months ended September 30, 2019 and 2018, respectively, an increase of \$223,000. The increase in other income was primarily due to better money management and an increase in interest rates.

Income tax (benefit) expense. In accordance with ASC740 “Accounting for Income Taxes” (“ASC740”), we evaluate our deferred income tax assets quarterly to determine if valuation allowances are required or should be adjusted. At September 30, 2019, we continue to be in a three-year cumulative loss position; therefore, until an appropriate level of profitability is attained, we expect to maintain a valuation allowance on net deferred tax assets related to future U.S. and Malaysia tax benefits and will no longer accrue tax benefits or tax expense on our Consolidated Statements of Operations. The tax provision for the nine months ended September 30, 2019, is based on an estimated combined statutory effective tax rate. For the nine months ended September 30, 2019, the difference between the Company’s effective tax rate of 1.46% and the U.S. federal 21% statutory rate and state 6.2% (net of federal benefit) statutory rate was primarily related to the change in our U.S. and Malaysia NOL valuation allowances, U.S. research and development credit, Malaysia foreign tax rate differential and Malaysia withholding taxes on intercompany loan interest.

LIQUIDITY AND CAPITAL RESOURCES

We have historically funded our operations using a combination of issuances of common stock and cash generated from our operations. In addition to this, recently, we have used the funds obtained through selling our excess equipment to fund our operations.

As of September 30, 2019, we had cash, cash equivalents and short-term investments totaling \$25.1 million, including cash of \$5.6 million held in deposits at major banks, \$4.1 million invested in money market funds and \$15.4 million of short-term investments including U.S. Treasury securities, investment grade commercial paper, FDIC guaranteed certificates of deposit, common stock and corporate notes.

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, 2019 and 2018:

	Nine months ended September 30,	
	2019	2018
	(in thousands)	
Net income (loss)	\$ (1,132)	\$ 820
Non-cash items:		
Depreciation and amortization	127	309
Net gain on sale or disposal of assets	(273)	(2,738)
Stock-based compensation	525	359
Total non-cash items:	379	(2,070)
Working capital:		

Accounts receivable	388	(68)
Inventories	371	543
Prepaid expenses and other assets	(146)	(192)
Other accruals	(16)	(405)
Total working capital items:	597	(122)
Net cash provided by (used by) operating activities	\$ (156)	\$ (1,372)

Cash used by operating activities was \$156,000 for the nine months ended September 30, 2019. During such period, we generated a net loss of \$1,132,000, including non-cash items of \$379,000 which primarily consisted of stock-based compensation of \$525,000 partially offset by gains on the disposal of assets of \$(273,000). An increase in cash from net working capital of \$597,000 was primarily due to a decrease in accounts receivable of \$388,000 on collected balances and a decrease of \$371,000 in raw materials, work-in-process and consumable parts inventories used in operations.

Cash used by operating activities was \$1,372,000 for the nine months ended September 30, 2018. During such period, we generated a net income of \$820,000, including non-cash items of \$(2,070,000), and a decrease in cash from net working capital of \$122,000. The net working capital cash decrease was primarily due to an increase in prepaid expenses and other assets of \$192,000 due to sales of assets that the proceeds were only collected after the end of the period. Additionally, we experienced a decrease in accounts receivable of \$68,000 and an increase in other accruals of \$405,000 on increased revenue and closing activities. This was partially offset by a decrease of \$543,000 in raw materials, work-in-process and consumable parts inventories used in operations.

Cash flows from investing activities

The following table represents the major components of our cash flows from investing activities for the nine months ended September 30, 2019 and 2018:

	Nine months ended September 30,	
	2019	2018
	(in thousands)	
Purchase of property and equipment	\$ (64)	\$ (2,280)
Proceeds from sale or disposal of assets	273	10,387
Purchases of investments	(1,606)	(8,314)
Proceeds from sales of investments	536	184
Net cash used in investing activities	\$ (861)	\$ (23)

Net cash used in investing activities was \$861,000 for the nine months ended September 30, 2019, primarily due to the purchases of investments in U.S. Treasury securities and common stock of \$1,606,000. This was partially offset by the proceeds from sales of investments of \$536,000. Additionally, we invested in certain property and equipment for \$64,000 and received proceeds from the disposal of assets of \$273,000.

Net cash used in investing activities was \$23,000 for the nine months ended September 30, 2018, was primarily due to the purchases of investments in commercial paper and corporate notes and bonds of \$8,314,000 and the acquisition of the previously leased Bensenville property. This was offset by the proceeds from sales of equipment and other assets of \$10,387,000 at our U.S. and Malaysia locations, primarily the sale of our Batavia, IL facility. Additionally, this was offset by the proceeds from sales of investments of \$184,000.

We anticipate our capital expenditures related to our sapphire and pharmacy business to be minimal.

Cash flows from financing activities

Net cash used in financing activities was \$508,000 for the nine months ended September 30, 2019, which was due to purchases of our treasury stock of \$501,000 and taxes paid on net share settlement of equity share awards of \$7,000.

Net cash used in financing activities was \$9,000 for the nine months ended September 30, 2018. This was primarily from cash for taxes on net share settlement of equity share awards.

Future liquidity requirements

We believe that our existing cash, cash equivalents, anticipated cash flows from operating activities and proceeds from sales or leases of fixed assets will be sufficient to meet our anticipated cash needs for at least the next twelve months. However, if our ability to generate sufficient operating cash flow or our use of cash in the next twelve months were to significantly adversely change, we may not have enough funds available to continue operating at our current level in future periods. Our cash needs include cash required to fund our operations. 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.

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.

Revenue recognition

We recognize revenue in accordance with ASC Topic 606, *Revenue From Contracts with Customers* ("Topic 606"), when performance obligations under a purchase order or signed quotation are satisfied. Our business practice commits us to manufacture and deliver product upon acceptance of a customer's purchase order or signed quotation ("agreement"). The agreement with the customer includes specifications of the product to be delivered, price, expected ship date and payment terms. Our agreements generally do not contain variable, financing, rights of return or non-cash components. There are no up-front costs to develop the production process. The performance obligation is satisfied at the point in time (single performance obligation) when the product is manufactured to the customer's specification as performance does not create an asset with an alternative use to us. Accordingly, we recognize revenue when the product is shipped, and control of the product, title and risk of loss have been transferred to the customer. We grant credit terms considering normal collection risk. If there is doubt about collection, full prepayment for the order is required. Any payments received prior to shipment are recorded as deferred revenue and included in advance payments in the consolidated balance sheets.

Government Contracts

In 2012, we signed a contract with the Air Force Research Laboratory to produce large-area sapphire windows on a cost plus fixed fee basis. The deliverables under this contract included development of machinery and technology to be able to produce large-area sapphire windows, prove the concept of growing large windows with that equipment, and delivery of large-area sapphire windows. We recorded research and development revenue related to this contract on a gross basis over the contractually defined period of time as the obligations were completed, using the input method of measuring progress, which recognizes revenue as resources are consumed, labor hours expended and costs are incurred, plus a portion of the fixed fee. As we have completed this government contract in 2018, all revenues corresponding to the total value of the contract of \$4.7 million have been recognized as of December 31, 2018. No additional research and development revenue was recorded for the nine months ended September 30, 2019.

At September 30, 2019, the costs to complete the contract were in excess of the contract value. In reviewing our current estimates, we expect our remaining payments to be less than \$200,000, which has previously been accrued.

We do not provide maintenance or other services and do not have sales that involve bill & hold arrangements, multiple elements or deliverables. However, we do provide product warranty for up to 90 days, for which we have accrued a warranty reserve of \$3,000 and \$8,000 at September 30, 2019 and December 31, 2018, respectively.

Assets held for sale and long-lived assets

When circumstances, such as adverse market conditions, indicate that the carrying value of a long-lived asset may be impaired, we perform an analysis to review the recoverability of the asset's carrying value. We make estimates of the undiscounted cash flows (excluding interest charges) from the expected future operations of the asset. These estimates consider factors such as expected future operating income, operating trends and prospects, as well as the effects of demand, competition and other factors. If the analysis indicates that the carrying value is not recoverable from future cash flows, an impairment loss is recognized to the extent that the carrying value exceeds the estimated fair value. The estimated fair value of assets is determined using appraisal techniques which assume the highest and best use of the asset by market participants, considering the use of the asset that is physically possible, legally permissible and financially feasible at the measurement date. Any impairment losses are recorded as operating expenses which reduce net income.

For the year ended December 31, 2018, we reviewed the current fair value of our assets and concluded no adjustments were needed. Additionally, no adjustments were recorded for the nine months ended September 30, 2019. We will continue to assess our long-lived assets to ensure the carrying amount of these assets is still appropriate given any changes in the asset usage, marketplace and other factors used in determining the current fair value.

The Company is pursuing the sale of its parcel of land in Batavia, Illinois, and the sale or lease of its 65,000 square-foot facility located in Penang, Malaysia. Although the Company cannot assure the timing of these sales, these properties were classified as current assets held for sale at September 30, 2019 and December 31, 2018, as it is the Company's intention to complete these sales within the next twelve-month period. The Company cannot guarantee that it will be able to successfully complete the sale or lease of any assets.

For the nine months ended September 30, 2019, the Company sold excess consumable assets for \$273,000. Such assets had no book value, and therefore resulted in a gain of \$273,000. Unsold excess Malaysia equipment continued to be classified as current assets held for sale at September 30, 2019 and December 31, 2018.

Inventory valuation

We value our inventory at the lower of cost or net realizable value. Net realizable value is determined based on an estimated selling price in the ordinary course of business less reasonably predictable costs of completion and disposal. Raw materials cost is determined using the first-in, first-out method, and work-in-process and finished goods costs are determined on a standard cost basis which includes materials, labor and manufacturing overhead. 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.

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 an expense costs attributable to lower utilization of equipment and staff. For the three and nine months ended September 30, 2019, we determined that we were not operating at capacity and recorded costs associated with lower utilization of equipment and staff of \$58,000 and \$212,000, respectively. For the three and nine months ended September 30, 2018, we determined that we were not operating at capacity and recorded costs associated with lower utilization of equipment and staff of \$239,000 and \$684,000, respectively. It is likely we will incur additional adjustments for lower utilization of our equipment and staff in 2019.

Investments

We invest our available cash primarily in U.S. Treasury securities, investment grade commercial paper, FDIC guaranteed certificates of deposit, common stock and corporate notes. Investments classified as available-for-sale debt securities are carried at fair value with unrealized gains and losses recorded in accumulated other comprehensive income (loss). Investments in equity securities are reported at fair value, with both realized and unrealized gains and losses recorded in other income, in the Consolidated Statements of Operations. Investments in which we have the ability and intent, if necessary, to liquidate are classified as short-term.

We review our available-for-sale debt 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 Statements of Operations. As of September 30, 2019 and 2018, no impairment was recorded.

Stock-based compensation

We grant stock-based compensation in the form of stock options, RSUs and restricted stock. We expense stock-based compensation based upon the fair 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 is 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 historical data. We estimate the volatility of our common stock based on a historical range of stock price fluctuations. We base the risk-free interest rate that we use in the option pricing model on U.S. Treasury zero-coupon issues with remaining terms similar to the expected terms 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 28.99% was based on our past history of forfeitures.

All option grants are granted at an exercise price per share equal to the closing market price of our common stock on the day before the date of grant.

Based on the fair value of the common stock at September 30, 2019, there was \$85,655 of intrinsic value arising from 29,500 stock options exercisable and outstanding.

Pursuant to an employment agreement, we granted 30,902 and 59,098 RSUs to a key executive in 2018 and 2017, respectively. We used a Monte Carlo simulation model valuation technique to determine the fair value of these RSUs because the awards vest based upon achievement of our stock market price targets. The Monte Carlo simulation model utilizes multiple input variables that determine the probability of satisfying the market condition stipulated in the award and calculates the fair value of each RSU. The daily expected stock price volatility is based on a four-year historical volatility of our common stock. The daily expected dividend yield is based on annual expected dividend payments. The average daily risk-free interest rate is based on the three-year treasury yield as of the grant date. Each of the target price tranches is calculated to have its own fair value and requisite service period. The fair value of each tranche is amortized over the requisite or derived service period which is up to four years.

We allocate stock-based compensation costs using a straight-line method, which amortizes the fair value of each award on a straight-line basis over the service period.

Income tax valuation allowance

In accordance with ASC 740 “Accounting for Income Taxes” (“ASC 740”), we evaluate our deferred income tax assets quarterly to determine if valuation allowances are required or should be adjusted. Evaluating the need for and amount of a valuation allowance for deferred tax assets often requires significant judgment and extensive analysis of all 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%) 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. We are in a cumulative loss position for the past three years, which is considered significant negative evidence by the accounting standards that is difficult to overcome on a “more likely than not” standard through objectively verifiable data. The accounting standards attribute greater weight to objective verifiable evidence than to subjective positive evidence, such as our projections for future growth. Based on an evaluation in accordance with the accounting standards, as of September 30, 2019, a valuation allowance has been recorded against the net U.S. and Malaysia deferred tax assets in order to measure only the portion of the deferred tax assets that are more likely than not to be realized based on the weight of all available evidence. Any U.S. and Malaysia tax benefits or tax expense recorded on the Consolidated Statements of Operations will be offset with a corresponding adjustment from the use of the NOL carryforward asset which currently has a full valuation allowance. In the event that we change our determination as to the amount of deferred tax assets that can be realized, we will adjust our valuation allowance with a corresponding impact to the provision for income taxes in the period in which such determination is made.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 2 to the Consolidated Financial Statements for a discussion of new accounting standards.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements.

SUBSEQUENT EVENTS

On October 18, 2019, the Company completed the sale of all of its manufacturing equipment in Malaysia for \$490,000 in cash and other consideration. This equipment had been classified as held for sale and had a book value of \$180,000. The transaction resulted in a gain of \$310,000.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

For the nine months ended September 30, 2019, 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, 2018.

ITEM 4. CONTROLS AND PROCEDURES

Management’s evaluation of disclosure controls and procedures

Based on evaluations at September 30, 2019, our chief executive officer and interim 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 officer has 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, 2019, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The exhibits filed or incorporated by reference as a part of this report are listed in the Exhibit Index which appears following the signature page to this Quarterly Report on Form 10-Q and is incorporated by reference.

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.

Date: November 13, 2019

Rubicon Technology, Inc.

By: /s/ Timothy E. Brog
 Timothy E. Brog
 President, Chief Executive Officer and
 Interim Chief Financial Officer

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 the registrant's Registration Statement on Form S-1/A, filed on November 1, 2007 (File No. 333-145880)
3.2	Amendment No. 1 to Eighth Amended and Restated Certificate of Incorporation of Rubicon Technology, Inc.	Filed as Appendix A to the registrant's Definitive Proxy Statement on Schedule 14A, filed on April 29, 2011 (File No. 1-33834)
3.3	Amendment No. 2 to Eighth Amended and Restated Certificate of Incorporation of Rubicon Technology, Inc.	Filed as Exhibit 3.1 to the registrant's Current Report on Form 8-K, filed on May 4, 2017 (File No. 1-33834)
3.4	Second Amended and Restated Bylaws of Rubicon Technology, Inc.	Filed as Exhibit 3.3 to the registrant's Quarterly Report on Form 10-Q, filed on May 10, 2016 (File No. 1-33834)
3.5	Certificate of Designations of Series A Junior Participating Preferred Stock of Rubicon Technology, Inc. filed with the Secretary of State of Delaware on December 18, 2017.	Filed as Exhibit 3.1 to the registrant's Current Report on Form 8-K, filed on December 18, 2017 (File No. 1-33834)
3.6	Amendment No. 3 to Eighth Amended and Restated Certificate of Incorporation of Rubicon Technology, Inc.	Filed as Exhibit 3.1 to the registrant's Current Report on Form 8-K, filed on May 15, 2018 (File No. 1-33834)
31.1*	Certification of Chief Executive Officer and Interim 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*	Certification of Chief Executive Officer and Interim 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.INS*	XBRL Instance Document	
101.SCH*	XBRL Taxonomy Extension Schema Document	
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document	
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document	
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document	
101.PRE*	XBRL Taxonomy Extension Presentation Document	

* Filed electronically with this Quarterly Report on Form 10-Q

EX-31.1 2 f10q0919ex31-1_rubicontech.htm CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND INTERIM 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

Exhibit 31.1

Certifications

Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Timothy E. Brog, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Rubicon Technology, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2019

By: /s/ Timothy E. Brog
Timothy E. Brog
President, Chief Executive Officer and Interim
Chief Financial Officer

EX-32.1 3 f10q0919ex32-1_rubicontech.htm CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND INTERIM CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Exhibit 32.1

**Certification Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002,
18 U.S.C. Section 1350**

In connection with the Quarterly Report of Rubicon Technology, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his or her knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 13, 2019

By: /s/ Timothy E. Brog
Timothy E. Brog
President, Chief Executive Officer and Interim
Chief Financial Officer