

AXT INC
Form 10-Q
May 10, 2013

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 March 31, 2013

Or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the transition period from _____ to _____

Commission File Number 000-24085

AXT, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of Incorporation or
organization)

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

4281 Technology Drive, Fremont, California 94538
(Address of principal executive offices) (Zip code)

(510) 683-5900
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this

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chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

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

Class	Outstanding at May 3, 2013
Common Stock, \$0.001 par value	32,654,288

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

AXT, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands, except per share data)

	March 31, 2013	December 31, 2012 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$25,792	\$30,634
Short-term investments	6,540	10,270
Accounts receivable, net of allowances of \$270 and \$245 as of March 31, 2013 and December 31, 2012, respectively	17,014	17,912
Inventories	38,768	40,352
Related party notes receivable – current	2,047	2,036
Prepaid expenses and other current assets	7,034	5,268
Total current assets	97,195	106,472
Long-term investments	17,038	9,191
Property, plant and equipment, net	37,477	37,235
Related party notes receivable – long-term	418	416
Other assets	14,196	14,275
Total assets	\$166,324	\$167,589
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$6,581	\$5,894
Accrued liabilities	9,434	7,202
Total current liabilities	16,015	13,096
Long-term portion of royalty payments	3,125	3,325
Other long-term liabilities	148	254
Total liabilities	19,288	16,675
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 2,000 shares authorized; 883 shares issued and outstanding as of March 31, 2013 and December 31, 2012 (Liquidation preference of \$6.0 million and \$5.9 million as of March 31, 2013 and December 31, 2012, respectively)	3,532	3,532
Common stock, \$0.001 par value per share; 70,000 shares authorized; 32,654 and 32,471 shares issued and outstanding as of March 31, 2013 and December 31, 2012, respectively	32	32
Additional paid-in capital	193,651	193,063
Accumulated deficit	(61,447)	(59,047)
Accumulated other comprehensive income	6,366	6,033
AXT, Inc. stockholders' equity	142,134	143,613
Noncontrolling interests	4,902	7,301
Total stockholders' equity	147,036	150,914

Total liabilities and stockholders' equity	\$166,324	\$167,589
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See accompanying notes to condensed consolidated financial statements.

(1) The condensed consolidated balance sheet at December 31, 2012 has been derived from the audited consolidated financial statements at that date.

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AXT, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (Unaudited, in thousands, except per share data)

	Three Months Ended March 31,	
	2013	2012
Revenue	\$22,380	\$23,486
Cost of revenue	18,896	15,292
Gross profit	3,484	8,194
Operating expenses:		
Selling, general and administrative	3,925	3,785
Research and development	822	835
Total operating expenses	4,747	4,620
Income (loss) from operations	(1,263)	3,574
Interest income, net	31	88
Equity in earnings of unconsolidated joint ventures	282	154
Other expense, net	(825)	(489)
Income (loss) before provision for income taxes	(1,775)	3,327
Provision for income taxes	(184)	(375)
Net income (loss)	(1,959)	2,952
Less: Net income attributable to noncontrolling interests	(441)	(1,317)
Net income (loss) attributable to AXT, Inc.	\$(2,400)	\$1,635
Net income (loss) attributable to AXT, Inc. per common share:		
Basic	\$(0.08)	\$0.05
Diluted	\$(0.08)	\$0.05
Weighted average number of common shares outstanding:		
Basic	32,297	32,034
Diluted	32,297	33,018

See accompanying notes to condensed consolidated financial statements.

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AXT, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (Unaudited, in thousands)

	Three Months Ended March 31,	
	2013	2012
Net income (loss)	\$(1,959) \$2,952
Other comprehensive income (loss), net of tax:		
Change in foreign currency translation gain, net of tax	407	338
Change in unrealized gain (loss) on available-for-sale investments, net of tax	(17) 100
Total other comprehensive income, net of tax	390	438
Comprehensive income (loss)	(1,569) 3,390
Less: Comprehensive income attributable to the noncontrolling interests	(498) (1,384
Comprehensive income (loss) attributable to AXT, Inc.	\$(2,067) \$2,006

See accompanying notes to condensed consolidated financial statements.

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AXT, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited, in thousands)

	Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net income (loss)	\$(1,959)	\$2,952
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,291	907
Amortization of marketable securities premium	146	71
Stock-based compensation	332	281
Loss on disposal of property, plant and equipment	—	29
Changes in assets and liabilities:		
Accounts receivable, net	922	1,350
Inventories	1,649	4,030
Prepaid expenses and other current assets	(1,740)	491
Other assets	105	124
Accounts payable	664	883
Accrued liabilities	(164)*	(1,108)*
Other long-term liabilities	(270)	(459)
Net cash provided by operating activities	976	9,551
Cash flows from investing activities:		
Purchases of property, plant and equipment	(1,349)	(1,124)
Purchases of available-for-sale securities	(12,410)	(3,079)
Proceeds from maturities of available-for-sale securities	8,130	2,700
Net cash used in investing activities	(5,629)	(1,503)
Cash flows from financing activities:		
Proceeds from common stock options exercised	256	219
Dividends paid by joint ventures	(532)	(3,384)
Net cash used in financing activities	(276)	(3,165)
Effect of exchange rate changes on cash and cash equivalents	87	117
Net increase (decrease) in cash and cash equivalents	(4,842)	5,000
Cash and cash equivalents at the beginning of the period	30,634	26,156
Cash and cash equivalents at the end of the period	\$25,792	\$31,156

*Dividends accrued but not paid by joint ventures of \$2,365 and \$655 was included in accrued liabilities as of March 31, 2013 and March 31, 2012, respectively.

See accompanying notes to condensed consolidated financial statements.

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AXT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

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

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

The results of operations are not necessarily indicative of the results to be expected in the future or for the full fiscal year. It is recommended that these condensed consolidated financial statements be read in conjunction with our consolidated financial statements and the notes thereto included in our 2012 Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on March 15, 2013.

The consolidated financial statements include the accounts of AXT, our wholly-owned subsidiary, Beijing Tongmei Xtal Technology Co, Ltd., and our majority-owned subsidiaries, Beijing JiYa Semiconductor Material Co., Ltd, Nanjing Jin Mei Gallium Co., Ltd and Beijing BoYu Semiconductor Vessel Craftwork Technology Co., Ltd. All significant inter-company accounts and transactions have been eliminated. Investments in business entities in which we do not have control, but have the ability to exercise significant influence over operating and financial policies (generally 20-50% ownership), are accounted for by the equity method. For majority-owned subsidiaries, we reflect the noncontrolling interest of the portion we do not own on our condensed consolidated balance sheets in stockholders’ equity and in our condensed consolidated statements of operations.

Certain prior period amount in our condensed consolidated statements of operations has been reclassified to conform to the current period presentation. We reclassified \$154,000 from “other expense, net” to “equity in earnings of unconsolidated joint ventures” for the three months ended March 31, 2012.

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Note 2. Investments and Fair Value Measurements

Our cash, cash equivalents and investments are classified as follows (in thousands):

	March 31, 2013			December 31, 2012				
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value
Classified as:								
Cash	\$25,789	\$ —	\$ —	\$25,789	\$26,250	\$ —	\$ —	\$26,250
Cash equivalents:								
Money market fund	3	—	—	3	4,384	—	—	4,384
Total cash equivalents	3	—	—	3	4,384	—	—	4,384
Total cash and cash equivalents	25,792	—	—	25,792	30,634	—	—	30,634
Investments (available for sale):								
Certificates of deposit	6,998	8	(7)	6,999	6,638	9	(2)	6,645
Corporate bonds	16,646	4	(71)	16,579	12,872	7	(63)	12,816
Total investments	23,644	12	(78)	23,578	19,510	16	(65)	19,461
Total cash, cash equivalents and investments	\$49,436	\$ 12	\$ (78)	\$49,370	\$50,144	\$ 16	\$ (65)	\$50,095
Contractual maturities on investments:								
Due within 1 year	\$6,536			\$6,540	\$10,288			\$10,270
Due after 1 through 5 years	17,108			17,038	9,222			9,191
	\$23,644			\$23,578	\$19,510			\$19,461

We manage our investments as a single portfolio of highly marketable securities that is intended to be available to meet our current cash requirements. We have no investments in auction rate securities. There were no sales of available-for-sales securities and no realized gains and losses for the three months ended March 31, 2013 and 2012. The proceeds from maturities of available-for-sale securities were \$8.1 million and \$2.7 million for the three months ended March 31, 2013 and 2012, respectively.

The gross unrealized losses related to our portfolio of available-for-sale securities were primarily due to changes in interest rates and market and credit conditions of the underlying securities. We have determined that the gross unrealized losses on some of our available-for-sale securities as of March 31, 2013 are temporary in nature. We periodically review our investment portfolio to identify and evaluate investments that have indications of possible impairment. Factors considered in determining whether a loss is temporary include the magnitude of the decline in market value, the length of time the market value has been below cost (or adjusted cost), credit quality, and our ability and intent to hold the securities for a period of time sufficient to allow for any anticipated recovery in market value.

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The following table summarizes the fair value and gross unrealized losses related to available-for-sale securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2013 (in thousands):

	In Loss Position < 12 Months		In Loss Position > 12 Months		Total In Loss Position	
	Fair Value	Gross Unrealized (Loss)	Fair Value	Gross Unrealized (Loss)	Fair Value	Gross Unrealized (Loss)
Investments:						
Certificates of deposit	\$2,953	\$(7)	\$—	\$—	\$2,953	\$(7)
Corporate bonds	12,788	(71)	—	—	12,788	(71)
Total in loss position	\$15,741	\$(78)	\$—	\$—	\$15,741	\$(78)

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The following table summarizes the fair value and gross unrealized losses related to available-for-sale securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2012 (in thousands):

	In Loss Position < 12 Months		In Loss Position > 12 Months		Total In Loss Position	
	Fair Value	Gross Unrealized (Loss)	Fair Value	Gross Unrealized (Loss)	Fair Value	Gross Unrealized (Loss)
Investments:						
Certificates of deposit	\$1,877	\$(1)	\$199	\$(1)	\$2,076	\$(2)
Corporate bonds	6,446	(40)	1,502	(23)	7,948	(63)
Total in loss position	\$8,323	\$(41)	\$1,701	\$(24)	\$10,024	\$(65)

Investments in Privately-held Companies

We have made strategic investments in private companies located in China in order to gain access at a competitive cost to raw materials that are critical to our substrate business (see Note 6). The investment balances for all these companies, including minority investments in privately-held companies made indirectly through our consolidated joint ventures are accounted for under the equity method and are included in "other assets" in the condensed consolidated balance sheets and totaled \$9.5 million and \$9.4 million as of March 31, 2013 and December 31, 2012, respectively. We also maintain minority investments in other unconsolidated privately-held companies which are accounted for under the cost method as we do not have the ability to exercise significant influence over their operations. Our investments in these privately-held companies are reviewed for other than temporary declines in value on a quarterly basis. We monitor our investments for impairment and