

AXT INC
Form 10-Q
May 09, 2014

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, 2014

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 94-3031310
(State or other jurisdiction of Incorporation or organization) (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 chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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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 5, 2014
Common Stock, \$0.001 par value	32,604,958

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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, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$22,760	\$24,961
Short-term investments	22,375	12,499
Accounts receivable, net of allowances of \$791 and \$1,054 as of March 31, 2014 and December 31, 2013	16,364	14,943
Inventories	38,040	39,127
Prepaid expenses and other current assets	6,401	8,010
Total current assets	105,940	99,540
Long-term investments	1,678	10,145
Property, plant and equipment, net	36,179	37,621
Related party notes receivable – long-term	1,701	1,715
Other assets	14,752	14,801
Total assets	\$160,250	\$163,822
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$7,618	\$8,140
Accrued liabilities	6,646	7,286
Total current liabilities	14,264	15,426
Long-term portion of royalty payments	2,325	2,525
Other long-term liabilities	272	325
Total liabilities	16,861	18,276
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, 2014 and December 31, 2013 (Liquidation preference of \$6.2 million and \$6.1 million as of March 31, 2014 and December 31, 2013, respectively)	3,532	3,532
Common stock, \$0.001 par value per share; 70,000 shares authorized; 32,605 and 32,605 shares issued and outstanding as of March 31, 2014 and December 31, 2013, respectively	32	32
Additional paid-in capital	194,448	194,156
Accumulated deficit	(69,045)	(67,005)
Accumulated other comprehensive income	8,500	8,953
AXT, Inc. stockholders' equity	137,467	139,668
Noncontrolling interests	5,922	5,878
Total stockholders' equity	143,389	145,546
Total liabilities and stockholders' equity	\$160,250	\$163,822

See accompanying notes to condensed consolidated financial statements.

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AXT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited, in thousands, except per share data)

	Three Months Ended March 31, 2014 2013	
Revenue	\$19,345	\$22,380
Cost of revenue	16,627	18,896
Gross profit	2,718	3,484
Operating expenses:		
Selling, general and administrative	3,436	3,925
Research and development	775	822
Restructuring charge	907	—
Total operating expenses	5,118	4,747
Loss from operations	(2,400)	(1,263)
Interest income, net	127	31
Equity in earnings of unconsolidated joint ventures	487	282
Other income (expense), net	10	(825)
Loss before provision for income taxes	(1,776)	(1,775)
Provision (benefit) for income taxes	59	184
Net loss	(1,835)	(1,959)
Less: Net loss attributable to noncontrolling interests	(205)	(441)
Net loss attributable to AXT, Inc.	\$(2,040)	\$(2,400)
Net loss attributable to AXT, Inc. per common share:		
Basic	\$(0.06)	\$(0.08)
Diluted	\$(0.06)	\$(0.08)
Weighted average number of common shares outstanding:		
Basic	32,364	32,297
Diluted	32,364	32,297

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, 2014 2013	
Net income (loss)	\$(1,835)	\$(1,959)
Other comprehensive income (loss), net of tax:		
Change in foreign currency translation gain (loss), net of tax	(521)	407
Change in unrealized gain (loss) on available-for-sale investments, net of tax	(10)	(17)
Total other comprehensive income, net of tax	(531)	390
Comprehensive income (loss)	(2,366)	(1,569)
Less: Comprehensive income attributable to the noncontrolling interests	(126)	(498)
Comprehensive income (loss) attributable to AXT, Inc.	\$(2,492)	\$(2,067)

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,	
	2014	2013
Cash flows from operating activities:		
Net Loss	\$(1,835)	\$(1,959)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	1,404	1,291
Amortization of marketable securities premium	122	146
Stock-based compensation	292	332
Loss (gain) on disposal of property, plant and equipment	(5)	—
Provision for doubtful accounts	1	—
Changes in assets and liabilities:		
Accounts receivable, net	(1,459)	922
Inventories	985	1,649
Prepaid expenses and other current assets	1,584	(1,740)
Other assets	18	105
Accounts payable	(489)	664
Accrued liabilities	(697)*	(164)*
Other long-term liabilities	(308)	(270)
Net cash (used in) provided by operating activities	(387)	976
Cash flows from investing activities:		
Purchases of property, plant and equipment	(163)	(1,349)
Proceeds from sales of property, plan and equipment	5	—
Purchases of available-for-sale securities	(3,725)	(12,410)
Proceeds from maturities of available-for-sale securities	2,180	8,130
Net cash used in investing activities	(1,703)	(5,629)
Cash flows from financing activities:		
Proceeds from common stock options exercised	—	256
Dividends paid by joint ventures	—	(532)
Net cash used in financing activities	—	(276)
Effect of exchange rate changes on cash and cash equivalents	(111)	87
Net decrease in cash and cash equivalents	(2,201)	(4,842)
Cash and cash equivalents at the beginning of the period	24,961	30,634
Cash and cash equivalents at the end of the period	\$22,760	\$25,792

* Dividends accrued but not paid by joint ventures of \$729 and \$2,365 was included in accrued liabilities as of March 31, 2014 and March 31, 2013, 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 2013 Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on March 14, 2014.

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.

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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, 2014				December 31, 2013			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value
Classified as:								
Cash	\$21,638	\$ —	\$ —	\$21,638	\$24,852	\$ —	\$ —	\$24,852
Cash equivalents:								
Money market fund	1,122	—	—	1,122	109	—	—	109
Total cash and cash equivalents	22,760	—	—	22,760	24,961	—	—	24,961
Investments (available for sale):								
Certificates of deposit	7,864	1	(2)	7,863	6,320	2	(4)	6,318
Corporate bonds	14,155	12	(2)	14,165	14,276	8	(6)	14,278
Corporate equity security	125	1,900	—	2,025	125	1,923	—	2,048
Total investments	22,144	1,913	(4)	24,053				