

AXT INC
Form 10-Q
August 13, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC. 20549

FORM 10-Q

(Mark One)

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

for the quarterly period ended June 30, 2007

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 checkmark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Act. (Check one):

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Large accelerated filer

Accelerated filer

Non-accelerated filer

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 July 31, 2007
Common Stock, \$0.001 par value	30,021,987

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

AXT, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited, in thousands, except per share data)

	June 30, 2007	December 31, 2006
Assets:		
Current assets:		
Cash and cash equivalents	\$ 15,416	\$ 16,116
Short-term investments	18,262	19,428
Accounts receivable, net of allowances of \$674 and \$140 as of June 30, 2007 and December 31, 2006, respectively	9,882	9,658
Inventories, net	24,953	20,263
Prepaid expenses and other current assets	4,121	3,985
Assets held for sale	5,140	4,659
Total current assets	77,774	74,109
Property, plant and equipment, net	14,814	12,775
Restricted deposits	6,850	7,150
Other assets	4,843	4,298
Total assets	\$ 104,281	\$ 98,332
Liabilities and stockholders' equity:		
Current liabilities:		
Accounts payable	\$ 2,141	\$ 3,764
Accrued liabilities	3,426	3,358
Current portion of long-term debt	450	450
Income taxes payable	335	178
Total current liabilities	6,352	7,750
Long-term debt, net of current portion	6,456	6,839
Other long-term liabilities	2,592	2,543
Total liabilities	15,400	17,132
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock, \$0.001 par value per share; 2,000 shares authorized; 883 shares issued and outstanding as of June 30, 2007 and December 31, 2006.	3,532	3,532
Common stock, \$0.001 par value per share; 70,000 shares authorized; 29,975 and 29,011 shares issued and outstanding as of June 30, 2007 and December 31, 2006, respectively	30	29
Additional paid-in capital	184,988	180,936
Accumulated deficit	(101,275)	(103,832)
Accumulated other comprehensive income	1,606	535
Total stockholders' equity	88,881	81,200
Total liabilities and stockholders' equity	\$ 104,281	\$ 98,332

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		Six Months Ended	
	June 30, 2007	2006	June 30, 2007	2006
Revenue	\$ 13,639	\$ 10,355	\$ 26,165	\$ 18,826
Cost of revenue	8,607	7,596	15,728	14,557
Gross profit	5,032	2,759	10,437	4,269
Operating expenses:				
Selling, general and administrative	3,743	3,853	7,446	7,083
Research and development	348	571	808	1,105
Recovery of impairment on assets held for sale	(481)		(481)	
Restructuring benefit				(2)
Total operating expenses	3,610	4,424	7,773	8,186
Income (loss) from continuing operations	1,422	(1,665)	2,664	(3,917)
Interest income, net	225	111	449	239
Other income (expense), net	(272)	814	(283)	1,052
Income (loss) before provision for income taxes	1,375	(740)	2,830	(2,626)
Provision for income taxes	162	138	273	456
Income (loss) from continuing operations	1,213	(878)	2,557	(3,082)
Discontinued operations:				
Gain from discontinued operations, net of tax		2		3
Net income (loss)	\$ 1,213	\$ (876)	\$ 2,557	\$ (3,079)
Basic income (loss) per share:				
Income (loss) from continuing operations	\$ 0.04	\$ (0.04)	\$ 0.08	\$ (0.14)
Gain from discontinued operations, net of tax				
Net income (loss)	\$ 0.04	\$ (0.04)	\$ 0.08	\$ (0.14)
Shares used in computing basic income (loss) per share	29,943	23,052	29,871	23,019
Diluted income (loss) per share:				
Income (loss) from continuing operations	\$ 0.04	\$ (0.04)	\$ 0.08	\$ (0.14)
Gain from discontinued operations, net of tax				
Net income (loss)	\$ 0.04	\$ (0.04)	\$ 0.08	\$ (0.14)
Shares used in computing diluted income (loss) per share	31,142	23,052	31,233	23,019

See accompanying notes to condensed consolidated financial statements.

AXT, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Six Months Ended June 30,	
	2007	2006
Cash flows from operating activities:		
Net income (loss)	\$ 2,557	\$ (3,079)
Adjustments to reconcile net income (loss) to net cash used in operations:		
Depreciation	686	1,761
Accretion of marketable securities premium/discount	(48)	(30)
Loss on disposal of property, plant and equipment		67
Stock-based compensation	211	443
Realized loss (gain) on sale of investments	29	(1,438)
Recovery of impairment on assets held for sale	(481)	
Changes in assets and liabilities:		
Accounts receivable, net	(183)	(2,203)
Inventories	(4,590)	(36)
Prepaid expenses	(36)	(1,801)
Other assets	(512)	89
Accounts payable	(1,656)	383
Accrued liabilities	51	(975)
Income taxes payable	149	13
Other long-term liabilities	(26)	61
Net cash used in operating activities	(3,849)	(6,745)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(2,298)	(1,331)
Proceeds from disposal of property, plant and equipment		161
Purchases of marketable securities	(10,254)	(4,697)
Proceeds from sale of marketable securities	11,911	5,985
Decrease in restricted deposits	300	150
Net cash used in investing activities	(341)	268
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	3,842	298
Long-term debt payments	(387)	(318)
Net cash provided by (used in) financing activities	3,455	(20)
Effect of exchange rate changes on cash and cash equivalents	35	78
Net decrease in cash and cash equivalents	(700)	(6,419)
Cash and cash equivalents at the beginning of the period	16,116	17,472
Cash and cash equivalents at the end of the period	\$ 15,416	\$ 11,053

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 , 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 audited consolidated financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of our management, the unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, considered necessary to present fairly the financial position, results of operations and cash flows of AXT and our subsidiaries for all periods presented.

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

The results of operations are not necessarily indicative of the results to be expected in the future or for the full fiscal year. It is recommended that these condensed consolidated financial statements be read in conjunction with our consolidated financial statements and the notes thereto included in our 2006 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on March 23, 2007 and our Quarterly Report on Form 10-Q filed with the SEC on May 11, 2007.

Note 2. Discontinued Operations

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Our condensed consolidated financial statements have been presented to reflect the opto-electronics business as a discontinued operation for all periods presented. Operating results of the discontinued operation are as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Revenue	\$	\$	\$	