AXT INC
Form 10-Q
August 07, 2018
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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 June 30, 2018

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) 438-4700

(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 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 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

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	Accelerated filer
Non-accelerated filer	Smaller reporting company

(Do not check if a smaller reporting company) Emerging growth company

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

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 August 1, 2018
Common Stock, $0.001 par value	39,510,924

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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)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 29,698	$ 44,352
Short-term investments	18,802	20,032
Accounts receivable, net of allowances of $358 and $527 as of June 30, 2018 and December 31, 2017	22,516	22,778
Inventories	57,038	45,840
Prepaid expenses and other current assets	9,416	7,519
Total current assets	137,470	140,521
Long-term investments	5,714	12,576
Property, plant and equipment, net	65,174	46,530
Other assets	11,323	11,573
Total assets	$ 219,681	$ 211,200
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 14,059	$ 11,445
Accrued liabilities	11,793	11,149
Total current liabilities	25,852	22,594
Other long-term liabilities	296	289
Total liabilities	26,148	22,883
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock Series A, $0.001 par value; 2,000 shares authorized; 883 shares issued and outstanding as of June 30, 2018 and December 31, 2017 (Liquidation preference of $6,904 and $6,819 as of June 30, 2018 and December 31, 2017)	3,532	3,532
Common stock, $0.001 par value; 70,000 shares authorized; 39,511 and 39,413 shares issued and outstanding as of June 30, 2018 and December 31, 2017	39	39
Additional paid-in capital	232,984	231,679
Accumulated deficit	(48,061)	(54,837)

Accumulated other comprehensive income	1,172	3,407
Total AXT, Inc. stockholders’ equity	189,666	183,820
Noncontrolling interests	3,867	4,497
Total stockholders’ equity	193,533	188,317
Total liabilities and stockholders’ equity	$ 219,681	$ 211,200

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue	$ 27,120	$ 23,557	$ 51,539	$ 44,173
Cost of revenue	16,110	16,301	30,956	30,629
Gross profit	11,010	7,256	20,583	13,544
Operating expenses:				
Selling, general and administrative	4,987	3,942	9,209	7,735
Research and development	1,500	1,019	2,920	2,143
Total operating expenses	6,487	4,961	12,129	9,878
Income from operations	4,523	2,295	8,454	3,666
Interest income, net	139	114	281	212
Equity in earnings (loss) of unconsolidated joint ventures	307	(188)	(27)	(1,121)
Other expense, net	(51)	(102)	(266)	(54)
Income before provision for income taxes	4,918	2,119	8,442	2,703
Provision for income taxes	367	321	701	480
Net income	4,551	1,798	7,741	2,223
Less: Net (income) loss attributable to noncontrolling interests	(650)	132	(965)	372
Net income attributable to AXT, Inc.	$ 3,901	$ 1,930	$ 6,776	$ 2,595
Net income attributable to AXT, Inc. per common share:				
Basic	$ 0.10	$ 0.05	$ 0.17	$ 0.07
Diluted	$ 0.10	$ 0.05	$ 0.17	$ 0.07
Weighted-average number of common shares outstanding:				
Basic	39,001	38,306	38,970	36,238
Diluted	40,216	39,706	40,289	37,645

See accompanying notes to condensed consolidated financial statements.

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AXT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$ 4,551	$ 1,798	$ 7,741	$ 2,223
Other comprehensive (loss) income, net of tax:				
Change in foreign currency translation (loss) gain, net of tax	(5,018)	847	(2,202)	1,322
Change in unrealized gain (loss) on available-for-sale investments, net of tax	40	(2)	(77)	(125)
Total other comprehensive (loss) income, net of tax	(4,978)	845	(2,279)	1,197
Comprehensive (loss) income	(427)	2,643	5,462	3,420
Less: Comprehensive (income) loss attributable to noncontrolling interests	(346)	30	(921)	215
Comprehensive (loss) income attributable to AXT, Inc.	$ (773)	$ 2,673	$ 4,541	$ 3,635

See accompanying notes to condensed consolidated financial statements.

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AXT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, in thousands)

	Six Months Ended June 30, 2018		2017	
Cash flows from operating activities:				
Net income	$ 7,741		$ 2,223	
Adjustments to reconcile net income to net cash (used in) provided by operating activities:				
Depreciation and amortization	2,207		2,250	
Amortization of marketable securities premium	81		75	
Impairment charge on equity investee	—		313	
Stock-based compensation	931		622	
Realized gain on sale of available-for-sale securities	—		(77)	
Gain on disposal of equipment	(13)		(1)	
Loss from equity method investments, net	27		808	
Changes in operating assets and liabilities:				
Accounts receivable	61		(3,683)	
Inventories	(11,923)		(119)	
Prepaid expenses and other current assets	(2,075)		(264)	
Other assets	59		(28)	
Accounts payable	2,833		1,368	
Accrued liabilities	(414)	*	21	*
Other long-term liabilities, including royalties	24		(302)	
Net cash (used in) provided by operating activities	(461)		3,206	
Cash flows from investing activities:				
Purchases of property, plant and equipment	(21,920)		(1,831)	
Proceeds from sale of equipment	11		—	
Purchases of available-for-sale securities	(9,936)		(23,763)	
Proceeds from sales and maturities of available-for-sale securities	17,870		10,170	
Repayment of related party notes receivable	—		53	
Net cash used in investing activities	(13,975)		(15,371)	
Cash flows from financing activities:				
Proceeds from issuance of common stock and options exercised, net of issuance costs	178		32,746	
Considerations paid in cash to repurchase subsidiary shares from noncontrolling interests	(163)		—	
Dividends paid by joint ventures to their minority shareholders	—		(465)	
Net cash provided by financing activities	15		32,281	
Effect of exchange rate changes on cash and cash equivalents	(233)		215	

Net increase (decrease) in cash and cash equivalents	(14,654)	20,331
Cash and cash equivalents at the beginning of the period	44,352	36,152
Cash and cash equivalents at the end of the period	$ 29,698	$ 56,483
Supplemental disclosure of non-cash flow information:		
Consideration payable to repurchase subsidiary shares from noncontrolling interests, included in accrued liabilities	$ 1,192	—
Reduction of noncontrolling interests in excess of total consideration paid and payable in connection with the repurchase of subsidiaries shares from noncontrolling interests	$ 196	—

* Dividend accrued but not paid by one of our consolidated subsidiaries of $524 and $512 was included in accrued liabilities as of June 30, 2018 and 2017, 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, this interim quarterly financial report 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.

Certain reclassifications have been made to prior periods’ financial statements to conform to the current period presentation. These reclassifications did not result in any change in previously reported net income or total assets.

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 for the three and six months ended June 30, 2018 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 2017 Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on March 9, 2018 and our Quarterly Report on Form 10-Q for the three months ended March 31, 2018 filed with the SEC on May 4, 2018.

The condensed consolidated financial statements include the accounts of AXT, our wholly-owned subsidiaries, Beijing Tongmei Xtal Technology Co., Ltd., Baoding Tongmei Xtal Technology Co., Ltd. and Chaoyang Tongmei Xtal Technology Co., and our majority-owned, or significantly controlled subsidiaries, Beijing JiYa Semiconductor Material Co., Ltd., Nanjing JinMei 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 controlling interests, but have the ability to exercise significant influence over operating and financial policies (generally 20-50% ownership), are accounted for by the equity method. We have seven companies accounted for by the equity method. For subsidiaries that we consolidate, we reflect the portion we do not own as noncontrolling interests 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 and cash equivalents consist of cash and instruments with original maturities of less than three months. Our investments consist of instruments with original maturities of more than three months. As of June 30, 2018 and December 31, 2017, our cash, cash equivalents and investments are classified as follows (in thousands):

	June 30, 2018				December 31, 2017			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value	Amortized Cost	Gross Unrealized Gain	Gross Unrealized (Loss)	Fair Value
Classified as:								
Cash	$ 29,698	$ —	$ —	$ 29,698	$ 43,610	$ —	$ —	$ 43,610
Cash equivalents:								
Certificates of deposit 1	—	—	—	—	742	—	—	742
Total cash and cash equivalents	29,698	—	—	29,698	44,352	—	—	44,352
Investments (available-for-sale):								
Certificates of deposit 2	6,189	—	(43)	6,146	7,099	—	(24)	7,075
Corporate bonds	18,497	—	(127)	18,370	25,602	—	(69)	25,533
Total investments	24,686	—	(170)	24,516	32,701	—	(93)	32,608
Total cash, cash equivalents and investments	$ 54,384	$ —	$ (170)	$ 54,214	$ 77,053	$ —	$ (93)	$ 76,960
Contractual maturities on investments:								
Due within 1 year 3	$ 18,912			$ 18,802	$ 20,056			$ 20,032
Due after 1 through 5 years 4	5,774			5,714	12,645			12,576
	$ 24,686			$ 24,516	$ 32,701			$ 32,608

1. Certificates of deposit with original maturities of less than three months.
2. Certificates of deposit with original maturities of more than three months.
3. Classified as “Short-term investments” in our condensed consolidated balance sheets.
4. Classified as “Long-term investments” in our condensed consolidated balance sheets.

We manage our investments as a single portfolio of highly marketable securities that is intended to be available to meet our current cash requirements. Certificates of deposit and corporate bonds are typically held until maturity. Corporate equity securities have no maturity and may be sold at any time.

We previously held corporate equity securities consisting of common stock of GCS Holdings, Inc. (“GHI”) (previously Global Communication Semiconductors, Inc.), a Taiwan publicly-traded company. We began classifying GHI as an available-for-sale security in the second quarter of 2015 when we determined that there was sufficient trading volume in the exchange for the stock to be deemed readily marketable. During the three months ended March 31, 2017, we sold the remainder of our GHI stock; therefore, there were no GHI transactions in the three months ended June 30, 2017. During the six months ended June 30, 2017, our cash proceeds from sales of GHI stock were $125,000. Our cost was $48,000 and our gross realized gain from sales of GHI stock was $77,000. There were no GHI transactions in the three and six months ended June 30, 2018.

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 our available-for-sale securities as of June 30, 2018 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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A portion of our investments would generate a loss if we sold them on June 30, 2018. 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 June 30, 2018 (in thousands):

	In Loss Position < 12 months		In Loss Position > 12 months		Total In Loss Position	
As of June 30, 2018	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)
Investments:						
Certificates of deposit	$ 4,931	$ (39)	$ 1,196	$ (4)	$ 6,127	$ (43)
Corporate bonds	11,133	(82)	7,237	(45)	18,370	(127)
Total in loss position	$ 16,064	$ (121)	$ 8,433	$ (49)	$ 24,497	$ (170)

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, 2017 (in thousands):

	In Loss Position < 12 months		In Loss Position > 12 months		Total In Loss Position	
As of December 31, 2017	Fair Value	Gross Unrealized (Loss)	Fair Value	Gross Unrealized (Loss)	Fair Value	Gross Unrealized (Loss)
Investments:						
Certificates of deposit	$ 3,994	$ (16)	$ 2,342	$ (8)	$ 6,336	$ (24)
Corporate bonds	25,533	(69)	—	—	25,533	(69)
Total in loss position	$ 29,527	$ (85)	$ 2,342	$ (8)	$ 31,869	$ (93)

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 7). The investment balances for all of these companies, including minority investments indirectly in privately-held companies made by our consolidated subsidiaries, are accounted for under the equity method and included in “Other assets” in the condensed consolidated balance sheets and totaled $9.7 million and $9.8 million as of June 30, 2018 and December 31, 2017, respectively. As of June 30, 2018, there were seven companies accounted for under the equity method. There were no impairment charges in the three and six months ended June 30, 2018. There were no impairment charges in the three months ended June 30, 2017. The six months ended June 30, 2017 include an impairment charge of $313,000 for one of the gallium companies. During the first quarter of 2017, management determined that it was unlikely that this company would recover from the difficult pricing environment and we had written the investment down to zero.

Fair Value Measurements

We invest primarily in money market accounts, certificates of deposits, corporate bonds and notes, and government securities. Accounting Standards Codification (“ASC”) Topic 820, Fair Value Measurements and Disclosures (“ASC 820”), establishes three levels of inputs that may be used to measure fair value. Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets of the asset or identical assets. Level 2 instrument valuations are obtained from readily-available, observable pricing sources for comparable instruments. Level 3 instrument valuations are obtained from unobservable inputs in which there is little or no market data, which require us to develop our own assumptions. On a recurring basis, we measure certain financial assets and liabilities at fair value, primarily consisting of our short-term and long-term investments.

The type of instrument valued based on quoted market prices in active markets include our money market funds, which are generally classified within Level 1 of the fair value hierarchy. Other than corporate equity securities which are based on quoted market prices and classified as Level 1, we classify our available-for-sale securities including

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certificates of deposit and corporate bonds as having Level 2 inputs. The valuation techniques used to measure the fair value of these financial instruments having Level 2 inputs were derived from bank statements, quoted market prices, broker or dealer statements or quotations, or alternative pricing sources with reasonable levels of price transparency.

We place short-term foreign currency hedges that are intended to offset the potential cash exposure related to fluctuations in the exchange rate between the United States dollar and Japanese Yen. We measure the fair value of these foreign currency hedges at each month end and quarter end using current exchange rates and in accordance with generally accepted accounting principles. At quarter end any foreign currency hedges not settled are netted in “Accrued liabilities” on the condensed consolidated balance sheet and classified as Level 3 assets and liabilities. As of June 30, 2018, the net change in fair value from the placement of the hedge to settlement at each month end during the quarter had a de minimis impact to the consolidated results.

There were no changes in valuation techniques or related inputs in the three and six months ended June 30, 2018. There have been no transfers between fair value measurements levels during the three and six months ended June 30, 2018.

The following table summarizes our financial assets and liabilities measured at fair value on a recurring basis in accordance with ASC 820 as of June 30, 2018 (in thousands):

	Balance as of June 30, 2018	Quoted Prices in Active Markets of Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Cash equivalents and investments:				
Certificates of deposit	$ 6,146	$ —	$ 6,146	$ —
Corporate bonds	18,370	—	18,370	—
Total	$ 24,516	$ —	$ 24,516	$ —

The following table summarizes our financial assets and liabilities measured at fair value on a recurring basis in accordance with ASC 820 as of December 31, 2017 (in thousands):

	Balance as of December 31, 2017	Quoted Prices in Active Markets of Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

Assets:								
Cash equivalents and investments:								
Certificates of deposit	$	7,817	$	—	$	7,817	$	—
Corporate bonds		25,533		—		25,533		—
Total	$	33,350	$	—	$	33,350	$	—

Items Measured at Fair Value on a Nonrecurring Basis

Certain assets that are subject to nonrecurring fair value measurements are not included in the table above. These assets include investments in privately-held companies accounted for by the equity or cost method (See Note 7). There were no impairment charges in the three and six months ended June 30, 2018. There were no impairment charges in the three months ended June 30, 2017. The six months ended June 30, 2017 include an impairment charge of $313,000 for one of the gallium companies. During the first quarter of 2017, management determined that it was unlikely that this company would recover from the difficult pricing environment and we had written the investment down to zero. Except as mentioned, we did not record other-than-temporary impairment charges for the remainder of these investments during the three and six months ended June 30, 2018 and 2017.

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Note 3. Inventories

The components of inventories are summarized below (in thousands):

	June 30, 2018	December 31, 2017
Inventories:		
Raw materials	$ 29,379	$ 23,554
Work in process	25,281	20,135
Finished goods	2,378	2,151
	$ 57,038	$ 45,840

As of June 30, 2018 and December 31, 2017, carrying values of inventories were net of inventory reserves of $13.7 million and $13.3 million, respectively, for excess and obsolete inventory and $26,000 and $291,000, respectively, for lower of cost or net realizable value reserves.

Note 4. Property, Plant and Equipment, Net

The components of our property, plant and equipment are summarized below (in thousands):

	June 30, 2018	December 31, 2017
Property, plant and equipment:		
Machinery and equipment, at cost	$ 47,536	$ 44,549
Less: accumulated depreciation and amortization	(41,419)	(40,845)
Building, at cost	32,058	32,461
Less: accumulated depreciation and amortization	(11,908)	(11,501)
Leasehold improvements, at cost	5,488	5,539
Less: accumulated depreciation and amortization	(4,447)	(4,288)
Construction in progress	37,866	20,615
	$ 65,174	$ 46,530

As of June 30, 2018, the balance of construction in progress was $37.9 million of which $26.8 million was related to our buildings in our new Dingxing and Chaoyang locations, $4.1 million was for manufacturing equipment purchases and $7.0 million was from our construction in progress for our other consolidated subsidiaries. As of December 31, 2017, the balance of construction in progress was $20.6 million, of which, $14.8 million was for our buildings in our new Dingxing location, $3.6 million was for manufacturing equipment purchases not yet placed in service, and $2.2 million was for our construction in progress at our other consolidated subsidiaries.

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Note 5. Accrued Liabilities

The components of accrued liabilities are summarized below (in thousands):

	June 30, 2018	December 31, 2017
Preferred stock dividends payable	$ 2,901	$ 2,901
Accrued compensation and related charges	2,580	3,205
Payable in connection with purchase of subsidiary shares from noncontrolling interests	1,192	—
Advances from customers	927	924
Dividends payable by consolidated joint ventures	524	533
Accrued professional services	409	570
Accrued income taxes	341	270
Current portion of royalty payments	288	575
Other personnel related costs	221	230
Accrued product warranty	178	133
Other tax payable	85	395
Accrual for sales refund liabilities	82	—
Other accrued liabilities	2,065	1,413
	$ 11,793	$ 11,149

Note 6. Related Party Transactions

In August 2011, our consolidated joint venture, Beijing JiYa Semiconductor Material Co., Ltd. (“JiYa”), entered into a non-interest bearing note agreement in the amount of $1.6 million for a loan to one of its equity investment entities. The original term of the loan was for two years and ten months with three periodic principal payments required. After various amendments to the terms of the note, in December 2013, the parties agreed to delay all principal repayment until December 2017. In December 2016, we determined that this receivable was in substance an investment and began re-classifying this long term loan from “Related party notes receivable – long-term” to “Other assets” in our consolidated balance sheets. As of June 30, 2018 and December 31, 2017, we included $1.1 million and $1.2 million in “Other assets” in our condensed consolidated balance sheets, respectively.

JiYa also purchases raw materials from one of its equity investment entities for production in the ordinary course of business. The general manager of JiYa has a family member who has a 10% ownership position in this equity investment entity. As of June 30, 2018 and December 31, 2017, amounts payable of $2.0 million and $2.1 million were included in “Accounts payable” in our condensed consolidated balance sheets, respectively.

JiYa also sells raw materials to one of its equity investment entities for production in the ordinary course of business. As of June 30, 2018 and December 31, 2017, amounts receivable of $328,000 and $334,000, respectively, were included in "Accounts receivable" in our condensed consolidated balance sheets. During the three months ended December 31, 2016, we deemed the collection of the outstanding amount to be improbable and established an allowance in full. There have since been no additional sales made on credit to the customer and, as of June 30, 2018, the existing outstanding amount continues to be fully reserved.

Beginning in 2012, our consolidated joint venture, Nanjing JinMei Gallium Co., Ltd. ("JinMei"), is contractually obligated under an agency sales agreement to sell raw material on behalf of its equity investment entity. JinMei bills the customers and remits the receipts, net of its portions of sales commission, to this equity investment entity. For the three months ended June 30, 2018 and 2017, JinMei has recorded $1,000 and $0 income from agency sales, respectively. For each of the six months ended June 30, 2018 and 2017, JinMei has recorded $1,000 income from agency sales which were included in "Other (expense) income, net" in the condensed consolidated statements of operations.

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In March 2012, our wholly-owned subsidiary, Beijing Tongmei Xtal Technology Co., Ltd. (“Tongmei”), entered into an operating lease for the land it owns with our consolidated joint venture, Beijing BoYu Semiconductor Vessel Craftwork Technology Co., Ltd. (“BoYu”). The lease agreement for the land of approximately 22,081 square feet commenced on January 1, 2012 for a term of 10 years with annual lease payments of $24,000 subject to a 5% increase at each third year anniversary. The annual lease payment is due by January 31st of each year.

Tongmei has paid certain amounts on behalf of Donghai County Dongfang High Purity Electronic Materials Co., Ltd. (“Dongfang”), its equity investment entity, to purchase materials. The original agreement was signed between Tongmei and Dongfang in 2014 and the date of repayment was set as December 31, 2015. In 2015, both parties agreed to delay the date of repayment to December 31, 2017. During 2017, the repayment of the full amount of principal and interest totaling $114,000 was received by our wholly owned subsidiary.

In April 2014, Tongmei loaned an additional $46,000 to Dongfang. The loan bears interest at 6.15% per annum and was due on December 31, 2017. During 2017, the repayment of the full amount of principal and interest totaling $55,000 was received by our wholly owned subsidiary.

Tongmei also purchases raw materials from Dongfang for production in the ordinary course of business. As of June 30, 2018 and December 31, 2017, amounts payable of $295,000 and $0, respectively, were included in “Accounts payable” in our condensed consolidated balance sheets.

Tongmei also purchases raw materials from one of our equity investment entities, Emei Shan Jiamei Materials Co. Ltd. (“Jiamei”), for production in the ordinary course of business. As of June 30, 2018 and December 31, 2017, amounts payable of $123,000 and $370,000, respectively, were included in “Accounts payable” in our condensed consolidated balance sheets.

Tongmei also purchases raw materials from one of our equity investment entities, Xilingol Tongli Germanium Refine Co. Ltd. (“Tongli”), for production in the ordinary course of business. As of June 30, 2018 and December 31, 2017, amounts payable of $238,000 and $219,000, respectively, were included in “Accounts payable” in our condensed consolidated balance sheets.

In July 2017, Tongmei, provided an inter-company loan to JinMei in the amount of $768,000 in preparation for the acquisition of the land use rights and the construction of a new building. The inter-company loan carries an interest rate of 4.9% per annum and is due in three installments between December 2021 and December 2023. JinMei is in the process of relocating its headquarters and manufacturing operations to an alternative location. Currently, JinMei has identified a site as a possible candidate and the estimated costs for the land use rights acquisition and facility construction are expected to be in the range of $2 million to $4 million.

In April 2016, our consolidated joint venture, BoYu, provided a personal loan of $177,000 to one of its executive employees. This loan is secured by the officer's shares in BoYu. The loan bears interest at 2.75% per annum. Principal and accrued interest are due on March 31, 2019. During the three months ended June 30, 2017, the repayment of the principal and interest totaling $180,000 was received by our consolidated joint venture. In November 2017, BoYu provided another personal loan of $318,000 to the same executive employee. The loan bears interest at 2.75% per annum. Principal and accrued interest are due on November 30, 2020. As of June 30, 2018 and December 31, 2017, the balances, including both principal and accrued interest, were $308,000 and $307,000, respectively, and included in "Other assets" in our condensed consolidated balance sheets.

On November 2, 2017, our consolidated joint venture, BoYu, raised additional capital in the amount of $2 million in cash from a third-party investor through the issuance of shares equivalent to 10% ownership of BoYu. This third-party investor is an immediate family member of the owner of one of BoYu's customers. For the three months ended June 30, 2018 and 2017, BoYu has recorded $530,000 and $51,000, respectively, in revenue from this customer. For the six months ended June 30, 2018 and 2017, BoYu has recorded $1.3 million and $388,000, respectively, in revenue from this customer. As of June 30, 2018 and December 31, 2017, amounts receivable of $550,000 and $635,000, respectively, were included in "Accounts receivable" in our condensed consolidated balance sheets.

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Our Related Party Transactions Policy seeks to prohibit all conflicts of interest in transactions between related parties and us, unless they have been approved by our Board of Directors. This policy applies to all of our employees, directors, and our consolidated subsidiaries. Our executive officers retain board seats on the board of directors of the companies in which we have invested in our China joint ventures. See Note 7 for further details.

Note 7. 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. We have six direct investments. Our consolidated subsidiaries have also made investments in private companies. We have four indirect investments. These companies form part of our overall supply chain.

The six direct investments are summarized below (in thousands):

	Investment Balance as of			
Company	June 30, 2018	December 31, 2017	Accounting Method	Ownership Percentage
Beijing JiYa Semiconductor Material Co., Ltd.	$ 3,331	$ 3,331	Consolidated	46 %
Nanjing JinMei Gallium Co., Ltd.	592	592	Consolidated	95 %
Beijing BoYu Semiconductor Vessel Craftwork Technology Co., Ltd.	1,346	1,346	Consolidated	63 %
	$ 5,269	$ 5,269		
Donghai County Dongfang High Purity Electronic Materials Co., Ltd.	$ 1,515	$ 1,473	Equity	46 %
Xilingol Tongli Germanium Co. Ltd.	2,955	3,190	Equity	25 %
Emeishan JiaMei High Purity Metals Co., Ltd.	903	915	Equity	25 %
	$ 5,373	$ 5,578		

Our ownership of JiYa is 46%. We continue to consolidate JiYa as we are the founding and largest shareholder, appoint the general manager and controller and have the ability to exercise control in substance over the long-term strategic decisions made. Our Chief Executive Officer is chairman of the JiYa board and we have appointed one other representative, Davis Zhang, to serve on the board. Mr. Zhang was an executive officer of AXT for 27 years. Further, our Chief Financial Officer, Gary Fischer, is on the board of supervisors of JiYa.

Our ownership of JinMei is 95%. Before June 15, 2018, our ownership of JinMei was 83%. On June 15, 2018, we purchased a 12% ownership interest from one of the minority owners for $1.4 million. The $1.4 million is scheduled to be paid in two installments. On June 15, 2018, we paid the first installment of $163,000. The second installment of $1.2 million is scheduled to be paid after the completion of the relocation of JinMei's headquarters and manufacturing operations and was included in "Accrued liabilities" in our condensed consolidated balance sheets. As a result, our ownership of JinMei increased from 83% to 95%. We continue to consolidate JinMei as we have a controlling financial interest and have majority control of the board. Our Chief Executive Officer is chairman of the JinMei board and we have appointed two other representatives to serve on the board.

Our ownership of BoYu is 63%. On November 2, 2017, BoYu raised additional capital in the amount of $2 million in cash from a third-party investor through the issuance of shares equivalent to 10% ownership of BoYu. As a result, our ownership of BoYu was diluted from 70% to 63%. We continue to consolidate BoYu as we have a controlling financial interest and have majority control of the board and, accordingly, no gain was recognized as a result of this equity transaction. Our Chief Executive Officer is chairman of the BoYu board and we have appointed two other representatives to serve on the board.

Although we have representation on the board of directors of each of these companies, the daily operations of each of these companies are managed by local management and not by us. Decisions concerning their respective short-term strategy and operations, ordinary course of business capital expenditures and sales of finished products, are made by local management with regular guidance and input from us.

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During the three months ended June 30, 2018 and 2017, the three consolidated joint ventures, before eliminating inter-company transactions, generated income of $2.1 million and $208,000, respectively, of which a gain of $650,000 and a loss of $132,000, respectively, were allocated to noncontrolling interests, resulting in an income of $1.5 million and $340,000 respectively, to our net income. During the six months ended June 30, 2018 and 2017, the three consolidated joint ventures generated income of $3.5 million and $196,000, respectively, of which a gain of $965,000 and a loss of $372,000 respectively, were allocated to noncontrolling interests, resulting in an income of $2.5 million and an income of $568,000, respectively, to our net income.

For AXT's three direct minority investment entities that are not consolidated, the investment balances are included in "Other assets" in our condensed consolidated balance sheets and totaled $5.4 million and $5.6 million as of June 30, 2018 and December 31, 2017, respectively. We own 46% of the ownership interests in one of these companies and 25% in each of the other two companies. These three companies are not considered variable interest entities because:

- all three companies have sustainable businesses of their own;
- our voting power is proportionate to our ownership interests;
- we only recognize our respective share of the losses and/or residual returns generated by the companies if they occur; and
- we do not have controlling financial interest in, do not maintain operational or management control of, do not control the board of directors of, and are not required to provide additional investment or financial support to any of these companies.

We also maintain four minority investments indirectly in privately-held companies through our consolidated joint ventures. JiYa holds three investments and JinMei holds one investment. These minority investments are accounted for under the equity method in the books of our consolidated joint ventures. As of June 30, 2018 and December 31, 2017, our consolidated joint ventures included these minority investments in "Other assets" in our condensed consolidated balance sheets with a carrying value of $4.3 million and $4.3 million, respectively.

There were no impairment charges in the three and six months ended June 30, 2018. There were no impairment charges in the three months ended June 30, 2017. The six months ended June 30, 2017 include an impairment charge of $313,000 for one of the gallium companies. During the first quarter of 2017, management determined that it is unlikely that this company will recover from the difficult pricing environment and we had written the investment down to zero.

AXT's three direct minority investment entities and the three minority investments of JiYa and the one minority investment of JinMei are not consolidated and are accounted for under the equity method. Excluding one fully impaired entity, the equity entities had the following summarized income information (in thousands) for the three and six months ended June 30, 2018 and 2017.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net revenue	$ 8,993	$ 5,908	$ 16,349	$ 11,363
Gross profit	$ 1,702	$ 4,277	$ 1,737	$ 7,999
Operating income (loss)	$ 1,871	$ (794)	$ 708	$ (1,631)
Net income (loss)	$ 694	$ (818)	$ (737)	$ (2,523)

Our portion, including impairment charges, from these seven minority investment entities that are not consolidated and are accounted for under the equity method was income of $307,000 and a loss of $188,000 for the three months ended June 30, 2018 and 2017, respectively. Our portion, including impairment charges, from these seven minority investment entities that are not consolidated and are accounted for under the equity method were a loss of $27,000 and a loss of $1.1 million for the six months ended June 30, 2018 and 2017, respectively.

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Note 8. Stockholders’ Equity

Condensed Consolidated Statement of Changes in Stockholders’ Equity

(in thousands)

Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	AXT, Inc Stockholders’ Equity	Noncontrolling	Total Stockholders’