

SemiLEDs Corp  
Form 10-Q  
July 15, 2014  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

**x QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended May 31, 2014**

**or**

**o 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: **001-34992**

**SemiLEDs Corporation**

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(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**20-2735523**  
(I.R.S. Employer  
Identification Number)

**3F, No. 11 Ke Jung Rd., Chu-Nan Site,  
Hsinchu Science Park, Chu-Nan 350,  
Miao-Li County, Taiwan, R.O.C.**  
(Address of principal executive offices)

**350**  
(Zip Code)

**+886-37-586788**  
(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 corporate 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 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: 28,424,493 shares of common stock, par value \$0.0000056 per share, outstanding as of July 7, 2014.

Table of Contents

**SEMILEDs CORPORATION**

**FORM 10-Q for the Quarter Ended May 31, 2014**

**INDEX**

	<b>Page No.</b>
<b><u>Part I. Financial Information</u></b>	
<u>Item 1.</u>	
<u>Financial Statements</u>	1
<u>Unaudited Condensed Consolidated Balance Sheets as of May 31, 2014 and August 31, 2013</u>	1
<u>Unaudited Condensed Consolidated Statements of Operations for the three and nine months ended May 31, 2014 and 2013</u>	2
<u>Unaudited Condensed Consolidated Statements of Comprehensive Loss for the three and nine months ended May 31, 2014 and 2013</u>	3
<u>Unaudited Condensed Consolidated Statement of Changes in Equity for the nine months ended May 31, 2014</u>	4
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended May 31, 2014 and 2013</u>	5
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	6
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	29
<u>Item 4.</u>	
<u>Controls and Procedures</u>	30
<b><u>Part II. Other Information</u></b>	
<u>Item 1.</u>	
<u>Legal Proceedings</u>	31
<u>Item 1A.</u>	
<u>Risk Factors</u>	31
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
<u>Item 3.</u>	
<u>Defaults Upon Senior Securities</u>	34
<u>Item 4.</u>	
<u>Mine Safety Disclosures</u>	34
<u>Item 5.</u>	
<u>Other Information</u>	34
<u>Item 6.</u>	
<u>Exhibits</u>	34
<u>Signatures</u>	35
<u>Index to Exhibits</u>	36

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****SEMILEDS CORPORATION****Unaudited Condensed Consolidated Balance Sheets**

(In thousands of U.S. dollars and shares, except par value)

	May 31, 2014	August 31, 2013
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 16,084	\$ 36,272
Accounts receivable, net of allowance for doubtful accounts of \$1,471 and \$1,616 as of May 31, 2014 and August 31, 2013, respectively	2,851	2,152
Accounts receivable from related parties, net of allowance for doubtful accounts of \$1,393 and \$1,395 as of May 31, 2014 and August 31, 2013, respectively	47	120
Inventories	9,756	10,500
Prepaid expenses and other current assets	1,597	1,080
Total current assets	30,335	50,124
Property, plant and equipment, net	27,329	30,473
Intangible assets, net	1,556	1,379
Goodwill, net	59	59
Investments in unconsolidated entities	2,239	2,275
Other assets	1,134	1,395
<b>TOTAL ASSETS</b>	<b>\$ 62,652</b>	<b>\$ 85,705</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current installments of long-term debt	\$ 2,060	\$ 2,294
Accounts payable	2,555	3,534
Accrued expenses and other current liabilities	4,223	6,825
Deferred income, current portion	51	51
Total current liabilities	8,889	12,704
Long-term debt, excluding current installments	4,673	6,169
Deferred income, net of current portion	301	339
Total liabilities	13,863	19,212
Commitments and contingencies (Note 6)		
<b>EQUITY:</b>		
SemiLEDs stockholders' equity		
Common stock, \$0.0000056 par value 75,000 shares and 32,143 shares authorized; 28,424 shares and 27,761 shares issued and outstanding as of May 31, 2014 and August 31, 2013, respectively		
Additional paid-in capital	170,538	169,114
Accumulated other comprehensive income	5,485	5,557
Accumulated deficit	(127,261)	(108,155)
Total SemiLEDs stockholders' equity	48,762	66,516

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Noncontrolling interests		27		(23)
Total equity		48,789		66,493
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$</b>	<b>62,652</b>	<b>\$</b>	<b>85,705</b>

See notes to unaudited condensed consolidated financial statements.

Table of Contents**SEMILEDS CORPORATION****Unaudited Condensed Consolidated Statements of Operations****(In thousands of U.S. dollars and shares, except per share data)**

	<b>Three Months Ended May 31,</b>		<b>Nine Months Ended May 31,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Revenues, net	\$ 4,615	\$ 3,526	\$ 12,203	\$ 14,583
Cost of revenues	7,408	8,083	20,470	25,781
Gross loss	(2,793)	(4,557)	(8,267)	(11,198)
Operating expenses:				
Research and development	1,025	1,146	3,370	3,403
Selling, general and administrative	2,530	2,171	7,437	8,454
Goodwill impairment (Note 3)		1,077		1,077
Impairment of long-lived assets (Note 3)		851		851
Total operating expenses	3,555	5,245	10,807	13,785
Loss from operations	(6,348)	(9,802)	(19,074)	(24,983)
Other income (expenses):				
Impairment loss on investment (Note 5)		(1,885)		(1,885)
Equity in losses from unconsolidated entities, net	(22)	(74)	(152)	(172)
Interest income (expenses), net	(23)	(25)	(61)	9
Other income, net	53	52	159	158
Foreign currency transaction gains (losses), net	(81)	350	(71)	190
Total other expenses, net	(73)	(1,582)	(125)	(1,700)
Loss before income taxes	(6,421)	(11,384)	(19,199)	(26,683)
Income tax expense				3
Net loss	(6,421)	(11,384)	(19,199)	(26,686)
Less: Net loss attributable to noncontrolling interests	(16)	(431)	(93)	(819)
Net loss attributable to SemiLEDs stockholders	\$ (6,405)	\$ (10,953)	\$ (19,106)	\$ (25,867)
Net loss per share attributable to SemiLEDs stockholders:				
Basic and diluted	\$ (0.23)	\$ (0.40)	\$ (0.68)	\$ (0.94)
Shares used in computing net loss per share attributable to SemiLEDs stockholders:				
Basic and diluted	28,441	27,710	28,039	27,579

See notes to unaudited condensed consolidated financial statements.

Table of Contents**SEMILEDs CORPORATION****Unaudited Condensed Consolidated Statements of Comprehensive Loss****(In thousands of U.S. dollars)**

	<b>Three Months Ended May 31,</b>		<b>Nine Months Ended May 31,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Net loss	\$ (6,421)	\$ (11,384)	\$ (19,199)	\$ (26,686)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments, net of tax of \$0 for all periods presented	414	(644)	(71)	396
Comprehensive loss	\$ (6,007)	\$ (12,028)	\$ (19,270)	\$ (26,290)
Comprehensive loss attributable to noncontrolling interests	\$ (17)	\$ (435)	\$ (92)	\$ (809)
Comprehensive loss attributable to SemiLEDs stockholders	\$ (5,990)	\$ (11,593)	\$ (19,178)	\$ (25,481)

See notes to unaudited condensed consolidated financial statements.

Table of Contents

## SEMILEDS CORPORATION

## Unaudited Condensed Consolidated Statement of Changes in Equity

(In thousands of U.S. dollars and shares)

	Common Stock		Additional	Accumulated	Accumulated	Total	Non-	Total
	Shares	Amount	Paid-in	Other	Deficit	SemiLEDs	Controlling	Equity
			Capital	Comprehensive		Stockholders	Interests	
				Income		Equity		Equity
BALANCE September 1, 2013	27,761	\$	\$ 169,114	\$ 5,557	\$ (108,155)	\$ 66,516	\$ (23)	\$ 66,493
Issuance of common stock under equity incentive plans	663		10			10		10
Stock-based compensation			1,530			1,530		1,530
Purchase of common shares in Ning Xiang			(142)			(142)	142	
Dilution gain on equity method investment			26			26		26
Comprehensive income (loss):								
Net loss					(19,106)	(19,106)	(93)	(19,199)
Other comprehensive income (loss)				(72)		(72)	1	(71)
BALANCE May 31, 2014	28,424	\$	\$ 170,538	\$ 5,485	\$ (127,261)	\$ 48,762	\$ 27	\$ 48,789

See notes to unaudited condensed consolidated financial statements.



Table of Contents**SEMILEDS CORPORATION****Unaudited Condensed Consolidated Statements of Cash Flows****(In thousands of U.S. dollars)**

	<b>Nine Months Ended May 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (19,199)	\$ (26,686)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,953	6,252
Goodwill impairment		1,077
Impairment of long-lived assets		851
Impairment loss on investment		1,885
Stock-based compensation expense	1,530	1,497
Bad debt expense	89	805
Provisions for inventory write-downs	1,618	2,263
Equity in losses from unconsolidated entities, net	152	172
Income recognized on patents assignment	(38)	(38)
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable, net	(687)	1,533
Inventories	(907)	1,292
Prepaid expenses and other	(161)	(189)
Accounts payable	(740)	209
Accrued expenses and other current liabilities	(377)	(724)
Net cash used in operating activities	(13,767)	(9,801)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment	(1,911)	(2,633)
Purchase of investments	(206)	(2,873)
Payments related to acquisition of business	(2,069)	
Payments for development of intangible assets	(271)	(323)
Proceeds from sale of short-term investments		8,831
Proceeds from sale of investment	114	
Proceeds from return of investment in unconsolidated entity		250
Increase in restricted cash	(122)	
Other investing activities, net	(86)	5
Net cash provided by (used in) investing activities	(4,551)	3,257
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from line of credit	170	
Payments on line of credit	(170)	(1,623)
Proceeds from long-term debt		2,902
Payments of long-term debt	(1,712)	(951)
Proceeds from (payments of) loan from related party	(201)	204
Acquisition of noncontrolling interests		(202)
Other financing activities	12	74
Net cash provided by (used in) financing activities	(1,901)	404
Effect of exchange rate changes on cash and cash equivalents	31	279
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(20,188)</b>	<b>(5,861)</b>
<b>CASH AND CASH EQUIVALENTS Beginning of period</b>	<b>36,272</b>	<b>47,228</b>
<b>CASH AND CASH EQUIVALENTS End of period</b>	<b>\$ 16,084</b>	<b>\$ 41,367</b>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Accrual related to property, plant and equipment	\$ 279	\$ 1,749

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See notes to unaudited condensed consolidated financial statements.

Table of Contents

**SEMILEDS CORPORATION**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**1. Business**

SemiLEDs Corporation ( SemiLEDs ) was incorporated in Delaware on January 4, 2005 and is a holding company for various wholly and majority owned subsidiaries. SemiLEDs and its subsidiaries (collectively, the Company ) develop, manufacture and sell high performance light emitting diodes ( LEDs ). The Company s core products are LED chips and LED components, but lighting products have also become an increasingly important part of the Company s business. A portion of the Company s business consists of the sale of contract manufactured LED products. The Company s customers are concentrated in a few select markets, including Taiwan, the United States and China, as well as in Russia in fiscal 2013.

As of May 31, 2014, SemiLEDs had eight wholly owned subsidiaries and an 87% equity interest in Ning Xiang Technology Co., Ltd. ( Ning Xiang ). The most significant of these consolidated subsidiaries is SemiLEDs Optoelectronics Co., Ltd. ( Taiwan SemiLEDs ) located in Hsinchu, Taiwan where a substantial portion of research, development, manufacturing, marketing and sales activities currently take place and where a substantial portion of the assets are held and located. Taiwan SemiLEDs owns a 100% equity interest in Taiwan Bandaoti Zhaoming Co., Ltd., formerly known as Silicon Base Development, Inc., which is engaged in the research, development, manufacture, marketing and sale of LED components. As of May 31, 2014, the Company also owned an 87% interest in Ning Xiang, which consisted of a 51% interest acquired in August 2011, an additional 15% interest acquired in April 2013 and an additional 21% interest acquired in November 2013. Ning Xiang is engaged in the design, manufacture and sale of lighting fixtures and systems. In January 2014, the Company established a wholly owned, currently inactive, subsidiary in New Delhi, India.

SemiLEDs common shares are listed on the NASDAQ Global Select Market under the symbol LEADS since December 8, 2010.

**2. Summary of Significant Accounting Policies**

**Basis of Presentation** The Company s unaudited interim condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ( U.S. GAAP ) and applicable provisions of the rules and regulations of the U.S. Securities and Exchange Commission ( SEC ) regarding interim financial reporting. Certain information and disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted as permitted by the rules and regulations of the SEC. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company s Annual Report on Form 10-K filed with the SEC on November 26, 2013. The unaudited condensed consolidated balance sheet as of August 31, 2013 included herein was derived from the audited consolidated financial statements as of that date.

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The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the Company's consolidated balance sheet as of May 31, 2014, the statements of operations and comprehensive loss for the three and nine months ended May 31, 2014 and 2013, the statement of changes in equity for the nine months ended May 31, 2014, and the statements of cash flows for the nine months ended May 31, 2014 and 2013. The results for the three or nine months ended May 31, 2014 are not necessarily indicative of the results to be expected for the year ending August 31, 2014.

**Principles of Consolidation** The unaudited interim condensed consolidated financial statements include the accounts of SemiLEDs and its consolidated subsidiaries. All intercompany transactions and balances have been eliminated during consolidation.

**Use of Estimates** The preparation of unaudited interim condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited interim condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the collectibility of accounts receivable, inventory net realizable values, realization of deferred tax assets, valuation of stock-based compensation expense, the useful lives of property, plant and equipment and intangible assets, the recoverability of the carrying amount of property, plant and equipment, intangible assets, goodwill and investments in unconsolidated entities, the fair value of acquired tangible and intangible assets, income tax uncertainties, provision for potential litigation costs and other contingencies. Management bases its estimates on historical experience and also on assumptions that it believes are reasonable. Management assesses these estimates on a regular basis; however, actual results could differ materially from those estimates.

Table of Contents

**Certain Significant Risks and Uncertainties** The Company is subject to certain risks and uncertainties that could have a material and adverse effect on the Company's future financial position or results of operations, which risks and uncertainties include, among others: it has incurred significant losses over the last three fiscal years, any inability of the Company to compete in a rapidly evolving market and to respond quickly and effectively to changing market requirements, any inability of the Company to grow its revenue and/or maintain or increase its margins, it may experience fluctuations in its revenues and operating results, any inability of the Company to protect its intellectual property rights, claims by others that the Company infringes their proprietary technology, and any inability of the Company to raise additional funds in the future.

**Concentration of Supply Risk** Some of the components and technologies used in the Company's products are purchased and licensed from a limited number of sources and some of the Company's products are produced by a limited number of contract manufacturers. The loss of any of these suppliers and contract manufacturers may cause the Company to incur transition costs to another supplier or contract manufacturer, result in delays in the manufacturing and delivery of the Company's products, or cause it to carry excess or obsolete inventory. The Company relies on a limited number of such suppliers and contract manufacturers for the fulfillment of its customer orders. Any failure of such suppliers and contract manufacturers to perform could have an adverse effect upon the Company's reputation and its ability to distribute its products or satisfy customers' orders, which could adversely affect the Company's business, financial position, results of operations and cash flows.

**Concentration of Credit Risk** Financial instruments that subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents and accounts receivable.

The Company keeps its cash and cash equivalents in demand deposits with prominent banks of high credit quality and invests only in money market funds. Deposits held with banks may exceed the amount of insurance provided on such deposits. As of May 31, 2014 and August 31, 2013, cash and cash equivalents of the Company consisted of the following (in thousands):

Cash and Cash Equivalents by Location	May 31, 2014	August 31, 2013
United States:		
Denominated in U.S. dollars	\$ 7,930	\$ 18,631
Taiwan:		
Denominated in U.S. dollars	6,573	16,158
Denominated in New Taiwan dollars	671	445
Denominated in other currencies	255	264
China (including Hong Kong):		
Denominated in U.S. dollars	262	345
Denominated in Renminbi	392	428
Denominated in H.K. dollars	1	1
Total cash and cash equivalents	\$ 16,084	\$ 36,272

The Company's revenues are substantially derived from the sales of LED products. A significant portion of the Company's revenues are derived from a limited number of customers and sales are concentrated in a few select markets. Management performs ongoing credit evaluations of its customers and generally does not require collateral on accounts receivable. Management evaluates the need to establish an allowance for doubtful accounts for estimated potential credit losses at each reporting period. The allowance for doubtful accounts is based on the management's assessment of the collectibility of its customer accounts. Management regularly reviews the allowance by considering certain factors, such as historical experience, industry data, credit quality, age of accounts receivable balances and current economic conditions, that may affect a customer's ability to pay.

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Net revenues generated from sales to the top ten customers represented 52% and 47% of the Company's net revenues for the three and nine months ended May 31, 2014, respectively, and 40% and 36% of the Company's net revenues for the three and nine months ended May 31, 2013, respectively.

The Company's revenues have been concentrated in a few select markets, including Taiwan, the United States and China, as well as in Russia in fiscal 2013. Net revenues generated from sales to customers in Taiwan, the United States and China, in the aggregate, accounted for 73% and 58% of the Company's net revenues for the three and nine months ended May 31, 2014, respectively, and 56% and 52% of the Company's net revenues for the three and nine months ended May 31, 2013, respectively. Net revenues generated from sales to customers in Russia accounted for 2% of the Company's net revenues for both the three and nine months ended May 31, 2014, and 9% and 11% of the Company's net revenues for the three and nine months ended May 31, 2013, respectively.