

SemiLEDs Corp  
Form 10-Q  
April 12, 2013  
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**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 February 28, 2013**

**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   
(Do not check if a smaller reporting company)

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: 27,542,632 shares of common stock, par value \$0.0000056 per share, outstanding as of April 5, 2013.

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**SEMILEDS CORPORATION**

**FORM 10-Q for the Quarter Ended February 28, 2013**

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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)**

	February 28, 2013	August 31, 2012
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 43,886	\$ 47,228
Short-term investments		8,831
Accounts receivable, net of allowance for doubtful accounts of \$1,377 and \$577 as of February 28, 2013 and August 31, 2012, respectively	3,385	4,759
Accounts receivable from related parties, net of allowance for doubtful accounts of \$1,393 and \$1,405 as of February 28, 2013 and August 31, 2012, respectively	47	157
Inventories	10,175	13,016
Prepaid expenses and other current assets	1,490	1,130
<b>Total current assets</b>	<b>58,983</b>	<b>75,121</b>
Property, plant and equipment, net	43,382	46,642
Intangible assets, net	1,420	1,552
Goodwill	1,082	1,072
Investments in unconsolidated entities	4,331	1,821
Other assets	1,576	1,326
<b>TOTAL ASSETS</b>	<b>\$ 110,774</b>	<b>\$ 127,534</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Notes payable to banks	\$	\$ 1,585
Current installments of long-term debt	1,572	967
Accounts payable	3,357	5,768
Accrued expenses and other current liabilities	4,144	4,969
Deferred income, current portion	51	51
<b>Total current liabilities</b>	<b>9,124</b>	<b>13,340</b>
Long-term debt, excluding current installments	5,716	4,953
Deferred income, net of current portion	365	390
<b>Total liabilities</b>	<b>15,205</b>	<b>18,683</b>
Commitments and contingencies (Note 6)		
<b>EQUITY:</b>		
SemiLEDs stockholders' equity		
Common stock, \$0.0000056 par value 32,143 shares authorized; 27,543 shares and 27,470 shares issued and outstanding as of February 28, 2013 and August 31, 2012, respectively		
Additional paid-in capital	168,050	167,070
Accumulated other comprehensive income	6,205	5,179

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Accumulated deficit	(79,345)	(64,431)
Total SemiLEDs stockholders' equity	94,910	107,818
Noncontrolling interests	659	1,033
Total equity	95,569	108,851
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 110,774</b>	<b>\$ 127,534</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)**

	Three Months Ended		Six Months Ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Revenues, net	\$ 4,830	\$ 7,905	\$ 11,057	\$ 14,652
Cost of revenues	8,183	8,627	17,698	16,196
Gross loss	(3,353)	(722)	(6,641)	(1,544)
Operating expenses:				
Research and development	1,034	2,023	2,257	3,712
Selling, general and administrative	2,620	3,045	6,283	6,950
Total operating expenses	3,654	5,068	8,540	10,662
Loss from operations	(7,007)	(5,790)	(15,181)	(12,206)
Other income (expenses):				
Equity in losses from unconsolidated entities, net	(23)	(1,176)	(98)	(2,702)
Interest income, net	29	12	34	16
Other income, net	54	47	106	95
Foreign currency transaction gain (loss), net	766	(407)	(160)	(348)
Total other income (expenses), net	826	(1,524)	(118)	(2,939)
Loss before income taxes	(6,181)	(7,314)	(15,299)	(15,145)
Income tax expense	3		3	
Net loss	(6,184)	(7,314)	(15,302)	(15,145)
Less: Net loss attributable to noncontrolling interests	(193)	(200)	(388)	(310)
Net loss attributable to SemiLEDs stockholders	\$ (5,991)	\$ (7,114)	\$ (14,914)	\$ (14,835)
Net loss attributable to SemiLEDs common stockholders:				
Basic and diluted	\$ (5,991)	\$ (7,114)	\$ (14,914)	\$ (14,835)
Net loss per share attributable to SemiLEDs common stockholders:				
Basic and diluted	\$ (0.22)	\$ (0.26)	\$ (0.54)	\$ (0.54)
Shares used in computing net loss per share attributable to SemiLEDs common stockholders:				
Basic and diluted	27,531	27,383	27,513	27,343

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</b>		<b>Six Months Ended</b>	
	<b>February 28,</b>	<b>February 29,</b>	<b>February 28,</b>	<b>February 29,</b>
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net loss attributable to SemiLEDs stockholders	\$ (5,991)	\$ (7,114)	\$ (14,914)	\$ (14,835)
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustment	(1,660)	2,670	1,026	(296)
Comprehensive loss attributable to SemiLEDs stockholders	\$ (7,651)	\$ (4,444)	\$ (13,888)	\$ (15,131)

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>February 28,</b>	<b>February 29,</b>	<b>February 28,</b>	<b>February 29,</b>
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net loss attributable to noncontrolling interests	\$ (193)	\$ (200)	\$ (388)	\$ (310)
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustment	(15)	42	14	(27)
Comprehensive loss attributable to noncontrolling interests	\$ (208)	\$ (158)	\$ (374)	\$ (337)

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>Six Months Ended</b>	
	<b>February 28, 2013</b>	<b>February 29, 2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (15,302)	\$ (15,145)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,183	4,058
Stock-based compensation expense	977	1,616
Bad debt expense	805	
Provisions for inventory write-downs	1,208	1,605
Equity in losses from unconsolidated entities, net	98	2,702
Income recognized on patents assignment	(26)	(26)
Changes in operating assets and liabilities:		
Accounts receivable, net	730	1,557
Inventories	1,789	(3,490)
Prepaid expenses and other	(355)	32
Accounts payable	(792)	787
Accrued expenses and other current liabilities	(801)	(1,699)
Net cash used in operating activities	(7,486)	(8,003)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment, including interest capitalized	(2,043)	(9,099)
Purchase of investments	(2,873)	
Payments for development of intangible assets	(266)	(189)
Proceeds from sale of short-term investments	8,831	
Proceeds from return of investment in unconsolidated entity	250	
Other investing activities, net	5	(2)
Net cash provided by (used in) investing activities	3,904	(9,290)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from exercise of stock options	4	60
Proceeds from line of credit		1,094
Payments on line of credit	(1,623)	(900)
Proceeds from long-term debt	1,820	
Payments of long-term debt	(490)	(471)
Net cash used in financing activities	(289)	(217)
Effect of exchange rate changes on cash and cash equivalents	529	267
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(3,342)</b>	<b>(17,243)</b>
CASH AND CASH EQUIVALENTS Beginning of period	47,228	83,619
CASH AND CASH EQUIVALENTS End of period	\$ 43,886	\$ 66,376
<b>NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Accrual related to property, plant and equipment	\$ 1,487	\$ 383

See notes to unaudited condensed consolidated financial statements.





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**SEMILEDS CORPORATION**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**1. Business**

**Business** SemiLEDs Corporation ( SemiLEDs ) was incorporated in Delaware on January 4, 2005 and is a holding company for various wholly and majority owned subsidiaries and joint ventures. 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 components. The Company s customers are concentrated in a few select markets, including China, Taiwan, Russia and the United States.

On December 8, 2010, SemiLEDs completed its initial public offering in the United States and sold 6,038 thousand new common shares. The Company s common shares are listed on the NASDAQ Global Select Market under the symbol LEADS.

As of February 28, 2013, SemiLEDs had seven wholly owned subsidiaries and a 51% equity interest in Ning Xiang Technology Co., Ltd., which it acquired in August 2011. The most significant of these consolidated subsidiaries is SemiLEDs Optoelectronics Co., Ltd. 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.

**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 December 13, 2012. The unaudited condensed consolidated balance sheet as of August 31, 2012 included herein was derived from the audited consolidated financial statements as of that date.

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 February 28, 2013, the statements of operations and comprehensive loss for the three and six months ended February 28, 2013 and February 29, 2012, and the statements of cash flows for the six months ended February 28, 2013 and February 29, 2012. The results for the three or six months ended February 28, 2013 are not necessarily indicative of the results to be expected for the year ending

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August 31, 2013.

**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 and intangible assets, 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.

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**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, short-term investments and accounts receivable.

The Company keeps its cash, cash equivalents and short-term investments in demand deposits, certificates of deposit and time 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 February 28, 2013 and August 31, 2012, cash, cash equivalents and short-term investments of the Company consisted of the following (in thousands):

Cash, Cash Equivalents and Short-term Investments by Location	February 28, 2013	August 31, 2012
United States:		
Denominated in U.S. dollars	\$ 18,661	\$ 18,744
Taiwan:		
Denominated in U.S. dollars	22,645	34,477
Denominated in New Taiwan dollars	1,592	2,193
Denominated in other currencies	188	235
China (including Hong Kong):		
Denominated in U.S. dollars	376	376
Denominated in Renminbi	423	33
Denominated in H.K. dollars	1	1
Total cash, cash equivalents and short-term investments	\$ 43,886	\$ 56,059

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.

Net revenues generated from sales to the top ten customers represented 46% and 39% of the Company's net revenues for the three and six months ended February 28, 2013, respectively, and 70% and 60% of the Company's net revenues for the three and six months ended February 29, 2012, respectively.

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The Company's revenues have been concentrated in a few select markets, including China, Taiwan, Russia and the United States. Net revenues generated from sales to customers in these markets, in the aggregate, accounted for 63% and 62% of the Company's net revenues for the three and six months ended February 28, 2013, respectively, and 77% and 81% of the Company's net revenues for the three and six months ended February 29, 2012, respectively.

Table of Contents**Recently Issued Accounting Pronouncements**

**Presentation of comprehensive income** Effective on September 1, 2012, the Company adopted Financial Accounting Standards Board ( FASB ) Accounting Standards Update ( ASU ) No. 2011-05, Presentation of Comprehensive Income. ASU 2011-05 increases the prominence of other comprehensive income in the financial statements. The Company has elected to present the components of net income and comprehensive income in two consecutive financial statements. The Company adopted ASU 2011-05 retrospectively for all periods presented.

In February 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. ASU 2013-02 requires expanded disclosures for amounts reclassified out of accumulated other comprehensive income by component. The guidance requires the presentation of amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, a cross-reference to other disclosures that provide additional detail about those amounts is required. ASU 2013-02 is effective prospectively for the Company beginning in the first quarter of fiscal 2014. Early adoption is permitted. The Company does not expect the adoption of ASU 2013-02 to have a material impact on the Company's consolidated financial statements.

**3. Balance Sheet Components****Inventories**

Inventories as of February 28, 2013 and August 31, 2012 consisted of the following (in thousands):

	February 28, 2013	August 31, 2012
Raw materials	\$ 2,440	\$ 2,999
Work in process	3,227	4,065
Finished goods	4,508	5,952
Total	\$ 10,175	\$ 13,016

**Property, Plant and Equipment**

Property, plant and equipment as of February 28, 2013 and August 31, 2012 consisted of the following (in thousands):

February 28, 2013	August 31, 2012
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Buildings and improvements	\$	14,636	\$	14,501
Machinery and equipment		65,237		64,267
Leasehold improvements		3,172		3,143
Other equipment		2,140		2,249
Construction in progress		2,483		2,546
Total property, plant and equipment		87,668		86,706
Less: Accumulated depreciation, amortization and impairment(1)		(44,286)		(40,064)
Property, plant and equipment, net	\$	43,382	\$	46,642

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(1) Includes an impairment charge of \$7,507 thousand on certain of the Company's property, plant and equipment for the year ended August 31, 2012. The impairment charge was primarily related to machinery and equipment used in the manufacturing of LED chips.

Table of Contents**Intangible Assets**

Intangible assets as of February 28, 2013 and August 31, 2012 consisted of the following (in thousands):

	<b>February 28, 2013</b>			
	<b>Weighted Average Amortization Period (Years)</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Amount</b>
Patents and trademarks	16	\$ 620	\$ 167	\$ 453
Acquired technology	4	168	123	45
Customer relationships	5	1,349		