

SemiLEDs Corp
Form 10-Q
July 10, 2015
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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, 2015

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

(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)

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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: 29,052,185 shares of common stock, par value \$0.0000056 per share, outstanding as of July 6, 2015.

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SEMILEDs CORPORATION

FORM 10-Q for the Quarter Ended May 31, 2015

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****SEMILEDs CORPORATION AND SUBSIDIARIES****Unaudited Condensed Consolidated Balance Sheets****(In thousands of U.S. dollars and shares, except par value)**

	May 31, 2015	August 31, 2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,016	\$ 12,649
Accounts receivable, net of allowance for doubtful accounts of \$1,334 and \$1,369 as of May 31, 2015 and August 31, 2014, respectively	2,135	2,130
Accounts receivable from related parties, net of allowance for doubtful accounts of \$1,371 and \$1,397 as of May 31, 2015 and August 31, 2014, respectively	26	41
Inventories	6,618	9,212
Prepaid expenses and other current assets	1,029	1,909
Total current assets	15,824	25,941
Property, plant and equipment, net	23,483	27,063
Intangible assets, net	1,481	1,586
Goodwill	57	59
Investments in unconsolidated entities	2,135	2,204
Other assets	713	764
TOTAL ASSETS	\$ 43,693	\$ 57,617
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current installments of long-term debt	\$ 1,457	\$ 1,934
Accounts payable	1,806	2,675
Accrued expenses and other current liabilities	3,645	4,860
Total current liabilities	6,908	9,469
Long-term debt, excluding current installments	3,126	4,256
Total liabilities	10,034	13,725
Commitments and contingencies (Note 5)		
EQUITY:		
SemiLEDs stockholders' equity		
Common stock, \$0.0000056 par value 75,000 shares authorized; 29,052 shares and 28,424 shares issued and outstanding as of May 31, 2015 and August 31, 2014, respectively		
Additional paid-in capital	171,920	170,953
Accumulated other comprehensive income	4,580	5,583
Accumulated deficit	(142,904)	(132,630)
Total SemiLEDs stockholders' equity	33,596	43,906
Noncontrolling interests	63	(14)
Total equity	33,659	43,892
TOTAL LIABILITIES AND EQUITY	\$ 43,693	\$ 57,617

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See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2015	2014	2015	2014
Revenues, net	\$ 3,508	\$ 4,615	\$ 11,002	\$ 12,203
Cost of revenues	4,367	7,408	14,055	20,470
Gross loss	(859)	(2,793)	(3,053)	(8,267)
Operating expenses:				
Research and development	594	1,025	1,954	3,370
Selling, general and administrative	1,621	2,530	5,648	7,437
Gain on disposal of long-lived assets, net			(287)	
Total operating expenses	2,215	3,555	7,315	10,807
Loss from operations	(3,074)	(6,348)	(10,368)	(19,074)
Other income (expenses):				
Equity in income (loss) from unconsolidated entities, net	40	(22)	(16)	(152)
Interest expenses, net	(26)	(23)	(74)	(61)
Other income, net	29	53	88	159
Foreign currency transaction gain (loss), net	(15)	(81)	49	(71)
Total other income (expenses), net	28	(73)	47	(125)
Loss before income taxes	(3,046)	(6,421)	(10,321)	(19,199)
Income tax expense			1	
Net loss	(3,046)	(6,421)	(10,322)	(19,199)
Less: Net loss attributable to noncontrolling interests	(5)	(16)	(48)	(93)
Net loss attributable to SemiLEDs stockholders	\$ (3,041)	\$ (6,405)	\$ (10,274)	\$ (19,106)
Net loss per share attributable to SemiLEDs stockholders:				
Basic and diluted	\$ (0.11)	\$ (0.23)	\$ (0.36)	\$ (0.68)
Shares used in computing net loss per share attributable to SemiLEDs stockholders:				
Basic and diluted	28,567	28,441	28,594	28,039

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2015	2014	2015	2014
Net loss	\$ (3,046)	\$ (6,421)	\$ (10,322)	\$ (19,199)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments, net of tax of \$0 for all periods presented	642	414	(1,003)	(71)
Comprehensive loss	\$ (2,404)	\$ (6,007)	\$ (11,325)	\$ (19,270)
Comprehensive loss attributable to noncontrolling interests	\$ (7)	\$ (17)	\$ (48)	\$ (92)
Comprehensive loss attributable to SemiLEDs stockholders	\$ (2,397)	\$ (5,990)	\$ (11,277)	\$ (19,178)

See notes to unaudited condensed consolidated financial statements.

Table of Contents**SEMILEDs CORPORATION AND SUBSIDIARIES****Unaudited Condensed Consolidated Statement of Changes in Equity**

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

	Common Stock		Additional	Accumulated	Accumulated	Total SemiLEDs	Non-Controlling	Total
	Shares	Amount	Paid-in	Other	Deficit	Stockholders	Interests	Equity
			Capital	Comprehensive		Equity		
BALANCE September 1, 2014	28,424	\$	\$ 170,953	\$ 5,583	\$ (132,630)	\$ 43,906	\$ (14)	\$ 43,892
Issuance of common stock under equity incentive plans	628							
Stock-based compensation			1,092			1,092		1,092
Purchase of common shares in Ning Xiang			(125)			(125)	125	
Comprehensive loss:								
Foreign currency translation adjustment				(1,003)		(1,003)		(1,003)
Net loss					(10,274)	(10,274)	(48)	(10,322)
BALANCE May 31, 2015	29,052	\$	\$ 171,920	\$ 4,580	\$ (142,904)	\$ 33,596	\$ 63	\$ 33,659

See notes to unaudited condensed consolidated financial statements.

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

	Nine Months Ended May 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (10,322)	\$ (19,199)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,839	4,953
Stock-based compensation expense	1,092	1,530
Bad debt expense		89
Provisions for inventory write-downs	1,161	1,618
Equity in losses from unconsolidated entities, net	16	152
Gain on disposal of long-lived assets, net	(287)	
Income recognized on patents assignment		(38)
Changes in operating assets and liabilities:		
Accounts receivable, net	(88)	(687)
Inventories	1,273	(907)
Prepaid expenses and other	429	(161)
Accounts payable	(889)	(740)
Accrued expenses and other current liabilities	(152)	(377)
Net cash used in operating activities	(3,928)	(13,767)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(1,299)	(1,911)
Purchase of investments		(206)
Payments related to acquisition of business		(2,069)
Payments for development of intangible assets	(37)	(271)
Proceeds from sale of investment		114
Decrease (increase) in restricted cash	351	(122)
Other investing activities, net	28	(86)
Net cash used in investing activities	(957)	(4,551)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of long-term debt	(1,453)	(1,712)
Proceeds from line of credit		170
Payments on line of credit		(170)
Payment of loan from related party		(201)
Other financing activities		12
Net cash used in financing activities	(1,453)	(1,901)
Effect of exchange rate changes on cash and cash equivalents	(295)	31
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,633)	(20,188)
CASH AND CASH EQUIVALENTS Beginning of period	12,649	36,272
CASH AND CASH EQUIVALENTS End of period	\$ 6,016	\$ 16,084
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Accrual related to property, plant and equipment	\$ 842	\$ 279
Proceeds from sale of property, plant and equipment included in other current liabilities	\$ 884	\$

See notes to unaudited condensed consolidated financial statements.

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SEMILEDS CORPORATION AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

1. Business

SemiLEDs Corporation (SemiLEDs or the parent company) 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 of May 31, 2015, SemiLEDs had seven wholly owned subsidiaries and a 93% 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 takes place and where a substantial portion of the assets is 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, 2015, the Company also owned a 93% interest in Ning Xiang, which consisted of a 51% interest acquired in August 2011, an additional 15% interest acquired in April 2013, an additional 21% interest acquired in November 2013 and an additional 6% interest acquired in December 2014. Ning Xiang is engaged in the design, manufacture and sale of lighting fixtures and systems.

SemiLEDs' common shares are listed on the NASDAQ Global Select Market under the symbol LEDSL 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 December 12, 2014. The unaudited condensed consolidated balance sheet as of August 31, 2014 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 May 31, 2015, the statements of operations and comprehensive loss for the three and nine months ended May 31, 2015 and 2014, the statement of changes in equity for the nine months ended May 31, 2015, and the statements of cash flows for the nine months ended May 31, 2015 and 2014. The results for the three or nine months ended May 31, 2015 are not necessarily indicative of the results to be expected for the year ending August 31, 2015.

The accompanying unaudited interim condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The realization of assets and the satisfaction of liabilities in the normal course of business are dependent on, among other things, the Company's ability to operate profitably, to generate cash flows from operations, and to pursue financing arrangements to support its working capital requirements.

The Company has suffered losses from operations of \$24.8 million and \$42.7 million, gross losses on product sales of \$11.3 million and \$14.7 million, and net cash used in operating activities of \$15.7 million and \$14.5 million for the years ended August 31, 2014 and 2013, respectively. Loss from operations for the three and nine months ended May 31, 2015 were \$3.1 million and \$10.4 million, respectively. Gross loss on product sales for the three and nine months ended May 31, 2015 were \$0.9 million and \$3.1 million, respectively. Net cash used in operating activities for the nine months ended May 31, 2015 was \$3.9 million. Further, at May 31, 2015, the Company's cash and cash equivalents was down to \$6.0 million. These facts and conditions raise substantial doubt about the Company's ability to continue as a going concern. However, management believes that it has developed a liquidity plan, as summarized below, that, if executed successfully, should provide sufficient liquidity to meet the Company's obligations as they become due for a reasonable period of time, and allow the development of its core business.

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- Improve operating cash flows through cost reductions and the sales of new higher margin products. Management has implemented cost reductions that include the closing and relocation of the manufacturing operations at the Company's Sinwu facility, the consolidation of the Company's facilities, and workforce reductions, and executives taking a salary reduction until the Company returns to profitability. The commercial sales of its UV LED product with a leading cosmetic manufacturer are expected to continue to improve the Company's future gross margin, operating results and cash flows. We are making progress towards scaling sales of our UV LED products and are focused on product enhancement and developing our UV LED into many other applications or devices.
- Reduce planned capital expenditures and reduce research and development expenditure expenses. Management continues to monitor prices and, consistent with its existing contractual commitments, may decrease its activity level and capital expenditures further. This plan reflects its strategy of controlling capital costs and maintaining financial flexibility.
- Obtain new operating lines of credit facilities from several financial institutions and utilize any available lines of credit to fulfill our short-term financing needs, if necessary.
- Raise additional cash through further equity offerings, sales of assets and/or issuance of debt as considered necessary.

While the Company's management believes that the measures described in the above liquidity plan will be adequate to satisfy its liquidity requirements for the twelve months ending May 31, 2016, there is no assurance that the liquidity plan will be successfully implemented. Failure to successfully implement the liquidity plan may have a material adverse effect on its business, results of operations and financial position, and may adversely affect its ability to continue as a going concern. These unaudited interim condensed consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded assets or the amounts and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern.

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.

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 past few 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.

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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, 2015 and August 31, 2014, cash and cash equivalents of the Company consisted of the following (in thousands):

Cash and Cash Equivalents by Location	May 31, 2015	August 31, 2014
United States:		
Denominated in U.S. dollars	\$ 2,457	\$ 7,838
Taiwan:		
Denominated in U.S. dollars	1,443	2,909
Denominated in New Taiwan dollars	967	834
Denominated in other currencies	306	300
China (including Hong Kong):		
Denominated in U.S. dollars	262	262
Denominated in Renminbi	580	505
Denominated in H.K. dollars	1	1
Total cash and cash equivalents	\$ 6,016	\$ 12,649

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 60% and 61% of the Company's total net revenues for the three and nine months ended May 31, 2015, respectively, and 52% and 47% of the Company's net revenues for the three and nine months ended May 31, 2014, respectively.

The Company's revenues have been concentrated in a few select markets, including Taiwan, the United States, and China (including Hong Kong). Net revenues generated from sales to customers in these markets, in the aggregate, accounted for 53% and 70% of the Company's net revenues for the three and nine months ended May 31, 2015, respectively, and 73% and 58% of the Company's net revenues for the three and nine months ended May 31, 2014, respectively.

Noncontrolling Interests Noncontrolling interests are classified in the consolidated statements of operations as part of consolidated net income (loss) and the accumulated amount of noncontrolling interests in the consolidated balance sheets as part of equity. Changes in ownership interest in a consolidated subsidiary that do not result in a loss of control are accounted for as an equity transaction. If a change in ownership of a consolidated subsidiary results in loss

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of control and deconsolidation, any retained ownership interests are remeasured with the gain or loss reported in net earnings.

Transactions with noncontrolling interests had the following effect on equity attributable to SemiLEDs stockholders (in thousands):

	Three Months Ended May 31, 2015	Nine Months Ended May 31, 2015
Net loss attributable to SemiLEDs stockholders	\$ (3,041)	\$ (10,274)
Transfers to noncontrolling interests:		
Decrease in SemiLEDs additional paid in capital for purchase of common shares in Ning Xiang		(125)
Change from net loss attributable to SemiLEDs stockholders and transfer to noncontrolling interests	\$ (3,041)	\$ (10,399)

Table of Contents**3. Balance Sheet Components****Inventories**

Inventories as of May 31, 2015 and August 31, 2014 consisted of the following (in thousands):

	May 31, 2015		August 31, 2014
Raw materials	\$ 1,935	\$	2,792
Work in process	684		1,420
Finished goods	3,999		5,000
Total	\$ 6,618	\$	9,212

Inventory write-downs to estimated net realizable values were \$1,161 thousand and \$1,618 thousand for the nine months ended May 31, 2015 and 2014, respectively.

Property, Plant and Equipment

Property, plant and equipment as of May 31, 2015 and August 31, 2014 consisted of the following (in thousands):

	May 31, 2015		August 31, 2014
Buildings and improvements	\$ 14,700	\$	14,518
Machinery and equipment	62,450		68,038
Leasehold improvements	2,952		2,914
Other equipment	3,977		2,652
Construction in progress	1,591		2,395
Total property, plant and equipment	85,670		90,517
Less: Accumulated depreciation, amortization and impairment	(62,187)		(63,454)
Property, plant and equipment, net	\$ 23,483	\$	27,063

Intangible Assets

Intangible assets as of May 31, 2015 and August 31, 2014 consisted of the following (in thousands):

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May 31, 2015

	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents and trademarks	14	\$ 1,466	\$ 326	\$ 1,140
Acquired technology	5	701	360	341
Total		\$ 2,167	\$ 686	\$ 1,481

August 31, 2014

	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization and Impairment	Net Carrying Amount
Patents and trademarks	14	\$ 1,411	\$ 257	\$ 1,154
Acquired technology	5	719	287	432
Total		\$ 2,130	\$ 544	\$ 1,586

Goodwill

In July 2013, the Company recognized goodwill on the acquisition of an LED production business. All of the goodwill was assigned to the Company's reporting unit associated with the manufacture and sale of LED chips and LED components.

Table of Contents**4. Investments in Unconsolidated Entities**

The Company's ownership interest and carrying amounts of investments in unconsolidated entities as of May 31, 2015 and August 31, 2014 consisted of the following (in thousands, except percentages):

	May 31, 2015		August 31, 2014	
	Percentage Ownership	Amount	Percentage Ownership	Amount
Equity method investments:				
SILQ (Malaysia) Sdn. Bhd. (SILQ)	33%	\$ 181	33%	\$ 217
Xurui Guangdian Co., Ltd. (China SemiLEDs)	49%		49%	
Cost method investments	Various	1,954	Various	1,987
Total investments in unconsolidated entities		\$ 2,135		\$ 2,204

There were no dividends received from unconsolidated entities through May 31, 2015.

Equity Method Investments

As of May 31, 2015, the Company owned a 33% interest in SILQ (Malaysia) Sdn. Bhd., or SILQ, a joint venture in Malaysia which is engaged in the design, manufacture and sale of lighting fixtures and systems. Originally, the Company and the other investor each owned a 50% equity interest in the joint venture. In January 2014, the Company participated in SILQ's capital increase and contributed \$76 thousand. Following the capital increase, the Company's equity interest in SILQ was diluted from 50% to 49%, and consequently, the Company recognized a gain on dilution of its investment of \$26 thousand. The dilution gain was recognized as additional paid in capital in the consolidated statement of changes in equity. In April 2014, the Company sold part of its equity interest in SILQ to the other investor for a cash consideration of \$114 thousand and recognized a gain on sale of investment of \$37 thousand. The gain was reported in the consolidated statements of operations in equity in losses from unconsolidated entities. Upon consummation of the sale, the Company's equity interest in SILQ was reduced from 49% to 33%. The Company subsequently invested \$130 thousand in SILQ's capital increase in April 2014 and its equity interest remains unchanged.

Cost Method Investments

The fair values of the Company's cost method investments are not readily available. All cost method investments are assessed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

5. Commitments and Contingencies

Operating Lease Agreements The Company has several operating leases with unrelated parties, primarily for land, plant and office spaces in Taiwan, which are including cancellable and noncancellable and which expire at various dates between August 2015 and December 2020. Lease expense related to these noncancellable operating leases was \$130 thousand and \$438 thousand for the three and nine months ended May 31, 2015, respectively, and \$343 thousand and \$925 thousand for the three and nine months ended May 31, 2014, respectively. Lease expense is recognized on a straight-line basis over the term of the lease.

The aggregate future noncancellable minimum rental payments for the Company's operating leases as of May 31, 2015 consisted of the following (in thousands):

Years Ending August 31,	Operating Leases	
Remainder of 2015	\$	120
2016		426
2017		431
2018		266
2019		91
Thereafter		122
Total	\$	1,456

Purchase Obligations The Company had purchase commitments for inventory, property, plant and equipment in the amount of \$2.5 million and \$3.9 million as of May 31, 2015 and August 31, 2014, respectively.

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Litigation The Company is directly or indirectly involved from time to time in various claims or legal proceedings arising in the ordinary course of business. The Company recognizes a liability when it is probable that a loss has been incurred and the amount is reasonably estimable. There is significant judgment required in assessing both the likelihood of an unfavorable outcome and whether the amount of loss, if any, can be reasonably estimated. As of May 31, 2015, there was no pending or threatened litigation that could have a material impact on the Company's financial position, results of operations or cash flows.

6. Stock-based Compensation

The Company currently has one equity incentive plan (the 2010 Plan), which provides for awards in the form of restricted shares, stock units, stock options or stock appreciation rights to the Company's employees, officers, directors and consultants. In April 2014, SemiLEDs' stockholders approved an amendment to the 2010 Plan that increased the number of shares authorized for issuance under the plan by an additional 2,500 thousand shares. Prior to SemiLEDs' initial public offering, the Company had another stock-based compensation plan (the 2005 Plan), but awards are made from the 2010 Plan after the initial public offering. Options outstanding under the 2005 Plan continue to be governed by its existing terms.

A total of 6,349 thousand shares of common stock was reserved for issuance under the 2005 Plan and 2010 Plan as of both May 31, 2015 and August 31, 2014. There were 3,886 thousand and 4,492 thousand shares of common stock available for future issuance under the 2005 Plan and 2010 Plan under the equity incentive plans as of May 31, 2015 and August 31, 2014, respectively.

In May 2015, SemiLEDs granted 50 thousand restricted stock units to its directors that vest 100% on the earlier of the first anniversary of the vesting start date of May 7, 2016 and the date of the next annual meeting. The grant-date fair value of the restricted stock units was \$0.82 per unit.

In January 2015, SemiLEDs granted 50 thousand restricted stock units that vest over four years at a rate of 25% on each anniversary of the vesting start date of January 9, 2015, subject to earlier expiration in the event of the holder's termination. The grant-date fair value of the restricted stock units was \$1.07 per unit.

In April 2014, SemiLEDs granted 75 thousand restricted stock units to its directors that vest 100% on the earlier of the first anniversary of the vesting start date of April 21, 2014 and the date of the next annual meeting. The grant-date fair value of the restricted stock units was \$1.05 per unit.

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In May 2014, SemiLEDs granted 410 thousand restricted stock units that vest over four years at a rate of 25% on each anniversary of the vesting start date of May 9, 2014, and 122 thousand restricted stock units that vest 100% on May 9, 2015, subject to earlier expiration in the event of the holder's termination. SemiLEDs also granted 366 thousand performance-based restricted stock units that vest upon the attainment of certain performance targets in the fiscal years ending August 31, 2015, 2016 or 2017. The grant-date fair value of these restricted stock units was \$1.01 per unit.

The grant date fair value of stock options is determined using the Black-Scholes option-pricing model. The Black-Scholes option-pricing model requires inputs including the market price of SemiLEDs' common stock on the date of grant, the term that the stock options are expected to be outstanding, the implied stock volatilities of several of the Company's publicly-traded peers over the expected term of stock options, risk-free interest rate and expected dividend. Each of these inputs is subjective and generally requires significant judgment to determine. The grant date fair value of stock units is based upon the market price of SemiLEDs' common stock on the date of the grant. This fair value is amortized to compensation expense over the vesting term.

Stock-based compensation expense is recorded net of estimated forfeitures such that expense is recorded only for those stock-based awards that are expected to vest. A forfeiture rate is estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from initial estimates. A forfeiture rate of zero is estimated for stock-based awards with vesting term that is less than or equal to one year from the date of grant.

A summary of the stock-based compensation expense for the three and nine months ended May 31, 2015 and 2014 was as follows (in thousands):

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	Three Months Ended May 31,				Nine Months Ended May 31,			
	2015		2014		2015		2014	
Cost of revenues	\$	49	\$	191	\$	264	\$	581
Research and development		22		51		133		273
Selling, general and administrative		196		240		695		676
	\$	267	\$	482	\$	1,092	\$	1,530

7. Net Loss Per Share of Common Stock

The following stock-based compensation plan awards were excluded from the computation of diluted net loss per share of common stock for the periods presented because including them would have been anti-dilutive (in thousands of shares):

	Three Months Ended May 31,				Nine Months Ended May 31,			
	2015		2014		2015		2014	
Stock units and stock options to purchase common stock		229		277		529		567

8. Income Taxes

The Company's loss before income taxes for the three and nine months ended May 31, 2015 and 2014 consisted of the following (in thousands):

	Three Months Ended May 31,				Nine Months Ended May 31,			
	2015		2014		2015		2014	
U.S. operations	\$	(203)	\$	(476)	\$	(706)	\$	(1,464)
Foreign operations		(2,843)		(5,945)		(9,615)		(17,735)
Loss before income taxes	\$	(3,046)	\$	(6,421)	\$	(10,321)	\$	(19,199)

Unrecognized Tax Benefits

As of both May 31, 2015 and August 31, 2014, the Company had no unrecognized tax benefits related to tax positions taken in prior periods. The Company files income tax returns in the United States, various U.S. states and certain foreign jurisdictions. The tax years 2005 through 2014 remain open in most jurisdictions. The Company is not currently under examination by income tax authorities in federal, state or foreign jurisdictions.

9. Subsequent Events

The Company entered into a definitive common stock purchase agreement effective December 18, 2014 (the Agreement) with Mr. Xiaoqing Han, the Chairman and CEO of Beijing Xiaoqing Environmental Protection Group. The transaction has not closed due to Mr. Han's inability to transfer funds from China. To date, the Company has only received approximately \$261,000 of the \$5 million purchase price. Pursuant to the terms of the Agreement, if Mr. Han did not purchase the shares before February 25, 2015, then he is required to pay the Company \$3 million plus the legal fees incurred by the Company relating to the sale. On June 29, 2015, the Company provided written notice to Mr. Han informing him that he is in breach of the Agreement for failure to provide full payment before February 25, 2015 and demanding that he remit the balance of the purchase price by July 16, 2015 or, alternatively, the \$3 million in liquidated damages. The Company's Board is considering legal alternatives to collect the amounts owed under the Agreement. There can be no assurance if, or when, Mr. Han will be able to complete the purchase or if the Company can collect any judgment for liquidated damages should it obtain one.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

This Quarterly Report on Form 10-Q, or this Quarterly Report, contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements other than statements of historical facts contained in this Quarterly Report, including statements regarding the future results of operations of SemiLEDs Corporation, or we, our or the Company, and financial position, strategy and plans, and our expectations for future operations, are forward-looking statements. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements. The words believe, may, should, plan, potential, project, will, estimate, continue, anticipate, design, intend, expect and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, and actual results and the timing of certain events could differ materially and adversely from those anticipated or implied in the forward-looking statements as a result of many factors. These factors include, among other things,

- Declining cash position.

- The impact on the trading price of our common stock if we are delisted for failure to meet the NASDAQ continued listing requirements if our stock continues to trade below \$1 per share.

- Our ability to reduce our net losses and to restore our operations to profitability.

- Our ability to collect the \$3 million liquidated damages owed to us by the investor who failed to complete the private placement.

- The costs and other effects of litigation.

- Our ability to successfully introduce new products that we can produce and that customers will purchase in such amounts as to be sufficiently profitable to cover the costs of developing and producing these products, as well as providing us additional net income from operations.

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- Our ability to improve our liquidity and access alternative sources of funding.
- Our ability to effectively develop, maintain and expand our sales and distribution channels, especially in the niche LED markets, including the UV LED and architectural lighting that we focus on.
- Our ability to successfully manage our operations in the face of the cyclical, rapid technological change, rapid product obsolescence, declining average selling prices and wide fluctuations in supply and demand typically found in the LED market.
- Competitive pressures from existing and new companies.
- Our ability to grow our revenues generated from the sales of our products and to control our expenses.
- Our ability to implement our cost reduction programs effectively.
- Loss of any of our key personnel, or our failure to attract, assimilate and retain other highly qualified personnel.
- Intellectual property infringement or misappropriation claims by third parties against us or our customers, including our distributor customers.
- The failure of LEDs to achieve widespread adoption in the general lighting market, or if alternative technologies gain market acceptance.
- Our ability to improve our gross margins.

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- The loss of key suppliers or contract manufacturers.

- The inability of contract manufacturers to produce products that satisfy our requirements.

- Our ability to effectively expand or upgrade our production facilities or do so in a timely or cost-effective manner.

- Difficulty in managing our future growth or in responding to a need to contract operations, and the associated changes to our operations.

- Adverse development in those selected markets, including Taiwan, the United States and China, where our revenues are concentrated.

- Our ability to develop and execute upon a new strategy to exploit the China market.

- The reduction or elimination of government investment in LED lighting or the elimination of, or changes in, policies in certain countries that encourage the use of LEDs over some traditional lighting technologies.

- Our ability to cost-effectively produce LED chips using larger wafer sizes.

- Our ability to implement our product innovation strategy effectively, particularly in view of the prohibition against our (and/or our assisting others in) making, using, importing, selling and/or offering to sell in the United States our accused products and/or any device that includes an accused product after October 1, 2012 as a result of the injunction agreed to in connection with the Cree Inc., or Cree, litigation.

- Loss of customers.

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- Failure of our strategy of marketing and selling our products in jurisdictions with limited intellectual property enforcement regimes.
- Lack of marketing and distribution success by our third-party distributors.
- Our customers' ability to produce and sell products incorporating our LED products.
- Our failure to adequately prevent disclosure of trade secrets and other proprietary information.
- Ineffectiveness of our disclosure controls and procedures and our internal control over financial reporting.
- Our ability to profit from existing and future joint ventures, investments, acquisitions and other strategic alliances.
- Impairment of goodwill, long-lived assets or investments.
- Undetected defects in our products that harm our sales and reputation and adversely affect our manufacturing yields.
- The availability of adequate and timely supply of electricity and water for our manufacturing facilities.
- Our ability to comply with existing and future environmental laws and the cost of such compliance.
- The non-compete provisions between us and Xurui Guangdian Co., Ltd., or China SemiLEDs, constraining our ability to grow in China, or actions by China SemiLEDs or the other shareholders of China SemiLEDs that are detrimental to us.
- The ability of SemiLEDs Optoelectronics Co., Ltd., or Taiwan SemiLEDs, to make dividends and other payments to us.

- Our ability to obtain necessary regulatory approvals to make further investments in Taiwan SemiLEDs.

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- Catastrophic events such as fires, earthquakes, floods, tornados, tsunamis, typhoons, pandemics, wars, terrorist activities and other similar events, particularly if these events occur at or near our operations, or the operations of our suppliers, contract manufacturers and customers.
- The effect of the legal system in the People's Republic of China, or the PRC.
- Labor shortages, strikes and other disturbances that affect our operations.
- Deterioration in the relations between the PRC and Taiwan governments.
- Fluctuations in the exchange rate among the U.S. dollar, the New Taiwan, or NT, dollar, the Japanese Yen and other currencies in which our sales, raw materials and component purchases and capital expenditures are denominated.
- Our ability to obtain additional equity capital or credit when necessary for our operations, the difficulty of which may increase if our common stock is delisted from The NASDAQ Stock Market.
- The effect of the disclosure requirements under the provisions of the Dodd-Frank Act relating to conflict minerals, which could increase our costs and limit the supply of certain metals used in our products and affect our reputation with customers and shareholders.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We have not assumed any obligation to, and you should not expect us to, update or revise these statements because of new information, future events or otherwise.

For more information on the significant risks that could affect the outcome of these forward-looking statements, see Item 1A Risk Factors in Part I of our Annual Report on Form 10-K for the fiscal year ended August 31, 2014, or the 2014 Annual Report, and those contained in Part II, Item 1A of this Quarterly Report, and other information provided from time to time in our filings with the Securities and Exchange Commission, or the SEC.

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The following discussion and analysis of our financial condition and results of operations is based upon and should be read in conjunction with the unaudited interim condensed consolidated financial statements and the notes and other information included elsewhere in this Quarterly Report, in our 2014 Annual Report, and in other filings with the SEC.

Company Overview

We develop, manufacture and sell light emitting diode (LED) chips and LED components. Our products are used primarily for general lighting applications, including street lights and commercial, industrial and residential lighting. Our LED chips may also be used in specialty industrial applications, such as ultraviolet, or UV, curing of polymers, LED light therapy in medical/cosmetic applications, counterfeit detection, LED lighting for horticulture applications, architectural lighting and entertainment lighting.

Utilizing our patented and proprietary technology, our manufacturing process begins by growing upon the surface of a sapphire wafer, or substrate, several very thin separate semiconductive crystalline layers of gallium nitride, or GaN, a process known as epitaxial growth, on top of which a mirror-like reflective silver layer is then deposited. After the subsequent addition of a copper alloy layer and finally the removal of the sapphire substrate, we further process this multiple-layered material to create individual vertical LED chips.

We sell blue, white, green and UV LED chips to a customer base that is heavily concentrated in a few select markets, including Taiwan, the United States and China (including Hong Kong). We also sell our new Enhanced Vertical, or EV, LED product series in blue, white, green and UV. We sell our LED chips to packagers or to distributors, who in turn sell to packagers. In addition, we package a portion of our LED chips into LED components, which we sell to distributors and end-customers in selected markets. Our lighting products customers are primarily original design manufacturers, or ODMs, of lighting products and the end-users of lighting devices. We also contract other manufacturers to produce for our sale certain LED products, and for certain aspects of our product fabrication, assembly and packaging processes, based on our design and technology requirements and under our quality control specifications and final inspection process.

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We have developed advanced capabilities and proprietary know-how in:

- reusing sapphire substrate in subsequent production runs;
- optimizing our epitaxial growth processes to create layers that efficiently convert electrical current into light;
- employing a copper alloy base manufacturing technology to improve our chips thermal and electrical performance;
- utilizing nanoscale surface engineering to improve usable light extraction; and
- developing a LED structure that generally consists of multiple epitaxial layers which are vertically-stacked on top of and a copper alloy base.

These technical capabilities enable us to produce LED chips that can provide efficacies of greater than 120 lumens per watt when packaged. We believe these capabilities and know-how should also allow us to reduce our manufacturing costs and our dependence on sapphire, a costly raw material used in the production of sapphire-based LED devices. In addition, we believe our technological know-how and capabilities will help facilitate our migration to larger wafer sizes.

We were incorporated in the State of Delaware on January 4, 2005 and sold our first LED chips in November 2005. We are a holding company for various wholly and majority owned subsidiaries. Our most significant subsidiary is our wholly owned operating subsidiary, SemiLEDs Optoelectronics Co., Ltd., or Taiwan SemiLEDs, where a substantial portion of our assets are held and located, where a substantial portion of our research, development, manufacturing, marketing and sales activities take place, and where most of our employees are based. 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, 2015, we also owned a 93% interest in Ning Xiang Technology Co., Ltd., or Ning Xiang, which consisted of a 51% interest acquired in August 2011, an additional 15% interest acquired in April 2013, an additional 21% interest acquired in November 2013 and an additional 6% interest acquired in December 2014.

We also have interests in unconsolidated joint ventures that we have accounted for as equity method investments and as such have not consolidated for financial reporting purposes. As of May 31, 2015, we owned a 33% interest in SILQ (Malaysia) Sdn. Bhd. or SILQ, a joint venture established in Malaysia to design, manufacture and sell lighting fixtures and systems. Originally,

we and the other investor each owned a 50% equity interest in the joint venture. In January 2014, we participated in SILQ's capital increase and contributed \$76 thousand. Following this capital increase, our equity interest in SILQ was diluted from 50% to 49%. In April 2014, we sold part of our equity interest in SILQ to the other investor in SILQ for a cash consideration of \$114 thousand. Upon consummation of the sale, our equity interest in SILQ was reduced from 49% to 33%. We subsequently invested \$130 thousand in SILQ's capital increase in April 2014 and our equity interest remains unchanged.

Key Factors Affecting Our Financial Condition, Results of Operations and Business

The following are key factors that we believe affect our financial condition, results of operations and business:

- ***Industry growth and demand for products and applications using LEDs.*** The overall adoption of LED lighting devices to replace traditional lighting sources is expected to influence the growth and demand for LED chips and impact our financial performance. We believe the potential market for LED lighting will continue to expand. LEDs for efficient generation of UV light are also starting to gain attention for various medical, germicidal and industrial applications. Since a substantial portion of our LED chips, LED components and our lighting products are used by end-users in general lighting applications and specialty industrial applications such as UV curing, medical/cosmetic, counterfeit detection, horticulture, architectural lighting and entertainment lighting the adoption of LEDs into these applications will have a strong impact on the demand of LED chips generally and, as a result, for our LED chips, LED components and LED lighting products. Fluctuations in demand for LED lights products will also affect the results of Ning Xiang.
- ***Average selling price of our products.*** The average selling price of our products may decline for a variety of factors, including prices charged by our competitors, the efficacy of our products, our cost basis, changes in our product mix, the size of the order and our relationship with the relevant customer, as well as general market and economic conditions. Competition in the markets for LED products is intense, and we expect that competition will continue to increase, thereby creating a highly aggressive pricing environment. For example, some of our competitors have in the past reduced their average selling prices, and the resulting competitive pricing pressures have caused us to similarly reduce our prices, accelerating the decline in our revenues and the gross margin of our products. When prices decline, we must also write down the value of our inventory. Furthermore, the average selling prices for our LED products have typically decreased over product life cycles. Therefore, our ability to continue to innovate and offer competitive products that meet our customers' specifications and pricing requirements, such as higher efficacy LED products at lower costs, will have a material influence on our ability to improve our revenues and product margins, although in the near term the introduction of such higher efficacy LED chips may further reduce the selling prices of our existing products or render them obsolete. Reduction in the average selling price of LED lights products will also affect the results of Ning Xiang.

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- ***Changes in our product mix.*** We anticipate that our gross margins will fluctuate from period to period as a result of the mix of products that we sell and the utilization of our manufacturing capacity in any given period, among other things. For example, as a strategic plan, we placed greater emphasis on the sales of LED components rather than the sales of LED chips where we have been forced to cut prices on older inventory. In particular, we sold a significant volume of a category of lower-priced LED components designed to meet our customers' demand. While such a shift in product mix decreased our average selling price, the significant sales volume helped to improve revenues and gross margin in fiscal 2012 and 2013. However, lower than expected sales volume as a result of intense competition harmed our revenues and gross margin in fiscal 2014. We intend to continue to pursue opportunities for profitable growth in areas of business where we see the best opportunity for our EV LED product series of LED chips (particularly the UV market) and adjust the lower-priced LED components strategy as appropriate. Starting in the second half of our fiscal 2015, we are making a transition to develop as an end-to-end LED module solution supplier by providing our customers with high quality, flexible and more complete LED system solution, customer technical support and LED module/system design, as opposed to just providing customers with individual components. However, as we expand and diversify our product offerings and with varying average selling prices, a change in the mix of products that we sell in any given period may increase volatility in our revenues and gross margin from period to period.
- ***Our ability to reduce cost to offset lower average prices.*** Competitors may reduce average selling prices faster than our ability to reduce costs, and competitive pricing pressures may accelerate the rate of decline of our average selling prices. To address increased pricing pressure, we have improved and increased our production yields to reduce the per-unit cost of production of our products. However, such cost savings currently have limited impact on our gross profit, as we currently suffer from the underutilization of manufacturing capacity and must absorb a high level of fixed costs, such as depreciation. While we intend to focus on managing our costs and expenses, over the long term we expect to be required to invest substantially in LED development and production equipment if we are to grow.
- ***Our ability to continue to innovate.*** As part of our growth strategy, we plan to continue to be innovative in product design, to deliver new products and to improve our manufacturing efficiencies. Our continued success depends on our ability to develop and introduce new, technologically advanced and lower cost products, such as more efficient, higher brightness LED chips. If we are unable to introduce new products that are commercially viable and meet rapidly evolving customer requirements or keep pace with evolving technological standards and market developments or are otherwise unable to execute our product innovation strategy effectively, we may not be able to take advantage of market opportunities as they arise, execute our business plan or be able to compete effectively. In November 2013, we launched a 10-watt M63 RGBW integrated 6363 LED, capable of delivering over 410 total lumens of combined red, green, blue and white light output. The M63 RGBW LED component integrates our EV LED structure, ReadyWhite Phosphor Technology and ceramic packaging technologies, designed for a wide range of color-changing applications, including entertainment lighting (such as stage lights, backdrops and spotlighting), large scale displays, and architectural lighting. This compact multi-color LED component offers our customers easy color mixing and higher integration that simplifies the design of lighting fixtures and reduces the number of LED components used. In August 2014, we introduced a line of 80x80mil EV LED chips, which include white, blue, and UV variations, and provide packagers and integrators with a wider variety of high-efficiency/high-output choices to address the growing number of applications in both the commercial lighting and industrial spaces. In addition, we

launched an Enhanced Flip Chip, or EF, LED series and our newest line of white chip scale packages, the ReadyMount Enhanced CSP, or EC series. The EF series launched with the EF-B40, a blue 40-mil flip chip that simplifies the packaging and integration process by eliminating wire-bonding while increasing both lumen-density and decreasing the lumen-per-dollar value proposition while enabling packagers to use standard surface mount assembly techniques. By combining SemiLEDs' Enhanced Flip chip approach with our innovative ReadyWhite phosphor technology, the EC delivers unprecedented flexibility, reliability and manufacturability in a single 1.4mm x 1.4mm low profile device. Rated for input power of up to 3W, the EC is a fully packaged white emitter SMD component, ready for surface mounting on any board level module or COB application, lowering capital costs and enabling extremely high lumen density configurations. In March 2015, we announced our Phosphor Converted or PC LED chip series, including PC Red, PC Green, and PC Amber in a 40mil (1mm x 1mm) chip combining with our ReadyWhite phosphor technology minimize blue pass through in our product therefore allow more options for our customers in these color ranges.

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- **General economic conditions and geographic concentration.** Many countries including the United States and the European Union members have instituted, or have announced plans to institute, government regulations and programs designed to encourage or mandate increased energy efficiency in lighting. These actions include in certain cases banning the sale after specified dates of certain forms of incandescent lighting, which are advancing the adoption of more energy efficient lighting solutions such as LEDs. The global financial crisis that began in late 2007 caused extreme disruption in the financial markets. Although the disruption in the financial markets moderated thereafter, the global financial markets continue to reflect uncertainty about a sustained economic recovery. When the global economy slows or a financial crisis occurs, consumer and government confidence declines, with levels of government grants and subsidies for LED adoption and consumer spending likely to be adversely impacted. Our revenues have been concentrated in a few select markets, including Taiwan, the United States and China (including Hong Kong). Given that we are operating in a rapidly changing industry, our sales in specific markets may fluctuate from quarter to quarter. Therefore, our financial results will be impacted by general economic and political conditions in such markets. For example, the aggressive support by the Chinese government for the LED industry through significant government incentives and subsidies to encourage the use of LED lighting and to establish the LED-sector companies has resulted in production overcapacity in the market and intense competition. Furthermore, due to Chinese package manufacturers increasing usage of domestic LED chips, prices are increasingly competitive, leading to Chinese manufacturers growing market share in the global LED industry. In addition, we have historically derived a significant portion of our revenues from a limited number of customers. Some of our largest customers and what we produce/have produced for them have changed from quarter to quarter primarily as a result of the timing of discrete, large project-based purchases and broadening customer base, among other things. For the three and nine months ended May 31, 2015, sales to our three largest customers, in the aggregate, accounted for 61% and 43% of our revenues, respectively.

- **Intellectual property issues.** Competitors of ours and other third parties have in the past and will likely from time to time in the future allege that our products infringe on their intellectual property rights. Defending against any intellectual property infringement claims would likely result in costly litigation and ultimately may lead to our not being able to manufacture, use or sell products found to be infringing. In June 2012, we settled an intellectual property dispute involving Cree. We agreed to dismiss amended complaints filed against each other without prejudice. We agreed to the entry of a permanent injunction that was effective October 1, 2012 that precludes us from (and/or from assisting others in) making, using, importing, selling and/or offering to sell in the United States certain accused products and/or any device that includes such an accused product after that date and to payment of a settlement fee for past damages. All accused products sold before the date of settlement are released under this agreement and our customers and distributors are specifically released. All remaining claims between Cree and us were withdrawn without prejudice, with each retaining the right to assert them in the future. However, other third parties may also assert infringement claims against our customers with respect to our products, or our customers' products that incorporate our technologies or products. Any such legal action or the threat of legal action against us, or our customers, could impair such customers' continued demand for our products. This could prevent us from growing or even maintaining our revenues, or cause us to incur additional costs and expenses, and adversely affect our financial condition and results of operations.

- **Declining cash position.** Our cash and cash equivalents decreased to \$6.0 million as of May 31, 2015 due to the combination of our net loss, payments related to long-term debt and a decrease in accounts payable

balances, and cash outlays for fixed assets to expand our Chu-Nan Facility for the relocation and consolidation of our manufacturing operations at Sinwu, Taiwan. We have initiated actions to accelerate operating cost reductions and improve operational efficiencies. For the nine months ended May 31, 2015, we have been realizing the benefits of operating cost reductions, such as savings on lease and overhead costs related to the Sinwu Facility, lower payroll expenses due to workforce reductions and normal attrition, and improvement in operational efficiencies through the consolidation of facilities. Additionally, our gross margin, operating results and cash flows, although declined slightly from the previous quarter, have shown improvement because of the commercial sales of our new UV LED product during the nine months ended May 31, 2015. Sales of our new UV LED product are expected to continue to grow steadily. Based on our current financial projections, we believe that we will have sufficient sources of liquidity to fund our operations and capital expenditure plans for the next 12 months. For information concerning our liquidity plans, see Note 2, **Summary of Significant Accounting Policies** of the Notes to Unaudited Condensed Consolidated Financial Statements in Item 1, Financial Statements, of this Quarterly Report.

Recent Developments

We entered into a definitive common stock purchase agreement effective December 18, 2014 (the **Agreement**) with Mr. Xiaoqing Han, the Chairman and CEO of Beijing Xiaoqing Environmental Protection Group. The transaction has not closed due to Mr. Han's difficulty in transferring funds from China. To date, we have only received approximately \$261,000 of the \$5 million purchase price. Pursuant to the terms of the Agreement, if Mr. Han did not purchase the shares before February 25, 2015, then he is required, upon written request by us, to pay us \$3 million in liquidated damages plus the legal fees incurred by us relating to the sale. On June 29, 2015, we provided written notice to Mr. Han informing him that he is in breach of the Agreement for failure to provide full payment before February 25, 2015 and demanding that he remit the balance of the purchase price by July 16, 2015 or, alternatively, the \$3 million in liquidated damages. Our Board is considering legal alternatives to collect the amounts owed under the Agreement. There can be no assurance if, or when, Mr. Han will be able to complete the purchase or if we can collect any judgment for liquidated damages should we obtain one.

Table of Contents**Critical Accounting Policies and Estimates**

There have been no material changes in the matters for which we make critical accounting policies and estimates in the preparation of our unaudited interim condensed consolidated financial statements for the nine months ended May 31, 2015 as compared to those disclosed in our 2014 Annual Report.

Exchange Rate Information

We are a Delaware corporation and, under SEC requirements, must report our financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP. At the same time, our subsidiaries use the local currency as their functional currency. For example, the functional currency for Taiwan SemiLEDs is the NT dollar. The assets and liabilities of the subsidiaries are, therefore, translated into U.S. dollars at exchange rates in effect at each balance sheet date, and income and expense accounts are translated at average exchange rates during the period. The resulting translation adjustments are recorded to a separate component of accumulated other comprehensive income (loss) within equity. Any gains and losses from transactions denominated in currencies other than their functional currencies are recognized in the consolidated statements of operations as a separate component of other income (expense). Due to exchange rate fluctuations, such translated amounts may vary from quarter to quarter even in circumstances where such amounts have not materially changed when denominated in their functional currencies.

The translations from NT dollars to U.S. dollars were made at the exchange rates as set forth in the statistical release of the Bank of Taiwan. On August 29, 2014, the exchange rate was 29.90 NT dollars to one U.S. dollar. On May 29, 2015, the exchange rate was 30.69 NT dollars to one U.S. dollar. On July 6, 2015, the exchange rate was 30.95 NT dollars to one U.S. dollar.

The following table sets forth, for the periods indicated, information concerning the number of NT dollars for which one U.S. dollar could be exchanged.

	Average(1)	NT dollars per U.S. dollar		Period-End
		High	Low	
Fiscal 2013	29.57	30.20	28.95	29.93
Fiscal 2014	29.94	30.60	29.36	29.90
September 2014	30.11	30.48	29.86	30.42
October 2014	30.40	30.45	30.36	30.44
November 2014	30.71	30.95	30.47	30.95
December 2014	31.41	31.79	31.04	31.65
January 2015	31.63	32.00	31.21	31.50
February 2015	31.49	31.60	31.39	31.41
March 2015	31.45	31.66	31.28	31.30
April 2015	31.02	31.30	30.48	30.62
May 2015	30.59	30.72	30.44	30.69
June 2015	30.90	31.11	30.75	30.86
July 2015 (through July 6, 2015)	30.92	30.95	30.90	30.95

(1) Annual averages calculated from month-end rates and monthly averages calculated from daily closing rates.

No representation is made that the NT dollar or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or NT dollars, as the case may be, at any particular rate or at all.

Table of Contents**Results of Operations****Three Months Ended May 31, 2015 Compared to the Three Months Ended May 31, 2014**

	Three Months Ended May 31, 2015		Three Months Ended May 31, 2014		Change \$	Change %
	\$	% of Revenues	\$ (in thousands)	% of Revenues		
LED chips	\$ 778	22%	\$ 1,196	26%	\$ (418)	(35)%
LED components	2,011	58%	1,847	40%	164	9%
Lighting products	529	15%	1,041	23%	(512)	(49)%
Other revenues	190	5%	531	11%	(341)	(64)%
Total revenues, net	3,508	100%	4,615	100%	(1,107)	(24)%
Cost of revenues	4,367	124%	7,408	161%	(3,041)	(41)%
Gross loss	\$ (859)	(24)%	\$ (2,793)	(61)%	\$ 1,934	(69)%

Revenues, net

Our revenues decreased by approximately 24% to \$3.5 million for the three months ended May 31, 2015 from \$4.6 million for the three months ended May 31, 2014. The \$1.1 million decrease in revenues reflects a \$0.4 million decrease in revenues attributable to sales of LED chips, a \$0.5 million decrease in revenues attributable to sales of lighting products, and a \$0.3 million decrease in revenues attributable to other revenues, offset by a \$0.2 million increase in sales of LED components.

Revenues attributable to the sales of our LED chips represented 22% and 26% of our revenues for the three months ended May 31, 2015 and 2014, respectively. The decrease of 35% in revenues attributable to sales of LED chips was the result of a 29% decrease in the volume of LED chips sold, primarily due to a slowdown in demand and our strategic plan to place greater emphasis on the sales of LED components rather than the sales of LED chips, and a 18% decrease in the average selling price of LED chips because of continued market downward pricing pressure. We continued to sell lower-priced LED chips primarily due to our decision to phase out and clear a significant volume of older generation inventory in our LED chips portfolio at discounted prices.

Revenues attributable to the sales of our LED components represented 58% and 40% of our revenues for the three months ended May 31, 2015 and 2014, respectively. The increase in revenues attributable to sales of LED components was mainly due to the sales from our new UV LED components product and an 8% increase in the average selling price, offset in part by a 35% decrease in the volume of LED components sold. Our strategic decision to focus on the profitable segments within the niche LED markets, particularly the UV LED product positively improved our revenues generated from the sales of new LED components products for the three months ended May 31, 2015. Furthermore,

several new LED components products launched in the first quarter of fiscal 2015 enabled us to expand our sales and distribution channels in a timely manner. The volume of LED components sold decreased primarily because of a smaller volume demand in niche LED markets and a continued slowdown in demand for a category of older generation products in our LED components portfolio and a decline in sales of a category of lower-priced LED components that we sell particularly to distributor customers.

Revenues attributable to the sales of lighting products represented 15% and 23% of our revenues for the three months ended May 31, 2015 and 2014, respectively. The decrease of the revenues attributable to the sales of lighting products was primarily due to an overall decrease in the number of units sold and a reduction in selling prices.

The decrease in other revenues, consisting primarily of revenues attributable to the sales of scrap and raw materials, and the provision of services was driven by less scrap sold for the three months ended May 31, 2015.

Cost of Revenues

Our cost of revenues decreased by 41% from \$7.4 million for the three months ended May 31, 2014 to \$4.4 million for the three months ended May 31, 2015. The decrease in cost of revenues was primarily due to lower sales volume in LED chips and components products for the three months ended May 31, 2015, and also the result of our ongoing cost reduction efforts.

Table of Contents**Gross Loss**

Our gross loss decreased from a loss of \$2.8 million for the three months ended May 31, 2014 to a loss of \$0.9 million for the three months ended May 31, 2015. Our gross margin percentage was negative 24% for the three months ended May 31, 2015, as compared to negative 61% for the three months ended May 31, 2014, as a consequence of excess capacity charges for our LED chips and LED components. Changes in product mix driven primarily by higher sales of LED components products, which have higher gross margins and the increase in the average selling price of our LED components products both contributed to the improvement of our gross loss.

Operating Expenses

	2015		Three Months Ended May 31, 2014		Change \$	Change %
	\$	% of Revenues	\$	% of Revenues		
			(in thousands)			
Research and development	\$ 594	17%	\$ 1,025	22%	\$ (431)	(42)%
Selling, general and administrative	1,621	46%	2,530	55%	(909)	(36)%
Total operating expenses	\$ 2,215	63%	\$ 3,555	77%	\$ (1,340)	(38)%

Research and development. Our research and development expenses decreased from \$1.0 million for the three months ended May 31, 2014 to \$0.6 million for the three months ended May 31, 2015. The decrease was primarily due to a \$0.1 million decrease in payroll expense as a result of lower headcount, a \$0.1 million decrease in outsourced manufacturing and a \$0.2 million decrease in materials and supplies spending on research and development activities.

Selling, general and administrative. Our selling, general and administrative expenses decreased from \$2.5 million for the three months ended May 31, 2014 to \$1.6 million for the three months ended May 31, 2015. The decrease in selling, general and administrative was mainly attributable to a \$0.4 million decrease in professional service expenses, mainly associated with legal, advisory services and other compliance fee. The decrease was also attributable to a \$0.1 million decrease in payroll expense and a \$0.4 million decrease in rent, advertising and other general and administrative expenses. We have started to realize the benefits of operating cost reductions, such as savings on lease and lower payroll expenses due to workforce reductions and normal attrition, and improvement in operational efficiencies through the consolidation of facilities.

Other Income (Expenses)

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	Three Months Ended May 31,			
	2015		2014	
	\$	% of Revenues (in thousands)	\$	% of Revenues
Equity in income (loss) from unconsolidated entities, net	\$ 40	1%	\$ (22)	(0)%
Interest expenses, net	(26)	(1)%	(23)	(0)%
Other income, net	29	1%	53	1%
Foreign currency transaction loss, net	(15)	(0)%	(81)	(2)%
Total other income (expenses), net	\$ 28	1%	\$ (73)	(2)%

Equity in income (loss) from unconsolidated entities, net. We recognized net income (loss) from our portion of the net income (loss) from SILQ, an unconsolidated entity. SILQ is still in an early stage of developing business and selling products in Malaysia and therefore, its operating results have fluctuated from quarter to quarter.

Other income, net. Our other income consists primarily of rental income from the lease back of the second floor of our Hsinchu building to the original owner, net of related depreciation charge.

Foreign currency transaction loss, net. We recognized net foreign currency transaction loss of \$15 thousand and \$81 thousand for the three months ended May 31, 2015 and 2014, respectively, primarily due to the depreciation of the U.S. dollar against the NT dollar from bank deposits and accounts receivables held by Taiwan SemiLEDs and Taiwan Bandaoti Zhaoming Co., Ltd. in currency other than the functional currency of such subsidiaries.

Table of Contents*Income Tax Expense*

Our effective tax rate is expected to be approximately zero for fiscal 2015 and was zero for fiscal 2014, since Taiwan SemiLEDs incurred losses, and because we provided a full valuation allowance on all deferred tax assets, which consisted primarily of net operating loss carryforwards and foreign investment loss.

Net Loss Attributable to Noncontrolling Interests

	2015		Three Months Ended May 31,		2014	
	\$	% of Revenues	(in thousands)	\$	% of Revenues	
Net loss attributable to noncontrolling interests	\$ (5)	(0)%	\$ (16)	(0)%		

We recognized net losses attributable to noncontrolling interests of \$5 thousand and \$16 thousand for the three months ended May 31, 2015 and 2014, respectively, which was attributable to the share of the net losses of Ning Xiang held by the remaining noncontrolling holders. Noncontrolling interests represented a 49% of equity interest in Ning Xiang since the date of acquisition, reduced to 34% beginning in April 2013, reduced to 13% beginning in November 2013, and further reduced to 7% beginning in December 2014.

Nine Months Ended May 31, 2015 Compared to the Nine Months Ended May 31, 2014

	2015		2014		Change	
	\$	% of Revenues	\$	% of Revenues	\$	%
			(in thousands)			
LED chips	\$ 2,022	18%	\$ 4,288	35%	\$ (2,266)	(53)%
LED components	6,771	62%	4,294	36%	2,477	58%
Lighting products	1,765	16%	2,972	24%	(1,207)	(41)%
Other revenues	444	4%	649	5%	(205)	(32)%
Total revenues, net	11,002	100%	12,203	100%	(1,201)	(10)%
Cost of revenues	14,055	128%	20,470	168%	(6,415)	(31)%
Gross loss	\$ (3,053)	(28)%	\$ (8,267)	(68)%	\$ 5,214	(63)%

Revenues, net

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Our revenues decreased by approximately 10% from \$12.2 million for the nine months ended May 31, 2014 to \$11.0 million for the nine months ended May 31, 2015. The \$1.2 million decrease in revenues reflects a \$2.3 million decrease in revenues attributable to sales of LED chips, a \$1.2 million decrease in revenues attributable to sales of lighting products and a \$0.2 million decrease in revenues attributable to other revenues, offset by a \$2.5 million increase in sales of LED components.

Revenues attributable to the sales of our LED chips represented 18% and 35% of our revenues for the nine months ended May 31, 2015 and 2014, respectively. For the nine months ended May 31, 2015, we continued to sell a significant volume of a category of lower-priced LED chips. Other than the lower-priced LED chips, the average selling price of our normal LED chips was 23% lower as compared to the nine months ended May 31, 2014. The volume of our normal LED chips sold for the nine months ended May 31, 2015 was 9% lower than for the nine months ended May 31, 2014, because we placed greater emphasis on the sales of LED components rather than the sales of LED chips where we have been forced to cut prices on older inventory, as discussed above.

Revenues attributable to the sales of our LED components represented 62% and 36% of our revenues for the nine months ended May 31, 2015 and 2014, respectively. The increase in revenues attributable to sales of LED components was mainly due to the sales from our new UV LED components product, offset in part by a 32% decrease in the volume of LED components sold. We launched several new LED components products in the first quarter of fiscal 2015 and were able to expand our sales and distribution channels in a timely manner, which positively improved our revenues generated from the sales of LED components for the nine months ended May 31, 2015. The volume of LED components sold decreased primarily due to a continued slowdown in demand for a category of older generation products in our LED components portfolio and a decline in sales of a category of lower-priced LED components that we sell particularly to distributor customers.

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Revenues attributable to the sales of lighting products represented 16% and 24% of our revenues for the nine months ended May 31, 2015 and 2014, respectively. Revenues attributable to the sales of lighting products was higher for the nine months ended May 31, 2014 primarily due to several non-recurring project-based orders for LED lights products.

Other revenues for the nine months ended May 31, 2015 and 2014 consisted primarily of revenues attributable to the sales of scrap and raw materials, and the provision of services.

Cost of Revenues

Our cost of revenues decreased by 31% from \$20.5 million for the nine months ended May 31, 2014 to \$14.1 million for the nine months ended May 31, 2015. The decrease in cost of revenues was primarily due to lower sales for the nine months ended May 31, 2015 as a result of lower sales volume for our LED chips and LED components. Inventory write-downs decreased from \$1.6 million for the nine months ended May 31, 2014 to \$1.2 million for the nine months ended May 31, 2015.

Gross Loss

Our gross loss decreased from a loss of \$8.3 million for the nine months ended May 31, 2014 to a loss of \$3.1 million for the nine months ended May 31, 2015. Our gross margin percentage was negative 28% for the nine months ended May 31, 2015, as compared to negative 68% for the nine months ended May 31, 2014, as a consequence of excess capacity charges for our LED chips and LED components. Although factory utilization remained low for the nine months ended May 31, 2015, our gross loss decreased as a result of the increase in the average selling price of LED components.

Operating Expenses

	2015		2014		Change \$	Change %
	\$	% of Revenues	\$	% of Revenues		
	(in thousands)					
Research and development	\$ 1,954	18%	\$ 3,370	28%	\$ (1,416)	(42)%
Selling, general and administrative	5,648	51%	7,437	61%	(1,789)	(24)%
Gain on disposal of long-lived assets, net	(287)	(3)%			(287)	
Total operating expenses	\$ 7,315	66%	\$ 10,807	89%	\$ (3,492)	(32)%

Research and development. Our research and development expenses decreased from \$3.4 million for the nine months ended May 31, 2014 to \$2.0 million for the nine months ended May 31, 2015. The decrease was primarily due to a \$0.5 million decrease in payroll expense, consisting primarily of employee salaries and related compensation costs, as a result of lower headcount, a \$0.2 million decrease in outsourced manufacturing and a \$0.7 million decrease in materials and supplies used in research and development.

Selling, general and administrative. Our selling, general and administrative expenses decreased from \$7.4 million for the nine months ended May 31, 2014 to \$5.6 million for the nine months ended May 31, 2015. The decrease was mainly attributable to a \$0.4 million decrease in payroll expense and a \$0.8 million decrease in rent, advertising and other general and administrative expenses. We have started to realize the benefits of operating cost reductions, such as savings on lease and lower payroll expenses due to workforce reductions and normal attrition, and improvement in operational efficiencies through the consolidation of facilities. The decrease in selling, general and administrative was also attributable to a \$0.6 million decrease in professional service expenses, mainly legal and advisory services.

Gain on Disposal of Long-Lived Assets. We recognized a gain of \$0.3 million, net on the disposal of long-lived assets for the nine months ended May 31, 2015. Due to the excess capacity charges that we have suffered for a few years, considering the risk of technological obsolescence and according to the production plan built based on our sales forecast, we disposed of a certain level of our idle equipment.

Table of Contents**Other Income (Expenses)**

	2015		Nine Months Ended May 31,		2014	
	\$	% of Revenues	(in thousands)	\$	% of Revenues	
Equity in losses from unconsolidated entities, net	\$ (16)	(0)%	\$ (152)	(1)%		
Interest expenses, net	(74)	(1)%	(61)	(0)%		
Other income, net	88	1%	159	1%		
Foreign currency transaction gain (loss), net	49	0%	(71)	(1)%		
Total other income (expenses), net	\$ 47	0%	\$ (125)	(1)%		

Equity in losses from unconsolidated entities, net. We recognized net losses from our portion of the net losses from SILQ, an unconsolidated entity. SILQ is still in an early stage of developing business and selling products in Malaysia and therefore, its operating results have fluctuated from quarter to quarter.

Other income, net. Our other income consists primarily of rental income from the lease back of the second floor of our Hsinchu building to the original owner, net of related depreciation charge.

Foreign currency transaction gain (loss), net. We recognized a net foreign currency transaction gain of \$49 thousand for the nine months ended May 31, 2015, primarily due to the appreciation of the U.S. dollar against the NT dollar during the first quarter of fiscal 2015 from bank deposits held by Taiwan SemiLEDs in currency other than the functional currency of such subsidiary, as compared to a net foreign currency transaction loss of \$71 thousand for the nine months ended May 31, 2014 due to the depreciation of the U.S. dollar against the NT dollar from bank deposits held by Taiwan SemiLEDs in currency other than the functional currency of such subsidiary.

Income Tax Expense

	2015		Nine Months Ended May 31,		2014	
	\$	% of Revenues	(in thousands)	\$	% of Revenues	
Income tax expense	\$ 1	0%	\$			

Despite a loss before income taxes, we recognized income tax expense of \$1 thousand for the nine months ended May 31, 2015 for a subsidiary in Taiwan, which is subject to an additional 10% tax on distributable retained earnings (after statutory legal reserves) to the extent that such earnings are not distributed prior to the end of the subsequent year. This undistributed earnings surtax is determined in the subsequent year when the distribution plan relating to earnings attributable to the prior year is approved by a company's stockholders and is payable in the subsequent

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year. Our effective tax rate is expected to be approximately zero for fiscal 2015, since Taiwan SemiLEDs incurred losses, and because we provided a full valuation allowance on all deferred tax assets, which consisted primarily of net operating loss carryforwards and foreign investment loss. Subsidiaries in Taiwan file their income tax returns separately.

Although we incurred a loss before income taxes for the nine months ended May 31, 2014, we did not recognize any related income tax benefits. Our effective tax rate was zero for fiscal 2014, since Taiwan SemiLEDs, our primary operating subsidiary, incurred losses, and because we provided a full valuation allowance on all deferred tax assets, which consisted primarily of net operating loss carryforwards and foreign investment loss. Subsidiaries in Taiwan file their income tax returns separately.

Table of Contents*Net Loss Attributable to Noncontrolling Interests*

	2015		Nine Months Ended May 31,		2014	
	\$	% of	\$	% of	\$	% of
		Revenues		Revenues		Revenues
		(in thousands)				
Net loss attributable to noncontrolling interests	\$	(48)	(0)%	\$	(93)	(1)%

We recognized net losses attributable to noncontrolling interests of \$48 thousand and \$93 thousand for the nine months ended May 31, 2015 and 2014, respectively, which were attributable to the share of the net losses of Ning Xiang held by the remaining noncontrolling holders. Noncontrolling interests represented a 49% of equity interest in Ning Xiang since the date of acquisition, reduced to 34% beginning in April 2013, reduced to 13% beginning in November 2013, and further reduced to 7% beginning in December 2014.

Liquidity and Capital Resources

From our inception through the completion of our initial public offering in December 2010, we substantially satisfied our capital and liquidity needs from private sales of our convertible preferred stock and, to a lesser extent, from cash flow from operations, bank borrowings and credit lines. As a result of our initial public offering, we received net proceeds of \$92.0 million, after deducting underwriting discounts and commissions of \$7.2 million and offering-related expenses of \$3.5 million. As of May 31, 2015 and August 31, 2014, we had cash and cash equivalents of \$6.0 million and \$12.6 million, respectively, which were predominately held in U.S. dollar denominated demand deposits and/or money market funds.

We had a one-year NT dollar denominated revolving credit facility entered into by our majority owned subsidiary providing for approximately \$1.0 million expired in March 2015. There was no outstanding amount under the credit facility as of both the expiration date and August 31, 2014. As of July 10, 2015, we had not renewed the \$1.0 million credit facility and are in discussions to negotiate new line of credit facilities with several financial institutions. We expect to utilize any new operating lines of credit, if any, with banks to fulfill our short-term financing needs, if necessary.

Our long-term debt, which consisted of NT dollar denominated long-term notes, totaled \$4.6 million and \$6.2 million as of May 31, 2015 and August 31, 2014, respectively. These long-term notes carry variable interest rates, based on the annual time deposit rate plus a specific spread, which ranged from 1.9% to 2.0% per annum as of both May 31, 2015 and August 31, 2014, are payable in monthly installments, and are secured by our property, plant and equipment. These long-term notes do not have prepayment penalties or balloon payments upon maturity.

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- The first note payable requires monthly payments of principal and interest in the amount of \$13 thousand over the 15-year term of the note with final payment to occur in May 2024 and, as of May 31, 2015, our outstanding balance on this note payable was approximately \$1.3 million.
- As of May 31, 2015, we had no amount outstanding under the second and the third note payables.
- The fourth note payable requires monthly payments of principal and interest in the amount of \$18 thousand over the 15-year term of the note with final payment to occur in December 2025 and, as of May 31, 2015, our outstanding balance on this note payable was approximately \$2.1 million.
- The fifth note payable requires monthly payments of principal and interest in the amount of \$112 thousand over the three-year term of the note with final payment to occur in July 2016 and, as of May 31, 2015, our outstanding balance on this note payable was approximately \$1.2 million.

Property, plant and equipment pledged as collateral for our notes payable were \$7.7 million and \$8.9 million as of May 31, 2015 and August 31, 2014, respectively.

We have incurred significant losses since inception. We have suffered losses from operations of \$24.8 million and \$42.7 million, gross losses on product sales of \$11.3 million and \$14.7 million, and net cash used in operating activities of \$15.7 million and \$14.5 million for the years ended August 31, 2014 and 2013, respectively. Loss from operations for the three and nine months ended May 31, 2015 were \$3.1 million and \$10.4 million, respectively. Gross loss on product sales for the three and nine months ended May 31, 2015 were \$0.9 million and \$3.1 million, respectively. Net cash used in operating activities for the nine months ended May 31, 2015 was \$3.9 million. Further, at May 31, 2015, the Company's cash and cash equivalents is down to \$6.0 million. These facts and conditions raise substantial doubt about the Company's ability to continue as a going concern. However, our management believes that it has developed a liquidity plan, as summarized below, that, if executed successfully, should provide sufficient liquidity to meet the Company's obligations as they become due for a reasonable period of time, and allow the development of its core business.

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- Improve operating cash flows through cost reductions and the sales of new higher margin products. Management has implemented cost reductions that include the closing and relocation of the manufacturing operations at the Company's Sinwu facility, the consolidation of the Company's facilities, and workforce reductions, and executives taking a salary reduction until the Company returns to profitability. The commercial sales of its UV LED product with a leading cosmetic manufacturer are expected to continue to improve the Company's future gross margin, operating results and cash flows. We are making progress towards scaling sales of our UV LED products and are focused on product enhancement and developing our UV LED into many other applications or devices.
- Reduce planned capital expenditures and reduce research and development expenditure expenses. Management continues to monitor prices and, consistent with its existing contractual commitments, may decrease its activity level and capital expenditures further. This plan reflects its strategy of controlling capital costs and maintaining financial flexibility.
- Obtain new operating lines of credit facilities from several financial institutions and utilize any available lines of credit to fulfill our short-term financing needs, if necessary.
- Raise additional cash through further equity offerings, sales of assets and/or issuance of debt as considered necessary.

While our management believes that the measures described in the above liquidity plan will be adequate to satisfy its liquidity requirements for the twelve months ending May 31, 2016, there is no assurance that the liquidity plan will be successfully implemented. Failure to successfully implement the liquidity plan may have a material adverse effect on its business, results of operations and financial position, and may adversely affect its ability to continue as a going concern. These unaudited interim condensed consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded assets or the amounts and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern.

Cash Flows

The following summary of our cash flows for the periods indicated has been derived from our unaudited interim condensed consolidated financial statements, which are included elsewhere in this Quarterly Report (in thousands):

	Nine Months Ended May 31,	
	2015	2014
Net cash used in operating activities	\$ (3,928)	\$ (13,767)
Net cash used in investing activities	\$ (957)	\$ (4,551)
Net cash used in financing activities	\$ (1,453)	\$ (1,901)

Cash Flows Used In Operating Activities

Net cash used in operating activities for the nine months ended May 31, 2015 and 2014 was \$3.9 million and \$13.8 million, respectively. Cash used in operating activities for the nine months ended May 31, 2015 was \$9.9 million lower, primarily due to the decrease in cash used to pay for salary-related expenses due to the reduction of employees engaged in manufacturing activities as we downsized our manufacturing operations and the termination of employment of several senior employees and executives during fiscal 2014. In addition, a decrease in cash used to pay for materials and supplies used in production and research and development efforts reflecting better inventory control and management and the effect of cost reduction. These decreases were partially offset by the timing of collection of cash received from one of our major customers which was collected in June 2015.

Cash Flows Used In Investing Activities

Net cash used in investing activities for the nine months ended May 31, 2015 was \$1.0 million, consisting primarily the purchases of \$1.3 million in property, plant and equipment representing mainly the purchases of machinery and equipment and payments for leasehold improvements, offset by decrease in restricted cash.

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Net cash used in investing activities for the nine months ended May 31, 2014 was \$4.6 million, consisting primarily of the final payment of \$2.1 million for the LED components production line we acquired in July 2013, the purchases of \$1.9 million in property, plant and equipment representing primarily the purchases of machinery and equipment and payments for the build out of our manufacturing facility and leasehold improvements, the payments for development of intangible assets of \$0.3 million, our investments in SILQ of \$0.2 million, the placements of \$0.1 million in restricted time deposits, primarily for a government sponsored research and development project, and cash used in other investing activities of \$0.1 million, mainly for the placements of refundable deposits for leased properties. These were offset in part by proceeds from the partial sale of our investment in SILQ of \$0.1 million.

Cash Flows Used In Financing Activities

Net cash used in financing activities for the nine months ended May 31, 2015 was the payment on long-term debt.

Net cash used in financing activities for the nine months ended May 31, 2014 was \$1.9 million, consisting primarily of payments on long-term debt of \$1.7 million, payments on lines of credit of \$0.2 million and payments of loan from related party of \$0.2 million, offset in part by proceeds from the draw down on lines of credit of \$0.2 million.

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Capital Expenditures

We had capital expenditures of \$1.3 million and \$1.9 million for the nine months May 31, 2015 and 2014, respectively. Our capital expenditures consisted primarily of the purchases of machinery and equipment, construction in progress, prepayments for our manufacturing facilities and prepayments for equipment purchases. We expect to continue investing in capital expenditures in the future as we expand our business operations and invest in such expansion of our production capacity as we deem appropriate under market conditions and customer demand. However, in response to controlling capital costs and maintaining financial flexibility, our management continues to monitor prices and, consistent with its existing contractual commitments, may decrease its activity level and capital expenditures as appropriate.

Off-Balance Sheet Arrangements

As of May 31, 2015, we did not engage in any off-balance sheet arrangements. We do not have any interests in variable interest entities.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

Our management, with the participation of our chief executive officer, or CEO, and our chief financial officer, or CFO, has evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of May 31, 2015. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based upon the aforementioned evaluation, our CEO and CFO have concluded that, as of May 31, 2015, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information required to be disclosed in our

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Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended May 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

Due to the complex technology required to compete successfully in the LED industry, participants in our industry are often engaged in significant intellectual property licensing arrangements, negotiations, disputes and litigation. We are directly or indirectly involved from time to time and may be named in various other claims or legal proceedings arising in the ordinary course of our business or otherwise.

There were no material pending legal proceedings and claims as of May 31, 2015.

Item 1A. Risk Factors

Except for the following, there are no material changes related to risk factors from the risk factors described in Item 1A Risk Factors in Part I of our 2014 Annual Report.

We may be unable to close our pending private placement or collect any liquidated damages that we may be entitled to if the buyer fails to purchase the shares, which could impact our ability to continue as a going concern.

We entered into a definitive common stock purchase agreement effective December 18, 2014 with Mr. Xiaoqing Han, the Chairman and CEO of Beijing Xiaoqing Environmental Protection Group. The transaction has not closed due to Mr. Han's difficulty in transferring funds from China. To date, we have only received approximately \$261,000 of the \$5 million purchase price. Pursuant to the terms of the agreement, if Mr. Han did not purchase the shares before February 25, 2015, then, upon our written request, he is required to pay us \$3 million in liquidated damages, plus the legal fees incurred by us. On June 29, 2015, we provided written notice to Mr. Han informing him that he is in breach of the Agreement for failure to provide full payment before February 25, 2015 and demanding that he remit the balance of the purchase price by July 16, 2015 or, alternatively, the \$3 million in liquidated damages. Our Board is considering legal alternatives to collect the amounts owed under the Agreement. There can be no assurance that Mr. Han will be able to transfer the funds needed to complete the purchase. Similarly, if the sale does not close and we obtain a judgment for the \$3 million in liquidated damages, we may be unable to collect any judgment in China or elsewhere. The failure to complete the sale or collect any liquidated damages would impact the viability of our liquidity plan and our ability to continue as a going concern.

We have incurred net losses in recent periods and may require additional financing.

We incurred net losses attributable to SemiLEDs stockholders of \$24.5 million and \$43.7 million for the years ended August 31, 2014 and 2013, respectively and \$10.3 million for the nine months ended May 31, 2015. We can give no assurance that we will not incur net losses in future periods. Our revenue and operating results may continue to decline for a variety of reasons, some of which are described elsewhere in Item 1A Risk Factors in Part I of our 2014 Annual Report. As of May 31, 2015, we had an accumulated deficit of \$143.0 million and net cash balances had declined to only \$6.0 million. These facts and conditions raise doubt about our ability to continue as a going concern. However, our management believes it has developed a liquidity plan, as further described in elsewhere in this Quarterly Report that if executed successfully, should provide sufficient liquidity to meet our obligations as they become due for a reasonable period of time. While we believe that these liquidity plan measures will be adequate to satisfy our liquidity requirements for the twelve months ending May 31, 2016, there is no assurance that the liquidity plan will be successfully implemented. Failure to successfully implement the liquidity plan may have a material adverse effect on our business, results of operations and financial position, and may adversely affect our ability to continue as a going concern. If we do not become consistently profitable, our accumulated deficit will grow larger and our cash balances will decline further, and we will require additional financing to continue operations. If we do not become consistently profitable and additional funding is required to support our business, financing may not be accessible on acceptable terms, if at all. If we cannot generate sufficient cash or obtain additional financing, we may be required to downsize our business further or discontinue our operations altogether.

We may undertake joint ventures, investments, acquisitions, joint projects and other strategic alliances and such undertakings, as well as our existing joint ventures, may be unsuccessful and may have an adverse effect on our business.

We have grown our business in part through strategic alliances and acquisitions. We continually evaluate and explore strategic opportunities as they arise, including product, technology, business or asset transactions, such as acquisitions or divestitures. For example, we formed China SemiLEDs in January 2010 to focus on the growing market in China; we acquired Silicon Base Development, Inc., or SBDI, in April 2010 to process LED chips into LED components; in August 2011, we acquired 51% equity interest in Ning Xiang and increased the ownership to total of 93% by December 2014, among other things, to assist with market intelligence; and in July 2013, we acquired an additional LED components production line to expand our LED components production and research and development capabilities, and broaden our LED components portfolio. As we experienced with China SemiLEDs, such undertakings may not be successful or may take a substantially longer period than initially expected to become successful, and we may never recover our investments or achieve desired synergies or economies from these undertakings.

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This notwithstanding, we may in the future continue to seek to grow our operations in part by entering into joint ventures, undertaking acquisitions or establishing other strategic alliances with third parties in the LED and LED-related industries. These activities involve challenges and risks in negotiation, execution, valuation and integration, and closing of the transactions could be delayed or prevented by regulatory approval requirements, including antitrust review, or other conditions.

Our existing joint ventures and acquisitions and any future agreements that we may enter into also could expose us to new operational, regulatory, market, litigation and geographical risks as well as risks associated with significant capital requirements, the diversion of management and financial resources, unforeseen operating difficulties and expenditures, sharing of proprietary information, loss of control over day-to-day operations, non-performance by a counterparty and potential competition and conflicts of interest. In addition, we may not be successful in finding suitable targets on terms that are favorable to us, or at all. Even if successfully negotiated and closed, expected synergies from a joint venture, acquisition or other strategic alliance may not materialize or may not advance our business strategy, may fall short of expected return-on-investment targets or may not prove successful or effective for our business. We may also encounter difficulty integrating the operations, personnel and financial and operating systems of an acquired business into our current business.

We may need to raise additional debt funding or sell additional equity securities to enter into such joint ventures or make such acquisitions. However, we may not be able to obtain such debt funding or sell equity securities on terms that are favorable to us, or at all. The raising of additional debt funding by us, if required and available, would result in increased debt service obligations and could result in additional operating and financing covenants, or liens on our assets, that would restrict our operations. The sale of additional equity securities, if required and available, could result in dilution to our stockholders.

We are also exposed to liquidity risk in the event of non-performance by the counterparty to the definitive common stock purchase agreement.

We derive a significant portion of our revenues from a limited number of customers, including distributor customers, and generally do not enter into long-term customer contracts. The loss of, or a significant reduction in purchases by, one or more of these customers, or the failure by one of these customers to pay, could adversely affect our operating results and financial condition.

We have historically derived a significant portion of our revenues from a limited number of customers, including distributor customers. Our top ten customers collectively accounted for 45% of our revenues for the year ended August 31, 2014, and 61% for the nine months ended May 31, 2015. Some of our largest customers and what we produce/have produced for them have changed from quarter to quarter primarily as a result of the timing of discrete, large project-based purchases and broadening customer base, among other things. For the year ended August 31, 2014, sales to our three largest customers, in the aggregate, accounted for 26%, and 37% for the nine months ended May 31, 2015.

The sales cycle from initial contact to confirmed orders with our customers is typically long and unpredictable. We typically enter into individual purchase orders with large customers, which can be altered, reduced or cancelled with little or no notice to us. We do not generally

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enter into long-term commitment contracts with our customers. As such, these customers may alter their purchasing behavior and reduce or cancel orders with little or no notice to us. Consequently, any one of the following events may cause material fluctuations or declines in our revenues:

- reduction, delay or cancellation of orders from one or more of our major customers;
- loss of one or more of our major customers and our failure to identify additional or replacement customers; and
- failure of any of our major customers to make timely payment for our products.

Our ongoing cost and capital expenditure reduction efforts may not be effective, might have unintended consequences, and could negatively impact our business.

Beginning in our fiscal 2014, we initiated actions to accelerate operating cost reductions and improve operational efficiencies in response to changes in the economic environment, our industry and demand. In addition, to provide sufficient liquidity to meet our obligations as they become due for a reasonable period of time, one of the liquidity plans that we developed in December 2014 is to reduce planned capital expenditures. In connection with the implementation of our cost and capital expenditure reduction programs, we developed a strategic plan to address areas of business where we see the best opportunity for the most profitable sales of our LED products, which includes primarily a focus on the UV LED market segment, de-emphasizing LED chips sales (but placing a greater emphasis on the sale of LED components) in selected markets where pricing pressure is significant, and pursuing new market opportunities that leverage our core competencies. We continue to monitor prices and, consistent with our existing contractual commitments, may decrease our activity level and capital expenditures further. This plan reflects our strategy of controlling capital costs and maintaining financial flexibility. Furthermore, in January 2015, the non-employee director adopted a new cash compensation program and in March 2015, our executives have taken a salary reduction until the Company returns to profitability.

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Despite our planning, some cost-cutting and capital expenditure reduction measures could have unexpected negative consequences. As part of our ongoing cost reduction efforts, we may reduce our work force further and experience additional attrition, which may expose us to legal claims against us and loss of necessary human resources. If we face costly employee or contract termination claims, our operations and prospects could be harmed. Furthermore, capital expenditure reduction could adversely impact our future sales. While our cost and capital expenditure reduction efforts reduced, or are expected to reduce, our operating costs as well as capital expenditure, we cannot be certain that all efforts will be successful or that we will not be required to implement additional actions to structure our business to operate in a cost-effective manner in the future.

We may fail to qualify for continued listing on NASDAQ which could make it more difficult for investors to sell their shares.

In December 2010, our common stock was approved for listing on The NASDAQ Global Select Market and continues to be listed on The NASDAQ Global Select Market. To maintain that listing, we must satisfy the continued listing requirements of NASDAQ for inclusion in the Global Select Market, including among other things, a minimum stockholders' equity of \$10.0 million, a minimum bid price for our common stock of \$1.00 per share, that a majority of the members of our board of directors are independent under the NASDAQ Listing Rules and that our audit committee consist of three independent directors who satisfy additional requirements under the Exchange Act. On March 3, 2015, Jack Lau notified our Board of Directors of his decision not to stand for reelection to the Board of Directors at our 2015 Annual Meeting of Shareholders (the Annual Meeting). Therefore, his term as director expired at the Annual Meeting held on May 7, 2015. While our Board of Directors appointed Mr. Arthur H. del Prado and Dr. Edward Hsieh to serve on the audit committee on that date, one vacancy remained and continues to exist. In accordance with NASDAQ Listing Rule 5605(c)(4)(B), we have been provided a cure period until the earlier of our next annual meeting of stockholders or May 7, 2016, to regain compliance with the audit committee requirements. If we do not regain compliance with the audit committee requirements prior to the earlier of our next annual meeting of stockholders or May 7, 2016, NASDAQ will notify us that our common stock will be delisted. Furthermore, on March 18, 2015, the closing minimum bid price of our common stock dropped below \$1.00. On April 30, 2015, we received a letter from The NASDAQ Stock Market notifying us that we were not in compliance with the minimum bid price requirement set forth in NASDAQ Listing Rule 5450(a)(1) for continued listing on the NASDAQ Global Select Market. The NASDAQ Listing Rules require listed securities to maintain a minimum bid price of \$1.00 per share and, due to our common stock having traded for 30 consecutive business days below the minimum closing bid price requirement, we no longer met that requirement at that time. In accordance with NASDAQ Listing Rule 5810(c)(3)(A), we were provided a cure period until October 27, 2015, to regain compliance with NASDAQ Listing Rule 5450(a)(1). To regain compliance, our common stock is required to have a closing bid price of at least \$1.00 for a minimum of 10 consecutive business days.

We intend to appoint a replacement director for the vacancy on the Audit Committee and are evaluating various alternative courses of action to regain compliance with the NASDAQ minimum bid price requirement. There can be no assurance that we will be able to implement our plan, regain and maintain compliance with the continued listing requirements or that our common stock will not be delisted from NASDAQ in the future. If our common stock is delisted by NASDAQ, we expect prices for our common stock to be quoted on the Pink Sheets LLC or the OTC Bulletin Board. Under such circumstances, stockholders may find it more difficult to sell, or to obtain accurate quotations, for our common stock, and our common stock would become substantially less attractive to certain purchasers such as financial institutions, hedge funds and other similar investors. There is no assurance, however, that prices for our common stock would be quoted on one of these other trading systems or that an active trading market for our common stock would thereafter exist, which would materially and adversely impact the market value of our common stock.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

None.

Repurchases

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

See Index to Exhibits at end of report.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SEMILEDs CORPORATION
(Registrant)

Dated: July 10, 2015

By:
Name:
Title:

/s/ Christopher Lee
Christopher Lee
Interim Chief Financial Officer
(Principal Financial Officer and Principal
Accounting Officer)

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INDEX TO EXHIBITS

Exhibit No.	Description
31.1	Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document