SemiLEDs Corp
Form 10-Q
January 13, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended November 30, 2016

or

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

For the transition period from to

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

+886-37-586788

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 3,517,290 shares of common stock, par value $0.0000056 per share, outstanding as of January 9, 2017.

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SEMILEDS CORPORATION

FORM 10-Q for the Quarter Ended November 30, 2016

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

SEMILEDS CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

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

	November 30, 2016 (Unaudited)	August 31, 2016 (Audited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 4,827	$ 6,030
Accounts receivable (including related parties), net of allowance for doubtful accounts of $735 and $746 as of November 30, 2016 and August 31, 2016, respectively	1,526	900
Inventories	3,777	4,067
Prepaid expenses and other current assets	788	640
Total current assets	10,918	11,637
Property, plant and equipment, net	8,451	8,813
Intangible assets, net	60	44
Investments in unconsolidated entities	1,314	1,368
Other assets	354	373
TOTAL ASSETS	$ 21,097	$ 22,235
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current installments of long-term debt	$ 313	$ 314
Accounts payable	1,184	1,326
Advance receipt toward the convertible note	500	500
Accrued expenses and other current liabilities	2,496	2,761
Total current liabilities	4,493	4,901
Long-term debt, excluding current installments	2,504	2,595
Other liability	3,083	3,097
Total liabilities	10,080	10,593
Commitments and contingencies (Note 5)		
EQUITY:		
SemiLEDs stockholders' equity		
Common stock, $0.0000056 par value—75,000 shares authorized; 3,517 shares issued and outstanding	—	—

Additional paid-in capital	175,467	175,384
Accumulated other comprehensive income	3,385	3,398
Accumulated deficit	(167,869)	(167,179)
Total SemiLEDs stockholders' equity	10,983	11,603
Noncontrolling interests	34	39
Total equity	11,017	11,642
TOTAL LIABILITIES AND EQUITY	$ 21,097	$ 22,235

See notes to unaudited condensed consolidated financial statements.

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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 November 30,	
	2016	2015
Revenues, net	$ 2,702	$ 2,963
Cost of revenues	2,586	4,407
Gross profit (loss)	116	(1,444)
Operating expenses:		
Research and development	199	601
Selling, general and administrative	1,100	1,087
Gain on disposals of long-lived assets	(80)	—
Total operating expenses	1,219	1,688
Loss from operations	(1,103)	(3,132)
Other income (expenses):		
Equity in loss from unconsolidated entities	(9)	(8)
Interest expenses, net	(9)	(16)
Other income, net	476	26
Foreign currency transaction loss, net	(51)	(185)
Total other income (expenses), net	407	(183)
Loss before income taxes	(696)	(3,315)
Income tax expense	—	—
Net loss	(696)	(3,315)
Less: Net loss attributable to noncontrolling interests	(6)	(3)
Net loss attributable to SemiLEDs stockholders	$ (690)	$ (3,312)
Net loss per share attributable to SemiLEDs stockholders:		
Basic and diluted	$ (0.20)	$ (1.14)
Shares used in computing net loss per share attributable to SemiLEDs stockholders:		
Basic and diluted	3,518	2,906

See notes to unaudited condensed consolidated financial statements.

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SEMILEDS CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Comprehensive Loss

(In thousands of U.S. dollars)

	Three Months Ended November 30,			
	2016		2015	
Net loss	$	(696)	$	(3,315)
Other comprehensive loss, net of tax:				
Foreign currency translation adjustments, net of tax of $0 for both periods		(12)		(64)
Comprehensive loss	$	(708)	$	(3,379)
Comprehensive loss attributable to noncontrolling interests	$	(5)	$	(3)
Comprehensive loss attributable to SemiLEDs stockholders	$	(703)	$	(3,376)

See notes to unaudited condensed consolidated financial statements.

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SEMILEDS CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidated Statement of Changes in Equity

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

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total SemiLEDs Stockholders' Equity	Non-Controlling Interests	Total Equity
BALANCE—September 1, 2016	3,517	$ —	$ 175,384	$ 3,398	$ (167,179)	$ 11,603	$ 39	$ 11,642
Stock-based compensation	—	—	83	—	—	83	—	83
Comprehensive loss:								
Other comprehensive income (loss)	—	—	—	(13)	—	(13)	1	(12)
Net loss	—	—	—	—	(690)	(690)	(6)	(696)
BALANCE—November 30, 2016	3,517	$ —	$ 175,467	$ 3,385	$ (167,869)	$ 10,983	$ 34	$ 11,017

See notes to unaudited condensed consolidated financial statements.

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SEMILEDS CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Cash Flows

(In thousands of U.S. dollars)

	Three Months Ended November 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (696)	$ (3,315)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	335	1,316
Stock-based compensation expense	83	42
Provisions for inventory write-downs	196	452
Equity in loss from unconsolidated entities	9	8
Gain on disposals of long-lived assets	(80)	—
Changes in :		
Accounts receivable, net	(635)	50
Inventories	69	269
Prepaid expenses and other	(73)	(146)
Accounts payable	(79)	371
Accrued expenses and other current liabilities	(250)	390
Net cash used in operating activities	(1,121)	(563)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(68)	(341)
Payments for development of intangible assets	(1)	(20)
Proceeds from sale of investment	41	—
Net cash used in investing activities	(28)	(361)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of long-term debt	(79)	(437)
Net cash used in financing activities	(79)	(437)
Effect of exchange rate changes on cash and cash equivalents	25	22
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,203)	(1,339)
CASH AND CASH EQUIVALENTS—Beginning of period	6,030	4,808
CASH AND CASH EQUIVALENTS—End of period	$ 4,827	$ 3,469
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Accrual related to property, plant and equipment	$ 199	$ 260

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 components, as well as LED chips and lighting products. LED components have become the most important part of its 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 November 30, 2016, SemiLEDs had six wholly owned subsidiaries and a 93% equity interest in Ning Xiang Technology Co., Ltd. ("Ning Xiang"). SemiLEDs Optoelectronics Co., Ltd., or Taiwan SemiLEDs, is the Company's wholly owned operating subsidiary, where a substantial portion of our assets is held and located, and where a portion of our research, development, manufacturing and sales activities take place. 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, manufacturing and a substantial portion of marketing and sale of LED components, and where most of the Company's employees are based.

SemiLEDs' common stock began trading on the NASDAQ Global Select Market under the symbol "LEDS" on December 8, 2010 and was transferred to the NASDAQ Capital Market effective November 5, 2015 where it continues to trade under the same symbol.

2. Summary of Significant Accounting Policies

Basis of Presentation—The Company's unaudited interim condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and applicable provisions of the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") regarding interim financial reporting. Certain information and disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted as permitted by the rules and regulations of the SEC. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K filed with the SEC on November 21, 2016. The unaudited condensed consolidated balance sheet as of August 31, 2016 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 November 30, 2016, the statements of operations and comprehensive loss for the three months ended November 30, 2016 and 2015, the statement of changes in equity for the three months ended November 30, 2016, and the statements of cash flows for the three months ended November 30, 2016 and 2015. The results for the three months ended November 30, 2016 are not necessarily indicative of the results to be expected for the year ending August 31, 2017.

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 suffered losses from operations of $20.6 million and $13.3 million, gross losses on product sales of $4.9 million and $4.1 million, and net cash used in operating activities of $3.4 million and $4.5 million for the years ended August 31, 2016 and 2015, respectively. Loss from operations and net cash used in operating activities for the three

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months ended November 30, 2016 were both $1.1 million. Further, at November 30, 2016, the Company's cash and cash equivalents was down to $4.8 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.

· The Company entered into a definitive purchase agreement effective July 6, 2016 with Dr. Peter Chiou, which was assigned to Well Thrive Limited ("Well Thrive") on August 4, 2016. Pursuant to the agreement, Well Thrive purchased 577 thousand newly issued shares of common stock of the Company for $2,885 thousand on August 23, 2016. Well Thrive also agreed to subscribe to a $1,615 thousand SemiLEDs Corporation's 0% interest convertible note (the "Note") with a September 29, 2017 maturity date. Subject to shareholder approval at the Company's next shareholders meeting, the Note would be convertible, at the Company's option, into a number of shares of the Company's common stock equal to the quotient obtained by dividing (x) $1,615,000 by (y) the conversion price, which is equal to the lesser of $3.40 or the 5-trading day volume weighted average price of the common stock on the NASDAQ Stock Market ending on the maturity date. However, the issuance of the Note is currently pending subject to receipt of the entire Note purchase price. The Company has received a $500 thousand advance on the total $1,615 thousand Note amount as of November 30, 2016. The Company has recognized a related current liability in its consolidated balance sheet as of November 30, 2016. On December 16, 2016, the Company provided notice to Well Thrive that it intends to retain the $500 thousand as liquidated damages if it does not remit the balance of the purchase price for the Note by January 7, 2017. On January 6, 2017, Well Thrive informed the Company that it was not prepared to complete the purchase of the Note at this time and demanded the return of the $500 thousand advance and the $2,885 thousand for the shares purchased by Well Thrive.

· The Company entered into an agreement in December 2015 with a strategic partner for the potential sale of the headquarters building located at Miao-Li, Taiwan. The total cash consideration for the sale is $5.2 million, of which the initial installment of $3 million was received on December 14, 2015, $1 million was due on December 31, 2016 and the balance of $1.2 million is due on December 31, 2017. However, as of January 13, 2017, the Company hasn't received the $1 million due on December 31, 2016 and is in discussion with the strategic partner. The sale is scheduled to be closed on December 31, 2017. At any time before December 31, 2017, the Company has the right to cancel the agreement or sell the building to any other third party, concurrently with the repayment of all the cash balance received along with interests payable to the buyer. Upon the completion of the sale on December 31, 2017, part of the proceeds will be paid to E.SUN Commercial Bank, as payment on the first and the second notes payable, which are secured by the building. This agreement has been accounted for as a secured financing arrangement as the Company retains the title, rights and benefits of ownership of the building. Consequently, the building has not been de-recognized as an asset from the Company's consolidated balance sheet and a repayment obligation was recorded in other liability (long-term) when the cash was received.

· Suppressing gross loss from chip sales by moving toward a fabless business model through an agreement with an ODM partner entered into on December 31, 2015. The Company is restructuring the chips manufacturing operation. The Company is exploring the opportunities to consign or sell certain equipment to the ODM partner. Part of its employees related to the Company's chips manufacturing has transferred to the ODM partner. The Company also implemented certain workforce reductions with respect to its chips manufacturing operation. Following the restructuring, the Company has reduced payroll and minimized research and development activities associated with chips manufacturing operation. The Company expects the effects to be continued and is able to further reduce idle capacity charges. This partnership should help the Company obtain a steady source of LED chips with competitive and favorable price for its packaging business, expand the production capacity for LED components, and strengthen its product portfolio and technology.

- Increasing sales of Automotive Projects in both China and India by cultivating relationships with automotive lighting developers that are outside the Company’s historical distribution channels; maintaining a number of

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display models at automotive lighting facilities in order to provide dealers, communities and consumers with examples of newly designed product.

- Gaining positive cash-inflow from operating activities through continuous cost reductions and the sales of new higher margin products. Steady growth of module products and the continued commercial sales of its UV LED product are expected to improve the Company's future gross margin, operating results and cash flows. The Company is targeting niche markets and focusing on product enhancement and developing its LED product into many other applications or devices.

- Continuing to monitor prices, work with current and potential vendors to decrease costs and, consistent with its existing contractual commitments, may possibly decrease its activity level and capital expenditures further. This plan reflects its strategy of controlling capital costs and maintaining financial flexibility.

- Raising additional cash through further equity offerings, sales of assets and/or issuance of debt as considered necessary and looking at other potential business opportunities.

While the Company's management believes that the measures described in the above liquidity plan should be adequate to satisfy its liquidity requirements for the twelve months ending November 30, 2017, 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 preparation of the Company's consolidated financial statements on the basis that the Company will continue as a going concern, 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 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

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to incur transition costs to another supplier or contract manufacturer, result in delays in the manufacturing and delivery of the Company's products, or cause it to carry excess or obsolete inventory. The Company relies on a limited number of such suppliers and contract manufacturers for the fulfillment of its customer orders. Any failure of such suppliers and contract manufacturers to perform could have an adverse effect upon the Company's reputation and its ability to distribute its products or satisfy customers' orders, which could adversely affect the Company's business, financial position, results of operations and cash flows.

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

The Company keeps its cash and cash equivalents in demand deposits with prominent banks of high credit quality and invests only in money market funds. Deposits held with banks may exceed the amount of insurance provided on such deposits. As of November 30, 2016 and August 31, 2016, cash and cash equivalents of the Company consisted of the following (in thousands):

Cash and Cash Equivalents by Location	November 30, 2016	August 31, 2016
United States;		
Denominated in U.S. dollars	$ 673	$ 945
Taiwan;		
Denominated in U.S. dollars	2,813	3,580
Denominated in New Taiwan dollars	528	738
Denominated in other currencies	472	481
China (including Hong Kong);		