

SemiLEDs Corp
Form 10-Q
April 13, 2012
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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 February 29, 2012

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)

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Delaware

(State or other jurisdiction of
incorporation or organization)

20-2735523

(I.R.S. Employer
Identification Number)

**3F, No. 11 Ke Jung Rd., Chu-Nan Site,
Hsinchu Science Park, Chu-Nan 350,
Miao-Li County, Taiwan, R.O.C.**

(Address of principal executive offices)

350

(Zip Code)

+886-37-586788

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 27,461,160 shares of common stock, par value \$0.0000056 per share, outstanding as of April 6, 2012.

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SEMILEDS CORPORATION

FORM 10-Q for the Quarter Ended February 29, 2012

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

| | February 29, 2012 | August 31, 2011 |
|--|----------------------|--------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 66,376 | \$ 83,619 |
| Accounts receivable, net of allowance for doubtful accounts of \$785 and \$1,339 | 2,882 | 4,655 |
| Accounts receivable from related parties | 1,177 | 825 |
| Inventories | 17,931 | 16,217 |
| Prepaid expenses and other current assets | 1,483 | 1,542 |
| Total current assets | 89,849 | 106,858 |
| Property, plant and equipment, net | 54,474 | 51,804 |
| Intangible assets, net | 1,684 | 1,853 |
| Goodwill | 1,092 | 1,106 |
| Investments in unconsolidated entities | 12,849 | 15,579 |
| Other assets | 1,273 | 1,126 |
| TOTAL ASSETS | \$ 161,221 | \$ 178,326 |
| LIABILITIES AND EQUITY | | |
| CURRENT LIABILITIES: | | |
| Notes payable to banks | \$ 1,085 | \$ 972 |
| Current installments of long-term debt | 977 | 981 |
| Accounts payable | 3,435 | 4,464 |
| Accrued expenses and other current liabilities | 5,546 | 7,361 |
| Deferred income, current portion | 51 | 51 |
| Total current liabilities | 11,094 | 13,829 |
| Long-term debt, excluding current installments | 5,539 | 6,105 |
| Deferred income, net of current portion | 415 | 441 |
| Total liabilities | 17,048 | 20,375 |
| Commitments and contingencies (Note 6) | | |
| EQUITY: | | |
| SemiLEDs stockholders' equity | | |
| Common stock, \$0.0000056 par value 32,143 shares authorized 27,443 and 27,285 shares issued and outstanding as of February 29, 2012 and August 31, 2011, respectively | | |
| Additional paid-in capital | 166,060 | 164,370 |
| Accumulated other comprehensive income | 6,686 | 6,982 |
| Accumulated deficit | (29,809) | (14,974) |
| Total SemiLEDs stockholders' equity | 142,937 | 156,378 |
| Noncontrolling interests | 1,236 | 1,573 |
| Total equity | 144,173 | 157,951 |

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| | | | | |
|------------------------------|----|---------|----|---------|
| TOTAL LIABILITIES AND EQUITY | \$ | 161,221 | \$ | 178,326 |
|------------------------------|----|---------|----|---------|

See notes to unaudited consolidated financial statements.

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

| | Three Months Ended | | Six Months Ended | |
|---|----------------------|----------------------|----------------------|----------------------|
| | February 29, 2012 | February 28, 2011 | February 29, 2012 | February 28, 2011 |
| Revenues, net | \$ 7,905 | \$ 9,957 | \$ 14,652 | \$ 22,973 |
| Cost of revenues | 8,627 | 7,628 | 16,196 | 14,004 |
| Gross profit (loss) | (722) | 2,329 | (1,544) | 8,969 |
| Operating expenses: | | | | |
| Research and development | 2,023 | 738 | 3,712 | 1,185 |
| Selling, general and administrative | 3,045 | 2,198 | 6,950 | 3,485 |
| Total operating expenses | 5,068 | 2,936 | 10,662 | 4,670 |
| Income (loss) from operations | (5,790) | (607) | (12,206) | 4,299 |
| Other income (expenses): | | | | |
| Equity in losses from unconsolidated entities, net | (1,176) | (675) | (2,702) | (897) |
| Interest income, net | 12 | 14 | 16 | 2 |
| Other income, net | 47 | 44 | 95 | 44 |
| Foreign currency transaction loss, net | (407) | (163) | (348) | (739) |
| Total other expenses, net | (1,524) | (780) | (2,939) | (1,590) |
| Income (loss) before income taxes | (7,314) | (1,387) | (15,145) | 2,709 |
| Income tax expense (benefit) | | (219) | | 57 |
| Net income (loss) | (7,314) | (1,168) | (15,145) | 2,652 |
| Less: Net loss attributable to noncontrolling interests | (200) | | (310) | |
| Net income (loss) attributable to SemiLEDs stockholders | \$ (7,114) | \$ (1,168) | \$ (14,835) | \$ 2,652 |
| Net loss attributable to SemiLEDs common stockholders: | | | | |
| Basic | \$ (7,114) | \$ (1,291) | \$ (14,835) | \$ (418) |
| Diluted | \$ (7,114) | \$ (1,291) | \$ (14,835) | \$ (418) |
| Net loss per share attributable to SemiLEDs common stockholders: | | | | |
| Basic | \$ (0.26) | \$ (0.05) | \$ (0.54) | \$ (0.03) |
| Diluted | \$ (0.26) | \$ (0.05) | \$ (0.54) | \$ (0.03) |
| Shares used in computing net loss per share attributable to SemiLEDs common stockholders: | | | | |
| Basic | 27,383 | 25,337 | 27,343 | 16,346 |
| Diluted | 27,383 | 25,337 | 27,343 | 16,346 |

See notes to unaudited consolidated financial statements.

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

| | Six Months Ended | |
|--|------------------------------|------------------------------|
| | February 29, 2012 | February 28, 2011 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | \$ (15,145) | \$ 2,652 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 4,058 | 3,038 |
| Stock-based compensation expense | 1,616 | 540 |
| Provisions for inventory write-downs | 1,605 | 374 |
| Equity in losses from unconsolidated entities, net | 2,702 | 897 |
| Income recognized on patents assignment | (26) | |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | 1,557 | (2,254) |
| Inventories | (3,490) | (3,272) |
| Prepaid expenses and other | 32 | (455) |
| Accounts payable | 787 | 1,442 |
| Accrued expenses and other current liabilities | (1,699) | 317 |
| Net cash provided by (used in) operating activities | (8,003) | 3,279 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property, plant and equipment, including interest capitalized | (9,099) | (11,624) |
| Purchase of investments | | (331) |
| Payments for development of intangible assets | (189) | (82) |
| Other investing activities, net | (2) | (76) |
| Net cash used in investing activities | (9,290) | (12,113) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from issuance of common stock, net of issuance costs | | 92,702 |
| Proceeds from exercise of stock options | 60 | 56 |
| Proceeds from line of credit | 1,094 | 2,789 |
| Payments on line of credit | (900) | (1,167) |
| Proceeds from long-term debt | | 2,896 |
| Payments of long-term debt | (471) | (377) |
| Net cash provided by (used in) financing activities | (217) | 96,899 |
| Effect of exchange rate changes on cash and cash equivalents | 267 | 1,052 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (17,243) | 89,117 |
| CASH AND CASH EQUIVALENTS Beginning of period | 83,619 | 13,520 |
| CASH AND CASH EQUIVALENTS End of period | \$ 66,376 | \$ 102,637 |
| NONCASH INVESTING AND FINANCING ACTIVITIES: | | |
| Accrual related to property, plant and equipment | \$ 383 | \$ 1,086 |

See notes to unaudited consolidated financial statements.

Table of Contents**SEMILEDS CORPORATION****Notes to Unaudited Consolidated Financial Statements****1. Business**

Business SemiLEDs Corporation (SemiLEDs) was established on January 4, 2005 as a Delaware corporation and is a holding company for various wholly and majority-owned subsidiaries and joint ventures. SemiLEDs and its subsidiaries (collectively, the Company) develop, manufacture and sell high performance light emitting diodes (LEDs), consisting primarily of LED chips and LED components. A portion of the Company's business conducted in the three and six months ended February 29, 2012 consisted of the sale of contract manufactured LED components. The Company's customers are concentrated in a few select markets, including China, Taiwan, Russia and North America.

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

As of February 29, 2012 and August 31, 2011, SemiLEDs had the following consolidated subsidiaries:

| Subsidiaries | Main Activities | Jurisdiction of Incorporation | February 29, 2012 | August 31, 2011 |
|--|--|-------------------------------|-------------------|-----------------|
| SemiLEDs Optoelectronics Co., Ltd. (Taiwan SemiLEDs) | Research, development, manufacturing, marketing and sale of LED products, consisting primarily of LED chips and LED components | Taiwan | 100% | 100% |
| Helios Crew Corporation (Helios Crew) | Sale of LED components through the Taiwan branch office | Delaware | 100% | 100% |
| SemiLEDs International Corporation Ltd. (Hong Kong SemiLEDs) | Investment holding | Hong Kong | 100% | 100% |
| Silicon Base Development, Inc. (SBDI) | Sale of LED components | Taiwan | 100% | 100% |
| Ning Xiang Technology Co., Ltd. (Ning Xiang) | Research, development, manufacturing, marketing and sale of lighting fixtures and systems | Taiwan | 51% | 51% |
| Xuhe Guangdian Co., Ltd. (Shenzhen SemiLEDs) | Sales and support services | China | 100% | |

The most significant of these consolidated subsidiaries is Taiwan SemiLEDs located in Hsinchu, Taiwan where substantially all research, development, manufacturing, marketing and sales activities currently take place and where substantially all of the assets are held. In August 2011, the Company, through a wholly owned subsidiary, acquired 51% of the outstanding shares of Ning Xiang. The results of Ning Xiang are included in the Company's consolidated financial statements from the date of acquisition. In September 2011, the Company, through a wholly owned subsidiary, established Shenzhen SemiLEDs to conduct sales and to provide services to the Company's customers in China.

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SemiLEDs also has unconsolidated joint venture entities incorporated in China, Malaysia and Taiwan; see Note 4 for further details. The most significant of these partially owned joint ventures entities is Xurui Guangdian Co., Ltd. (China SemiLEDs), in Foshan, Guangdong Province, China, which is engaged in the research, development, manufacturing and sale of LED chips in China.

2. Summary of Significant Accounting Policies

Basis of Presentation The Company's unaudited interim consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) and applicable regulations of the U.S. Securities and Exchange Commission (SEC) regarding interim financial reporting. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted as permitted by rules and regulations of the SEC. Accordingly, these unaudited interim 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 22, 2011. The unaudited consolidated balance sheet as of August 31, 2011 included herein was derived from the audited consolidated financial statements as of that date.

The unaudited interim 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

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the Company's statement of financial position as of February 29, 2012, the Company's results of operations for the three and six months ended February 29, 2012 and February 28, 2011, and the Company's cash flows for the six months ended February 29, 2012 and February 28, 2011. The results for the three or six months ended February 29, 2012 are not necessarily indicative of the results to be expected for the year ending August 31, 2012.

Principles of Consolidation The unaudited interim 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 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the collectibility of accounts receivable, inventory net realizable values, realization of deferred tax assets, valuation of stock-based compensation expense, the useful lives of property, plant and equipment and intangible assets, the recoverability of the carrying amount of property, plant and equipment and intangible assets, the fair value of acquired tangible and intangible assets, income tax uncertainties 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.

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

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

The Company keeps its cash and cash equivalents in demand deposits, certificates of deposit and time deposits with prominent banks of high credit quality and invests only in money market funds. Deposits held with banks may exceed the amount of insurance provided on such deposits. As of February 29, 2012 and August 31, 2011, cash and cash equivalents of the Company consist of the following (in thousands):

| Cash and Cash Equivalents by Location | February 29, 2012 | August 31, 2011 |
|--|------------------------------|----------------------------|
| United States: | | |
| Denominated in U.S. dollars | \$ 55,299 | \$ 75,348 |
| Taiwan: | | |
| Denominated in U.S. dollars | 9,132 | 3,382 |
| Denominated in New Taiwan dollars | 1,576 | 4,669 |
| Denominated in other currencies | 266 | 119 |

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Hong Kong:

| | | | | |
|---------------------------------|----|--------|----|--------|
| Denominated in U.S. dollars | | 102 | | 100 |
| Denominated in H.K. dollars | | 1 | | 1 |
| Total cash and cash equivalents | \$ | 66,376 | \$ | 83,619 |

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

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Net revenues generated from sales to the top ten customers represented 70% and 60% of the Company's net revenues for the three and six months ended February 29, 2012, respectively, and 72% and 62% of the Company's net revenues for the three and six months ended February 28, 2011, respectively.

The Company's revenues have been concentrated in a few select markets, including China, Taiwan, Russia and North America. Net revenues generated from sales to customers in these markets, in the aggregate, accounted for 77% and 81% of the Company's net revenues for the three and six months ended February 29, 2012, respectively, and 91% of the Company's net revenues for both the three and six months ended February 28, 2011.

Recently Issued Accounting Standards Update

Presentation of comprehensive income In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-05, Presentation of Comprehensive Income. ASU 2011-05 increases the prominence of other comprehensive income in the financial statements. Under ASU 2011-05, the Company will have the option to present the components of net income and comprehensive income in either one or two consecutive financial statements. ASU 2011-05 eliminates the option to present other comprehensive income in the statement of changes in equity. ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. When ASU 2011-05 is adopted, the Company will be required to apply ASU 2011-05 retrospectively. The Company has elected not to early adopt ASU 2011-05 and has not yet decided whether to present the components of net income and comprehensive income in one single financial statement or two consecutive financial statements when ASU 2011-05 is adopted. In December 2011, the FASB issued ASU No. 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05, which defers the effective date to present separate line items on the statement of operations for reclassification adjustments of items out of accumulated other comprehensive income into net income. The deferral of the presentation requirements does not impact the effective date of other requirements in ASU 2011-05.

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

Inventories as of February 29, 2012 and August 31, 2011 consist of the following (in thousands):

| | February 29, 2012 | | August 31, 2011 |
|-----------------|------------------------------|----|----------------------------|
| Raw materials | \$ 3,413 | \$ | 3,450 |
| Work in process | 4,588 | | 3,287 |
| Finished goods | 9,930 | | 9,480 |
| Total | \$ 17,931 | \$ | 16,217 |

Inventory write-downs to estimated net realizable values were \$611 thousand and \$1,605 thousand for the three and six months ended February 29, 2012, respectively, and \$234 thousand and \$374 thousand for the three and six months ended February 28, 2011, respectively.

Property, Plant and Equipment

Property, plant and equipment as of February 29, 2012 and August 31, 2011 consist of the following (in thousands):

| | February 29, 2012 | | August 31, 2011 |
|---|------------------------------|----|----------------------------|
| Buildings and improvements | \$ 14,449 | \$ | 12,924 |
| Machinery and equipment | 57,642 | | 50,669 |
| Leasehold improvements | 3,198 | | 3,123 |
| Other equipment | 2,224 | | 2,136 |
| Construction in progress | 5,678 | | 8,159 |
| Total property, plant and equipment | 83,191 | | 77,011 |
| Less: Accumulated depreciation and amortization | (28,717) | | (25,207) |
| Property, plant and equipment, net | \$ 54,474 | \$ | 51,804 |

Intangible Assets

Intangible assets as of February 29, 2012 and August 31, 2011 consist of the following (in thousands):

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February 29, 2012

| | Weighted Average Amortization Period (Years) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|---------------------------|---|-----------------------------|-----------------------------|---------------------------|
| Patents and trademarks | 17 | \$ 522 | \$ 130 | \$ 392 |
| Acquired technology | 4 | 170 | 81 | 89 |
| Customer relationships | 5 | 1,362 | 159 | 1,203 |
| Total | | \$ 2,054 | \$ 370 | \$ 1,684 |

August 31, 2011

| | Weighted Average Amortization Period (Years) | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|---------------------------|---|-----------------------------|-----------------------------|---------------------------|
| Patents and trademarks | 17 | \$ 500 | \$ 114 | \$ 386 |
| Acquired technology | 4 | 172 | 61 | 111 |
| Customer relationships | 5 | 1,379 | 23 | 1,356 |
| Total | | \$ 2,051 | \$ 198 | \$ 1,853 |

Amortization expense was \$86 thousand and \$171 thousand for the three and six months ended February 29, 2012, respectively, and \$16 thousand and \$31 thousand for the three and six months ended February 28, 2011, respectively.

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The estimated future amortization expense for the Company's intangible assets as of February 29, 2012 is as follows (in thousands):

| Years Ending August 31, | Total | |
|-------------------------|-------|-------|
| Remainder of 2012 | \$ | 174 |
| 2013 | | 349 |
| 2014 | | 330 |
| 2015 | | 298 |
| 2016 | | 276 |
| Thereafter | | 257 |
| Total | \$ | 1,684 |

4. Investments in Unconsolidated Entities

The Company's unconsolidated entities are joint ventures that the Company accounts for as investments on an equity or cost method basis. The equity method investments consist of SILQ (Malaysia) Sdn. Bhd. (SILQ), China SemiLEDs, and SS Optoelectronics Co., Ltd. (SS Optoelectronics). The Company's ownership interest and investments in unconsolidated entities as of February 29, 2012 and August 31, 2011 consist of the following (in thousands, except percentages):

| | Percentage Ownership | February 29, 2012 | August 31, 2011 |
|--|-------------------------|----------------------|--------------------|
| Equity method investments: | | | |
| China SemiLEDs | 49% | \$ 10,891 | \$ 13,434 |
| SILQ | 50% | 652 | 833 |
| SS Optoelectronics | 49% | 251 | 253 |
| Cost method investments | Various | 1,055 | 1,059 |
| Total investments in unconsolidated entities | | \$ 12,849 | \$ 15,579 |

There were no dividends received from unconsolidated entities through February 29, 2012.

Equity Method Investments The following joint ventures are partially owned by the Company or its wholly owned subsidiaries; however, the Company has determined it does not control the entities but can exercise significant influence over the operating and financial policies of the joint ventures. The Company accounts for these joint ventures using the equity method of accounting.

In December 2009, the Company entered into an agreement to establish China SemiLEDs in Guangdong, China for the purposes of conducting research and development and producing LED epitaxial wafers and chips to be sold in China. The Company contributed \$14.7 million to acquire a 49% ownership interest in China SemiLEDs. The excess of the Company's share of net assets of China SemiLEDs over the carrying value of this investment was \$6.7 million as of February 29, 2012. This negative basis difference is being amortized to income and the investment in China SemiLEDs over the weighted average useful life of the tangible assets used in the operations of China SemiLEDs, which is 11 years beginning in the period those assets are put in place and ready for their intended use. Such amortization commenced during the year ended August 31, 2011. For the three and six months ended February 29, 2012, the Company recorded an increase of \$167 thousand and

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\$334 thousand, respectively, to the Company's investment in China SemiLEDs and a corresponding reduction in the Company's equity in the net loss of China SemiLEDs.

In September 2009, the Company, through a wholly owned subsidiary, contributed \$570 thousand to form SILQ, a joint venture in Malaysia. In April 2011, the Company participated in SILQ's capital increase and contributed \$662 thousand. The Company and the other investor in the joint venture each hold a 50% ownership and voting interest in SILQ's common stock. The Company entered into the joint venture agreement that established SILQ to design, manufacture and sell lighting fixtures and systems.

In December 2009, the Company, through a wholly owned subsidiary, entered into the joint venture agreement that established SS Optoelectronics to facilitate sales of the Company's LED chips to the other investor in the joint venture. In November 2010, the Company made a determination to dissolve the joint venture in accordance with the joint venture agreement when the joint venture did not receive approval from the Hsinchu Science Park Administration of its application for entry into the Hsinchu Science Park. In December 2011, the dissolution of SS Optoelectronics was approved by the Company's wholly owned subsidiary and the other shareholder. Management does not expect that dissolving this joint venture will have a material impact on the Company's interim consolidated financial statements.

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The fair value of the Company's investments in the non-marketable stock of its equity method investees is not readily available. These investments are assessed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

The following is a summary of the financial information for China SemiLEDs and the Company's other equity method investees (in thousands):

| Summary Balance Sheet Information | February 29, 2012 | | | August 31, 2011 | | |
|-----------------------------------|-------------------|----------|-----------|-------------------|----------|-----------|
| | China SemiLEDs | Others | Total | China SemiLEDs | Others | Total |
| Current assets | \$ 24,607 | \$ 1,764 | \$ 26,371 | \$ 24,236 | \$ 1,959 | \$ 26,195 |
| Noncurrent assets | 65,315 | 529 | 65,844 | 63,620 | 538 | 64,158 |
| Current liabilities | 21,123 | 396 | 21,519 | 13,874 | 285 | 14,159 |
| Noncurrent liabilities | 32,825 | | 32,825 | 32,139 | | 32,139 |
| Shareholders' equity | 35,974 | 1,897 | 37,871 | 41,843 | 2,212 | 44,055 |

| Summary Statement of Operations Information | February 29, 2012 | | | Three Months Ended February 28, 2011 | | |
|---|-------------------|--------|---------|---|--------|---------|
| | China SemiLEDs | Others | Total | China SemiLEDs | Others | Total |
| Revenues, net | \$ 206 | \$ 62 | \$ 268 | \$ 25 | \$ 25 | \$ 25 |
| Gross loss | (2,251) | (30) | (2,281) | (4) | (4) | (4) |
| Loss from operations | (3,188) | (145) | (3,333) | (1,196) | (152) | (1,348) |
| Net loss | (2,742) | (14) | (2,756) | (1,187) | (156) | (1,343) |

| Summary Statement of Operations Information | February 29, 2012 | | | Six Months Ended February 28, 2011 | | |
|---|-------------------|--------|---------|---------------------------------------|--------|---------|
| | China SemiLEDs | Others | Total | China SemiLEDs | Others | Total |
| Revenues, net | \$ 359 | \$ 122 | \$ 481 | \$ 49 | \$ 49 | \$ 49 |
| Gross profit (loss) | (5,056) | (70) | (5,126) | 9 | 9 | 9 |
| Loss from operations | (6,756) | (311) | (7,067) | (1,619) | (346) | (1,965) |
| Net loss | (6,018) | (173) | (6,191) | (1,430) | (355) | (1,785) |

Cost Method Investments The Company held investments in non-marketable common stock of three unaffiliated companies with a cost of \$1,055 thousand and \$1,059 thousand as of February 29, 2012 and August 31, 2011, respectively. The fair value of these investments is not readily available. These investments are assessed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

5. Deferred Income

In March 2011, the Company received a one-time payment of \$540 thousand, net of related costs of \$60 thousand, for the assignment of 13 patents to China SemiLEDs pursuant to a patent assignment and license agreement. In addition, China SemiLEDs has granted the Company a royalty-free, transferable and exclusive license to use the assigned patents globally except in manufacturing LED wafers and chips in China and agreed to license all future patents acquired by China SemiLEDs to the Company for the use in manufacturing or selling LED products globally. Income of \$509 thousand on such assignment was initially deferred and is being recognized in other income over the life of the assigned patents.

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For the three and six months ended February 29, 2012, the Company recognized \$13 thousand and \$26 thousand, respectively, in other income.

6. 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 noncancellable and which expire at various dates between January 2013 and December 2020. Lease expense related to these noncancellable operating leases was \$196 thousand and \$396 thousand for the three and six months ended February 29, 2012, respectively, and \$177 thousand and \$345 thousand for the three and six months ended and February 28, 2011, 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 February 29, 2012 consist of the following (in thousands):

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| Years Ending August 31, | Operating Leases | |
|-------------------------|---------------------|-------|
| Remainder of 2012 | \$ | 400 |
| 2013 | | 844 |
| 2014 | | 823 |
| 2015 | | 900 |
| 2016 | | 863 |
| Thereafter | | 511 |
| Total | \$ | 4,341 |

Purchase Obligations The Company had purchase commitments for property, plant and equipment in the amount of \$7.2 million and \$10.9 million as of February 29, 2012 and August 31, 2011.

Litigation The Company is subject to various claims arising in the ordinary course of business.

On October 14, 2010, Cree, Inc., (Cree), a competitor and a major manufacturer of LED products, filed a complaint against the Company in the United States District Court of Delaware asserting infringement of certain of their patents. The complaint seeks injunctive relief, unspecified monetary damages, pre- and post-judgment interest and attorneys' fees. The Company filed an answer to the complaint on November 3, 2010, denying all allegations of infringement. Cree filed a motion on December 10, 2010 to amend its initial complaint to add additional United States patents that it alleges the Company has infringed. On March 22, 2011, the court granted Cree's motion to amend and the second amended complaint was placed on file. Cree then filed a third amended complaint, based on the same Cree patents and adding a subsidiary of the Company as a defendant. The third amended complaint similarly alleges that the Company has infringed certain of Cree's patents in the United States and seeks injunctive relief, unspecified monetary damages, pre- and post-judgment interest and attorneys' fees. The Company answered the third amended complaint on May 16, 2011, denying all allegations of infringement. On November 1, 2011, Cree filed a motion for leave to file a fourth amended complaint adding a claim of willful infringement on one of the six patents-in-suit. On December 21, 2011, the court granted Cree's motion for leave to amend. Accordingly, Cree will be seeking treble damages on its claim that the Company has willfully infringed one of the six patents-in-suit. The *Markman* hearing in this case was held on January 24, 2012, and the court issued a *Markman* ruling on March 21, 2012. Trial is scheduled for March 2013. On August 15, 2011, the Company filed a complaint for patent infringement against Cree in the United States District Court of Delaware seeking injunctive relief, damages, pre- and post-judgment interest, costs, expenses and attorneys' fees for infringing a number of the Company's patents. On October 11, 2011, Cree filed an answer and counterclaims to the Company's complaint, denying all allegations of infringement, alleging that the Company and Taiwan SemiLEDs have infringed certain of its patents and seeking injunctive relief, unspecified monetary damages, pre- and post-judgment interest and attorneys' fees. The Company and Taiwan SemiLEDs filed their answer to Cree's counterclaims on November 4, 2011. On November 22, 2011, Cree filed an amended counterclaim adding a claim of willful infringement on one of the patents-in-suit, pursuant to which Cree will be seeking treble damages. The Company answered the amended counterclaim on December 5, 2011. The court held an initial scheduling conference in this case on January 24, 2012. Trial is scheduled for November 2013. Management believes that the Company has meritorious defenses and the Company intends to contest this lawsuit vigorously. The Company records 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. In the opinion of management, based on currently available information, the likelihood of an unfavorable outcome to the Company in the Cree matters described above is reasonably possible but not probable. In the event of an unfavorable outcome, management believes the estimated range of amounts of reasonably possible damages, if imposed, would not be material to the Company's financial position, results of operations, or cash flows.

However, the outcomes of legal proceedings and claims brought against the Company are always subject to significant uncertainty. Therefore, in the event that Cree is successful in obtaining some or all of the relief it seeks, or other additional information becomes available, it may cause management to revise the above assessment.

Third parties have from time to time claimed, and others may claim in the future, that the Company has infringed their past, current or future intellectual property rights. These claims, whether meritorious or not, could be time-consuming, result in costly litigation, require expensive changes in the Company's methods of doing business or could require the Company to enter into costly royalty or licensing agreements, if available. As a result, these claims could harm the Company's business, operating results, cash flows and financial position.

Table of Contents**7. Stock-based Compensation**

As of August 31, 2010, the Company had one stock-based compensation plan (the 2005 Plan). In November 2010, SemiLEDs' board of directors and its stockholders approved the 2010 Equity Incentive Plan (the 2010 Plan), discussed further below, which became effective upon the completion of the initial public offering on December 8, 2010.

The total stock-based compensation expense consists of stock-based compensation expense for stock options and restricted stock units granted to employees, directors and nonemployees and also included stock options to purchase Series E shares issued, which were converted into common stock on a one-for-one basis, as part of an employment agreement related to the Company's acquisition of SBDI. A summary of the stock-based compensation expense for the three and six months ended February 29, 2012 and February 28, 2011 is as follows (in thousands):

| | Three Months Ended | | Six Months Ended | |
|--|----------------------|----------------------|----------------------|----------------------|
| | February 29, 2012 | February 28, 2011 | February 29, 2012 | February 28, 2011 |
| Stock options and stock units to employees | \$ 740 | \$ 256 | \$ 1,029 | \$ 316 |
| Stock units to directors | 194 | 139 | 528 | 139 |
| Stock options to nonemployees | 3 | 6 | 4 | 15 |
| Other stock-based compensation activity | 28 | 32 | 55 | 70 |
| | \$ 965 | \$ 433 | \$ 1,616 | \$ 540 |

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 a vesting term that is less than one year from the time of grant.

Equity Incentive Plans A total of 3,849 thousand shares of common stock was reserved for issuance under the 2005 Plan and 2010 Plan. Since the initial public offering, awards are being made from the 2010 Plan. The 2010 Plan provides for awards in the form of restricted shares, restricted stock units, stock options or stock appreciation rights to the Company's employees, officers, directors and consultants. Options outstanding under the 2005 Plan will continue to be governed by their existing terms.

In February 2012, the Company's board of directors granted 1 thousand restricted stock units to its directors that vest 100% on the earlier of the first anniversary of the vesting start date of February 6, 2012, and the date of the next annual meeting. The grant-date fair value of the restricted stock units was \$3.27 per unit. The compensation committee of the board of directors also granted 786 thousand restricted stock units to its executives and employees. These restricted stock units vest over four years at a rate of 25% on each anniversary the vesting start date of February 20, 2012, subject to earlier expiration in the event of the holder's termination. The grant-date fair value of the restricted stock units was \$3.53 per unit. Each restricted stock unit represents the contingent right to one share of SemiLEDs' common stock.

Determining Fair Value of Stock Options The Company determines the fair value of each grant of stock options using the methods and assumptions discussed below. Each of these inputs is subjective and generally requires significant judgment to determine.

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Valuation Method Management estimates the fair value of stock options granted using the Black-Scholes option-pricing model.

Expected Term The expected term represents the period that the Company's stock options are expected to be outstanding. The expected term for options granted to employees of the Company is derived from historical data on employee exercises and post-vesting employment termination behavior after taking into account the contractual life of the award. The expected term for nonemployee options is equal to the contractual life of the option.

Expected Volatility The expected volatility was based on the implied stock volatilities of several of the Company's publicly-traded peers over a period equal to the expected terms of the options as SemiLEDs does not have a sufficient trading history to use the volatility of its own common stock.

Fair Value of Common Stock The fair value of the common stock underlying the stock options was based on the trading price of SemiLEDs shares on the date of grant. Prior to SemiLEDs' initial public offering, the fair value of common stock at the date of grant was determined by the board of directors by considering a number of objective and subjective factors including independent

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valuation reports, valuations of comparable companies, sales of convertible preferred stock to unrelated third parties, operating and financial performance, the lack of liquidity of capital stock, and general and industry specific economic outlook, among other factors.

Risk-Free Interest Rate The risk-free interest rate was based on the U.S. Treasury yield curve in effect at the time of grant for zero coupon U.S. Treasury notes with maturities approximately equal to the expected term of the related options.

Expected Dividend The expected dividend has been zero for the Company's option grants as SemiLEDs has never paid dividends and does not expect to pay dividends for the foreseeable future.

Determining Fair Value of Restricted Stock Units Grant date fair value 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.

8. Net Income (Loss) Per Share of Common Stock

The following tables set forth the computation of the Company's basic and diluted net income (loss) per share of common stock for the three and six months ended February 29, 2012 and February 28, 2011 (in thousands, except per share data). The two-class method was used for the period through December 8, 2010, a period in which shares of several series of SemiLEDs' convertible preferred stock were outstanding.

| | Three Months Ended | | Six Months Ended | |
|---|----------------------|----------------------|----------------------|----------------------|
| | February 29, 2012 | February 28, 2011 | February 29, 2012 | February 28, 2011 |
| Numerator: | | | | |
| Basic: | | | | |
| Net income (loss) attributable to SemiLEDs stockholders | \$ (7,114) | \$ (1,168) | \$ (14,835) | \$ 2,652 |
| 8% noncumulative dividends on convertible preferred stock | | (123) | | (1,532) |
| Undistributed earnings allocated to convertible preferred stockholders | | | | (1,538) |
| Net loss attributable to SemiLEDs common stockholders, basic | \$ (7,114) | \$ (1,291) | \$ (14,835) | \$ (418) |
| Diluted: | | | | |
| Net loss attributable to SemiLEDs common stockholders, basic | \$ (7,114) | \$ (1,291) | \$ (14,835) | \$ (418) |
| Undistributed earnings re-allocated to common stock | | | | |
| Net loss attributable to SemiLEDs common stockholders, diluted | \$ (7,114) | \$ (1,291) | \$ (14,835) | \$ (418) |
| Denominator: | | | | |
| Basic: | | | | |
| Shares used in computing net loss per share attributable to SemiLEDs common | 27,383 | 25,337 | 27,343 | 16,346 |

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| | | | | |
|---|-----------|-----------|-----------|-----------|
| stockholders, basic | | | | |
| Diluted: | | | | |
| Shares used in computing net loss per share attributable to SemiLEDs common | | | | |
| stockholders, basic | 27,383 | 25,337 | 27,343 | 16,346 |
| Add: Weighted average effect of dilutive securities: | | | | |
| Stock options | | | | |
| Shares used in computing net loss per share attributable to SemiLEDs common | | | | |
| stockholders, diluted | 27,383 | 25,337 | 27,343 | 16,346 |
| Net loss per share attributable to SemiLEDs common stockholders: | | | | |
| Basic | \$ (0.26) | \$ (0.05) | \$ (0.54) | \$ (0.03) |
| Diluted | \$ (0.26) | \$ (0.05) | \$ (0.54) | \$ (0.03) |

The following securities 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):

| | Three Months Ended | | Six Months Ended | |
|--|----------------------|----------------------|----------------------|----------------------|
| | February 29, 2012 | February 28, 2011 | February 29, 2012 | February 28, 2011 |
| Stock units and stock options to purchase common stock | 185 | 374 | 185 | 351 |
| Common stock subject to repurchase | 1 | 3 | 1 | 3 |

Table of Contents**9. Income Taxes**

The Company's income (loss) before income taxes for the three and six months ended February 29, 2012 and February 28, 2011 consist of the following (in thousands):

| | Three Months Ended | | Six Months Ended | |
|-----------------------------------|----------------------|----------------------|----------------------|----------------------|
| | February 29, 2012 | February 28, 2011 | February 29, 2012 | February 28, 2011 |
| U.S. operations | \$ (1,758) | \$ (1,355) | \$ (4,117) | \$ (1,597) |
| Foreign operations | (5,556) | (32) | (11,028) | 4,306 |
| Income (loss) before income taxes | \$ (7,314) | \$ (1,387) | \$ (15,145) | \$ 2,709 |

As of February 29, 2012 and August 31, 2011, the Company had \$330 thousand and \$330 thousand of unrecognized tax benefits related to tax positions taken in prior periods, all of which would impact the Company's effective tax rate if recognized.

Accrued interest and penalties related to unrecognized tax benefits were immaterial. The Company files income tax returns in the United States, various states and certain foreign jurisdictions. The tax years 2005 through 2011 remain open in most jurisdictions. The Company is not currently under examination by income tax authorities in U.S. federal, state or foreign jurisdictions.

10. Related-Party Transactions

The following material related-party transactions are reported in the Company's unaudited interim consolidated statements of operations during the three and six months ended February 29, 2012 and February 28, 2011 (in thousands):

| Related Parties | Transactions | Three Months Ended | | Six Months Ended | |
|-----------------|--------------------------------|----------------------|----------------------|----------------------|----------------------|
| | | February 29, 2012 | February 28, 2011 | February 29, 2012 | February 28, 2011 |
| China SemiLEDs | Sales of goods(1) | \$ 10 | \$ 217 | \$ 26 | \$ 337 |
| China SemiLEDs | Rendering of service(2) | 10 | 267 | 250 | 267 |
| China SemiLEDs | Gain on disposal of patents(3) | 13 | | 26 | |

(1) The Company sold products to China SemiLEDs pursuant to standard purchase orders.

(2) The Company provided technical, engineering and operational support services to China SemiLEDs. The Company also provided sapphire wafer recycling services to China SemiLEDs. Service fees were negotiated on an arm's length basis.

(3) See Note 5 for further details.

During the six months ended February 29, 2012, the Company sold equipment to China SemiLEDs for total consideration of \$244 thousand, determined based on net book value of equipment; no gain or loss was recognized.

The Company also paid certain costs on behalf of China SemiLEDs. As of February 29, 2012 and August 31, 2011, amounts due from China SemiLEDs of \$1,145 thousand and \$780 thousand, respectively, were recorded as accounts receivable from related parties on the consolidated balance sheets. China SemiLEDs also paid certain costs for the Company. Amounts due to China SemiLEDs of \$5 thousand as of both February 29, 2012 and August 31, 2011 were recorded in other current liabilities.

11. Comprehensive Income (Loss)

The components of comprehensive income (loss) attributable to SemiLEDs were as follows (in thousands):

| | Three Months Ended | | Six Months Ended | |
|---|----------------------|----------------------|----------------------|----------------------|
| | February 29, 2012 | February 28, 2011 | February 29, 2012 | February 28, 2011 |
| Net income (loss) | \$ (7,114) | \$ (1,168) | \$ (14,835) | \$ 2,652 |
| Foreign currency translation adjustment | 2,670 | 1,583 | (296) | 4,393 |
| Comprehensive income (loss) | \$ (4,444) | \$ 415 | \$ (15,131) | \$ 7,045 |

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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 (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,

- Our ability to successfully manage our operations in the face of the cyclical nature, rapid technological change, rapid product obsolescence, declining average selling prices and wide fluctuations in supply and demand typically found in the LED market.
- Our ability to grow our revenues generated from the sales of our products and to control our expenses.
- Competitive pressures from existing and new companies, including competition in China from Xurui Guandong Co., Ltd., or China SemiLEDs.
- 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.
- The loss of key suppliers or contract manufacturers.

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- 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 and the associated changes to our operations.
- Adverse development in those selected markets, including China, Taiwan, Russia and North America, where our revenues are concentrated.
- Our ability to cost-effectively produce LED chips using larger wafer sizes.
- Our ability to implement our product innovation strategy effectively.
- Loss of customers.
- Failure of our strategy of marketing and selling our products in jurisdictions with limited intellectual property enforcement regimes.
- Loss of any of our key personnel, or our failure to attract, assimilate and retain other highly qualified personnel.
- 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.

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- 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.
- 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.
- 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.
- Reallocation of our taxable income among our subsidiaries that increases our consolidated tax liability.
- U.S. federal income tax legislation that negatively impacts our effective tax rate.
- Our failure to execute our China strategy through China SemiLEDs.
- The non-compete provisions between us and China SemiLEDs constraining our ability to grow in China.
- Actions by China SemiLEDs management that are detrimental to us.
- Any significant reduction in the scope or discontinuation of government incentives or subsidies offered to China SemiLEDs.

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- The ability of SemiLEDs Optoelectronics Co., Ltd., or Taiwan SemiLEDs, and China SemiLEDs to make dividends and other payments to us.
- Our ability to obtain necessary regulatory approvals to make further investments in Taiwan SemiLEDs and China SemiLEDs.
- Catastrophic events such as fires, earthquakes, floods, tornados, tsunamis, typhoons, pandemics, wars, terrorist activities and other similar events, particularly if these event occur at or near our operations, the operations of China SemiLEDs or those of contract manufacturers.
- The effect of the legal system and in particular new labor laws in China.
- Labor shortages, strikes and other disturbances that affect our and China SemiLEDs operations.
- Deterioration in the relations between the People's Republic of China, or PRC, and Taiwan.
- Fluctuations in the exchange rate between the U.S. dollar, the New Taiwan, or NT, dollar and other currencies in which our sales, raw materials and component purchases and capital expenditures are denominated.
- China SemiLEDs' failure to obtain requisite PRC governmental approvals for, or register with the PRC government, for import and export of technologies, and any resulting sanctions.
- Our success in obtaining additional equity capital or credit when necessary for our operations.
- Our ability to satisfy certain customer orders for which we rely on contract manufacturers.

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, 2011 (the 2011 Annual Report)

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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.

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 consolidated financial statements and the notes and other information included elsewhere in this Quarterly Report, in our 2011 Annual Report, and in other filings with the SEC.

Company Overview

We develop, manufacture and sell LED chips and LED components that we believe are among the industry-leading LED products on a lumens per watt basis. Our products are used primarily for general lighting applications, including street lights and commercial, industrial and residential 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 LED chips.

We sell blue, green and ultraviolet (UV) LED chips under our MvpLED brand to a customer base that is heavily concentrated in a few select markets, including China, Taiwan, Russia and North America. 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. We also contract other manufacturers to produce for our sale certain LED components products based on our design and technology requirements and under our quality control specifications and final inspection process.

We were incorporated in Delaware on January 2005 and sold our first LED chips in November 2005. We are a holding company for various wholly owned subsidiaries and joint ventures. Our most significant subsidiary is our wholly owned operating subsidiary, Taiwan SemiLEDs, where substantially all of our assets are held and located, substantially all of our employees are employed and located, and where substantially all of our research and development and sales activities take place. Taiwan SemiLEDs owns a 100% equity interest in Silicon Base Development, Inc., or SBDI, which was acquired on April 1, 2010. SBDI sells some of our LED components. In August 2011, we acquired a 51% interest in Ning Xiang Technology Co., Ltd., or Ning Xiang, which is engaged in the design, manufacture and sale of lighting fixtures and systems. In September 2011, we established Xuhe Guangdian Co., Ltd., or Shenzhen SemiLEDs, to conduct sales and to provide sales and support services to our customers in China.

As of February 29, 2012, we also had a 49% interest in China SemiLEDs, a joint venture entity that manufactures and sells LED chips in China. In addition, as of February 29, 2012, we owned a 50% interest in SILQ (Malaysia) Sdn. Bhd., or SILQ, a joint venture established in Malaysia to design, manufacture and sell lighting fixtures and systems.

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:

- ***General economic conditions and geographic concentration.*** The global financial crisis that began in late 2007 caused extreme disruption in the financial markets. Although the disruption in the global financial markets moderated thereafter, the global recession and disruption of the financial markets has led to concerns over the solvency of certain European Union member states. In addition, on August 5, 2011, Standard & Poor's downgraded the U.S. credit rating to AA+ from its top rank of AAA, which had a material adverse effect on the financial markets throughout the world. Credit downgrades of other significant countries have followed. Continued concerns over European Union member solvency, further credit-rating agency downgrades of the U.S. or other countries and failures by the U.S. or other important markets to sustain economic recovery could have a significant impact on the LED industry and our financial results. 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 China, Taiwan, Russia and North America. Given that we are an early-stage company 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. In addition, we derive 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

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base, among other things. For the three months ended February 29, 2012, sales to our three largest customers, in the aggregate, accounted for 57% of our total revenues.

- **Average selling price of our products.** Our financial performance is affected by the average selling price of our LED chips and LED components. The price that we charge to our customers is subject to a variety of factors, including prices charged by our competitors, the efficacy of our products, our cost basis, the size of the order and our relationship with the relevant customer, as well as general market and economic conditions. Increased competition, which began in calendar year 2011, and continued through the second quarter of our fiscal year 2012, created a highly aggressive pricing environment. 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 the gross margin of our products. Average selling prices are also affected by the mix of products that we sell in any given period. In particular, as the LED industry develops and technical specifications and market standards change, we must continue to develop and offer competitive products that meet our customers' specifications and pricing requirements. Average selling prices for our LED chips and LED components are also impacted to a significant extent by the stage of our products' lifecycles, with average selling prices being higher early in the life cycle of a product and prices decreasing over time as products age and new products with higher efficacies are introduced. Therefore, our ability to continue to innovate by introducing higher efficacy LED chips at lower costs will have a material influence on our ability to improve our product margins. Reduction in the average selling price of lighting products will also affect the results of Ning Xiang.

- **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 invested in the development of larger wafer sizes, in particular using 4" wafers, which we believe should lower our production costs. We have substantially converted our manufacturing of LED chips based on 4" wafer technology. We have also improved and increased our production yields to reduce the per-unit cost of production for our products. However, such cost savings currently have limited impact on our gross profit, as we suffered from lower capacity utilization during the six months ended February 29, 2012 and must absorb a high level of fixed cost 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 if we are to grow.

- **Industry growth and demand for products and applications using LED chips.** 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. As a substantial portion of our LED chips and LED components are used by end-users in general lighting applications, 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 and LED components. Growth in demand for lighting products will also affect the results of Ning Xiang.

- **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, such as is currently occurring with Cree. 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. 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.

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- ***Our ability to achieve consistently high manufacturing yields.*** We measure our manufacturing yield per wafer by the number of saleable LED chips produced, compared to the theoretical maximum number of LED chips that can be produced on such wafer. It is critical for us to achieve high manufacturing yields in order to improve our margins. We expect to have to continually attain higher yields from our existing wafer sizes and develop new technologies that allow us to efficiently migrate to larger wafer sizes.

- ***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

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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.

- ***Our ability to realize our strategic initiatives, including through China SemiLEDs.*** Our success in China will substantially depend on our ability to execute our strategies through China SemiLEDs, which has commenced production at its Foshan manufacturing facilities; however, it is in the early stages of business development and selling products in China. We expect that it will incur losses for the near term. In addition, our ability to execute our strategies in China will depend on our continued good working relationship with the other shareholders of China SemiLEDs, which are all PRC entities, and which collectively owned 51% of China SemiLEDs at February 29, 2012. The success of China SemiLEDs will also be driven by the factors listed above that influence our own results.

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 consolidated financial statements for the six months ended February 29, 2012 as compared to those disclosed in our 2011 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. At the same time, the Company's subsidiaries use the local currency as their functional currency. For example, the functional currency for Taiwan SemiLEDs, SBDI, the Taiwan branch office of Helios Crew Corporation, or Helios Crew, and Ning Xiang, 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, with the resulting translation adjustments recorded to a separate component of accumulated other comprehensive income (loss) within equity. Income and expense accounts are translated at average exchange rates during the period. 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 for periods prior to January 1, 2011 were made at the exchange rates published on OANDA.com. For January 1, 2011 and all later dates and periods, the exchange rate refers to the exchange rate as set forth in the statistical release of the Bank of Taiwan. On August 31, 2011, the exchange rate was 29.01 NT dollars to one U.S. dollar. On February 29, 2012, the exchange rate was 29.38 NT dollars to one U.S. dollar. On April 6, 2012, the exchange rate was 29.52 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.

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| | Average(1) | NT dollars per U.S. dollar | | Period-End |
|------------------------------------|------------|----------------------------|-------|------------|
| | | High | Low | |
| 2010 | 32.08 | 32.95 | 31.26 | 32.06 |
| 2011 | 29.53 | 32.04 | 31.26 | 29.01 |
| September 2011 | 29.73 | 30.58 | 28.95 | 30.48 |
| October 2011 | 30.26 | 30.68 | 29.86 | 29.92 |
| November 2011 | 30.23 | 30.44 | 30.02 | 30.33 |
| December 2011 | 30.26 | 30.38 | 30.13 | 30.28 |
| January 2012 | 30.04 | 30.31 | 29.58 | 29.58 |
| February 2012 | 29.54 | 29.66 | 29.38 | 29.38 |
| March 2012 | 29.52 | 29.62 | 29.43 | 29.51 |
| April 2012 (through April 6, 2012) | 29.49 | 29.52 | 29.46 | 29.52 |

(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.

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Results of Operations

Three Months Ended February 29, 2012 Compared to the Three Months Ended February 28, 2011

Revenues, net

Our revenues decreased by approximately 21% from \$10.0 million for the three months ended February 28, 2011 to \$7.9 million for the three months ended February 29, 2012. The \$2.1 million decrease in revenues reflects a \$3.4 million decrease in revenues attributable to sales of LED chips, offset in part by a \$1.4 million increase in revenues attributable to sales of LED components. Other revenues decreased slightly for the three months ended February 29, 2012.

The decrease in revenues attributable to sales of LED chips was due to a 60% decrease in the volume of LED chips sold and a 30% decrease in the average selling price of LED chips. The decrease in volume of LED chips sold was due to a slowdown in demand in our target markets, in particular the outdoor street lighting market in Asia, primarily as a result of reduced government spending, and increased competition for the remaining customers. The average selling price for our LED chips decreased primarily as a result of increased competition from a number of competitors that are much larger than us, as well as numerous smaller participants in the indoor lighting market, which created a highly aggressive pricing environment and resulted in industry participants, including us, having to lower prices for existing products and existing inventory.

The increase in revenues attributable to sales of LED components was due to a 579% increase in the volume of LED components sold. The increase, however, was offset in part by an 80% decrease in the average selling price of LED components, primarily reflecting our sales of a category of lower-priced LED components, continued market competition and pricing pressure for the other LED components we produce.

The decrease in other revenues was primarily due to a \$0.6 million decrease in the sale of scraps, raw materials and service revenues, offset in part by a \$0.5 million increase in revenues from lighting products reflecting our acquisition of Ning Xiang.

Cost of Revenues

Our cost of revenues increased by 13% from \$7.6 million for the three months ended February 28, 2011 to \$8.6 million for three months ended February 29, 2012. The increase in cost of revenues was primarily due to a \$1.6 million increase in excess capacity charges and a \$0.4 million increase in inventory valuation adjustment. These increases were offset in part by a lower cost of revenues, primarily as a result of the decrease in volume of LED chips sold. We experienced lower capacity utilization as a result of the decrease in customer demand, in particular, for our LED chips. Inventory write-downs increased from \$0.2 million for the three months ended February 28, 2011, to \$0.6 million for the three months ended February 29, 2012, primarily due to the write down of our components inventories to their estimated net realizable values as a

result of a decline in average selling prices.

Gross Profit (Loss)

Our gross profit decreased from \$2.3 million for the three months ended February 28, 2011 to a loss of \$0.7 million for the three months ended February 29, 2012. Our gross margin percentage decreased from 23% for the three months ended February 28, 2011 to negative 9% for the three months ended February 29, 2012 as a consequence of the reduction in revenues, primarily due to the significant decreases in the average selling prices of LED components and LED chips, excess capacity charges and inventory write-downs, as more fully described above.

Operating Expenses

Research and development. Our research and development expenses increased from \$0.7 million for the three months ended February 28, 2011 to \$2.0 million for the three months ended February 29, 2012. The increase was primarily due to an increase in materials and supplies used in research and development of \$1.1 million and an increase in salaries attributable to the research and development function of \$0.1 million. The amount of materials and supplies used in our research and development efforts was higher for the three months ended February 29, 2012, primarily due to our research and development activities to improve production yields, to enhance the brightness of our chips, to provide continued support for the migration to 4 wafers and to improve our products. Salary-related expenses were higher because they included the additional research and development employees of Ning Xiang, as well as increased stock-based compensation cost for our research and development personnel.

Selling, general and administrative. Our selling, general and administrative expenses increased from \$2.2 million for the three months ended February 28, 2011 to \$3.0 million for the three months ended February 29, 2012. The increase was attributable to

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an increase in salary-related expenses of \$0.4 million, primarily as a result of the hiring of additional employees for sales, marketing and administrative functions to support the growth of our business and to meet our public company regulatory and financial reporting and corporate governance requirements, and the additional sales, marketing and administrative employees of Ning Xiang, as well as an increase in stock-based compensation for our sales, marketing and administrative employees. The increase was also attributable to an increase in professional service expenses for accounting and advisory services of \$0.1 million primarily resulting from a significantly higher level of professional service expenses as a public company. Increases in both stock-based compensation from awards of restricted stock units and cash retainer fees to our directors of \$0.1 million, and in insurance (primarily due to directors and officers liability insurance) of \$0.1 million, amortization of intangible assets, utilities and advertising of \$0.1 million also contributed to the increase in selling, general and administrative expenses.

Other Income (Expenses)

Equity in losses from unconsolidated entities, net. Our equity in the net losses from unconsolidated entities was \$1.2 million for the three months ended February 29, 2012, as compared to \$0.7 million for the three months ended February 28, 2011. The increase was primarily due to the increase in the net loss reported by China SemiLEDs, as it commenced commercial production, began to incur research and development expenses and a higher level of costs and expenses beginning in April 2011.

Foreign currency transaction loss, net. We recognized a net foreign currency transaction loss of \$0.4 million and \$0.2 million for the three months ended February 29, 2012 and February 28, 2011, respectively, primarily due to the appreciation of the NT dollar against the U.S. dollar from demand and/or certificates of deposit held by Taiwan SemiLEDs in currency other than the functional currency of such subsidiary.

Income Tax Expense (Benefit)

Our effective tax rate is estimated to be approximately zero for fiscal 2012, since it is expected that Taiwan SemiLEDs, our primary operating subsidiary, will incur losses, and as we provided a full valuation allowance on all deferred tax assets, which consist primarily of net operating loss carryforwards and tax credits. Subsidiaries in Taiwan file their income tax returns separately.

Our income tax benefit for the three months ended February 28, 2011 was \$0.2 million, reflecting the true-up to an annual effective tax rate of 2.1%. The effective tax rate was lower than corporate statutory income tax rate, which is 17% for Taiwan SemiLEDs, as we were able to use tax credits and tax exemptions to offset payable corporate income tax; however, we were subject to a 10% alternative minimum tax and a 10% undistributed retained earnings tax in Taiwan.

Net Loss Attributable to Noncontrolling Interests

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We recorded a net loss attributable to noncontrolling interests of \$0.2 million for the three months ended February 29, 2012, which was attributable to the share of net loss of Ning Xiang held by the remaining 49% noncontrolling holders.

Six Months Ended February 29, 2012 Compared to the Six Months Ended February 28, 2011

Revenues, net

Our revenues decreased by approximately 36% from \$23.0 million for the six months ended February 28, 2011 to \$14.7 million for the six months ended February 29, 2012. The \$8.3 million decrease in revenues reflects a \$10.2 million decrease in revenues attributable to sales of LED chips, offset in part by a \$1.1 million increase in other revenues and a \$0.8 million increase in revenues attributable to sales of LED components.

The decrease in revenues attributable to sales of LED chips was due to a 59% decrease in the volume of LED chips sold and a 41% decrease in the average selling price of LED chips. The decrease in volume of LED chips sold was due to a slowdown in demand in our target markets, in particular the outdoor street lighting market in Asia, primarily as a result of reduced government spending and increased competition for the remaining customers. Our revenues attributable to sales of LED chips for the six months ended February 28, 2011 benefited from a large project-based order for sales to a customer in the six months ended February 28, 2011. The average selling price for our LED chips decreased primarily as a result of increased competition from a number of competitors that are much larger than us, as well as numerous smaller participants in the indoor lighting market, which created a highly aggressive pricing environment and resulted in industry participants, including us, having to lower prices for existing products and existing inventory.

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The increase in revenues attributable to sales of LED components was due to a 436% increase in the volume of LED components sold. The increase, however, was offset in part by a 79% decrease in the average selling price of LED components primarily reflecting our sales of a category of lower-priced LED components, continued market competition and pricing pressure for the other LED components we produce.

The increase in other revenues was primarily due to a \$1.4 million increase in revenue from sales of lighting products reflecting our acquisition of Ning Xiang and a \$0.1 million increase in the sale of epitaxial wafers, offset in part by a \$0.4 million decrease in the sale of raw materials and scraps.

Cost of Revenues

Our cost of revenues increased by 16% from \$14.0 million for the six months ended February 28, 2011 to \$16.2 million for six months ended February 29, 2012. The increase in cost of revenues was primarily due to a \$2.6 million increase in excess capacity charges and a \$1.2 million increase in inventory valuation adjustment. These increases were offset in part by a lower cost of revenues, primarily as a result of the decrease in volume of LED chips sold. We experienced lower capacity utilization as a result of the decrease in customer demand, in particular, for our LED chips. Inventory write-downs increased from \$0.4 million for the six months ended February 28, 2011 to \$1.6 million for the six months ended February 29, 2012, primarily due to the write down of our chips and components inventories to their estimated net realizable values as a result of a continued decline in average selling prices.

Gross Profit (Loss)

Our gross profit decreased from \$9.0 million for the six months ended February 28, 2011 to a loss of \$1.5 million for the six months ended February 29, 2012. Our gross margin percentage decreased from 39% for the six months ended February 28, 2011 to negative 11% for the six months ended February 29, 2012 as a consequence of the reduction in revenues, primarily due to significant decreases in the average selling prices of LED components and LED chips, excess capacity charges and inventory write-downs, as more fully described above.

Operating Expenses

Research and development. Our research and development expenses increased from \$1.2 million for the six months ended February 28, 2011 to \$3.7 million for the six months ended February 29, 2012. The increase was primarily due to an increase in materials and supplies used in research and development of \$2.1 million and an increase in salaries attributable to the research and development function of \$0.1 million. The amount of materials and supplies used in our research and development efforts was higher for the six months ended February 29, 2012, primarily due to our research and development activities to improve production yields, to enhance the brightness of our chips, to provide continued support for the migration to 4 wafers and to improve our products. Salary-related expenses were higher because they included the additional research and development employees of Ning Xiang, as well as increased stock-based compensation cost for our research and development personnel. Our research and development expenses in the six months ended February 28, 2011 were favorably improved by a grant

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from the Taiwan Science Park Administration, which was recorded as an offset against our research and development expenses.

Selling, general and administrative. Our selling, general and administrative expenses increased from \$3.5 million for the six months ended February 28, 2011 to \$7.0 million for the six months ended February 29, 2012. The increase was mainly attributable to an increase in professional service expenses for legal, accounting and advisory services of \$1.3 million primarily resulting from our defense against a patent infringement lawsuit and a significantly higher level of professional service expenses as a public company. The increase was also attributable to an increase in salary-related expenses of \$1.0 million, primarily as a result of the hiring of additional employees for sales, marketing and administrative functions to support the growth of our business and to meet our public company regulatory and financial reporting and corporate governance requirements, and the additional sales, marketing and administrative employees of Ning Xiang, as well as an increase in stock-based compensation for our sales, marketing and administrative employees. Increases in stock-based compensation from awards of restricted stock units to our directors of \$0.4 million, in directors and officers liability insurance of \$0.2 million, and amortization of intangible assets, utilities and advertising of \$0.3 million also contributed to the increase in selling, general and administrative expenses.

Other Income (Expenses)

Equity in losses from unconsolidated entities, net. Our equity in the net losses from unconsolidated entities was \$2.7 million for the six months ended February 29, 2012, as compared to \$0.9 million for the six months ended February 28, 2011. The increase was primarily due to the increase in the net loss reported by China SemiLEDs, as it commenced commercial production, began to incur research and development expenses and a higher level of costs and expenses beginning in April 2011.

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Foreign currency transaction loss, net. We recognized a net foreign currency transaction loss of \$0.3 million and \$0.7 million for the six months ended February 29, 2012 and February 28, 2011, respectively, primarily due to the appreciation of the NT dollar against the U.S. dollar from demand and/or certificates of deposit held by Taiwan SemiLEDs in currency other than the functional currency of such subsidiary.

Income Tax Expense (Benefit)

Our effective tax rate is estimated to be approximately zero for fiscal 2012, since it is expected that Taiwan SemiLEDs, our primary operating subsidiary, will incur losses, and as we provided a full valuation allowance on all deferred tax assets, which consist primarily of net operating loss carryforwards and tax credits. Subsidiaries in Taiwan file their income tax returns separately.

Our income tax expense for the six months ended February 28, 2011 was \$0.1 million, reflecting an annual effective tax rate of 2.1%. The effective tax rate was lower than corporate statutory income tax rate, which is 17% for Taiwan SemiLEDs, as we were able to use tax credits and tax exemptions to offset corporate income tax payable; however, we were subject to a 10% alternative minimum tax and a 10% undistributed retained earnings tax in Taiwan.

Net Loss Attributable to Noncontrolling Interests

We recorded a net loss attributable to noncontrolling interests of \$0.3 million for the six months ended February 29, 2012, which was attributable to the share of net loss of Ning Xiang held by the remaining 49% noncontrolling holders.

Liquidity and Capital Resources

From our inception through the completion of our initial public offering in December 2010, we have 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 February 29, 2012 and August 31, 2011, we had cash and cash equivalents of \$66.4 million and \$83.6 million, respectively, which were predominately held in U.S. dollar-denominated demand deposits and money market funds, and at August 31, 2011, also in certificates of deposit.

During the year ended August 31, 2011 and the six months ended February 29, 2012, we utilized operating lines of credit with certain banks to fulfill our short-term financing needs. The outstanding balances of these lines of credit were \$1.1 million and \$1.0 million as of February 29, 2012 and August 31, 2011, respectively. These lines of credit had maturity dates of eight months from the date of draw down and bore fixed interest rates ranging from 1.3% to 1.7% per annum as of February 29, 2012 and August 31, 2011, respectively. Unused amounts on these lines of credit were \$7.8 million and \$7.3 million as of February 29, 2012 and August 31, 2011, respectively.

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As of February 29, 2012 and August 31, 2011, our long-term debt, which includes NT dollar-denominated long-term notes, totaled \$6.5 million and \$7.1 million, respectively. These long-term notes carry variable interest rates, based on the annual time deposit rate plus a specific spread, ranging from 1.8% to 2.0% per annum as of both February 29, 2012 and August 31, 2011, 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.

- The first note payable requires monthly payments of principal and interest in the amount of \$14,000 over the 15-year term of the note with final payment to occur in May 2024 and, as of February 29, 2012, our outstanding balance on this note payable was approximately \$1.8 million.
- The second note payable requires monthly payments of principal and interest in the amount of \$30,000 over the five-year term of the note with final payment to occur in August 2014 and, as of February 29, 2012, our outstanding balance on this note payable was approximately \$0.9 million.
- The third note payable requires monthly payments of principal and interest in the amount of \$28,000 over the five-year term of the note with final payment to occur in May 2015 and, as of February 29, 2012, our outstanding balance on this note payable was approximately \$1.1 million.

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- The fourth note payable requires monthly payments of principal and interest in the amount of \$19,000 over the 15-year term of the note with final payment to occur in December 2025 and, as of February 29, 2012, our outstanding balance on this note payable was approximately \$2.8 million.

We have incurred significant losses since inception, including net losses attributable to SemiLEDs stockholders of \$0.8 million, \$3.7 million and \$16.1 million for the years ended August 31, 2008, 2009 and 2011, respectively. For the six months ended February 29, 2012, net loss attributable to SemiLEDs stockholders was \$14.8 million. The only recent year in which we have been profitable was the year ended August 31, 2010, in which we generated net income attributable to SemiLEDs stockholders of \$10.8 million. We believe that, based on our current level of operations and spending needs, the net proceeds from our initial public offering, together with our existing liquidity sources and anticipated funds from operations, will satisfy our cash requirements for at least the next 12 months. However, if we are not able to generate positive cash flows from operations, we may need to consider alternative financing sources and seek additional funds through public or private equity financings or from other sources to support our working capital requirements or for other purposes. There can be no assurance that additional financing will be available to us or that, if available, such financing will be available on terms favorable to us.

Cash Flow

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

| | Six Months Ended | |
|---|------------------------------|------------------------------|
| | February 29, 2012 | February 28, 2011 |
| Net cash provided by (used in) operating activities | \$ (8,003) | \$ 3,279 |
| Net cash used in investing activities | (9,290) | (12,113) |
| Net cash provided by (used in) financing activities | (217) | 96,899 |

Cash Flows Provided by (Used in) Operating Activities

Net cash used in operating activities for the six months ended February 29, 2012 was \$8.0 million, compared to net cash provided by operating activities for the six months ended February 28, 2011 of \$3.3 million. Cash used in operating activities for the six months ended February 29, 2012 was higher, primarily due to an increase in cash used to pay for professional service expenses, including legal services, primarily resulting from our defense against a patent infringement lawsuit, and accounting and advisory services primarily due to a significantly higher level of professional service expenses as a public company; an increase in cash used to pay for salary-related expenses due to our hiring of additional employees to support our growth and to meet our public company regulatory, financial reporting and corporate governance requirements; and a decrease in cash collected from customers due to lower revenues as a result of decreases in volume reflecting decreased customer demand and in average selling prices.

Cash Flows Used in Investing Activities

Net cash used in investing activities for the six months ended February 29, 2012 was \$9.3 million, consisting primarily of the purchases of machinery and equipment, and payments for expanding and upgrading our manufacturing facilities at our Hsinchu, Taiwan headquarters.

Net cash used in investing activities for the six months ended February 28, 2011 was \$12.1 million, consisting primarily of the purchases of buildings and purchases of machinery and equipment in an amount of \$11.6 million, and our investment in an unaffiliated company of \$0.3 million.

Cash Flows Provided by (Used in) Financing Activities

Net cash used in financing activities for the six months ended February 29, 2012 was \$0.2 million, consisting primarily of payments of lines of credit and long-term debt in the aggregate amount of \$1.4 million, offset in part by proceeds from the draw down on lines of credit of \$1.1 million.

Net cash provided by financing activities for the six months ended February 28, 2011 was \$96.9 million, consisting primarily of net proceeds from the issuance of common stock of \$92.7 million, proceeds from the issuance of long-term debt of \$2.9 million, proceeds from the draw down on lines of credit of \$2.8 million, offset in part by payments of lines of credit and long-term debt of \$1.2 million and \$0.4 million, respectively.

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Contractual Obligations

As of February 29, 2012, our total purchase obligations for property, plant and equipment were \$7.2 million. For the six months ended February 29, 2012, we drew down \$1.1 million from lines of credit and made regular payments on our lines of credit and long-term debt in the aggregate amount of \$1.4 million.

Capital Expenditures

We had capital expenditures of \$9.1 million and \$11.6 million for the six months ended February 29, 2012 and February 28, 2011, respectively. Our capital expenditures consisted primarily of purchases of building, 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.

Off-Balance Sheet Arrangements

During the six months ended February 29, 2012, we had no off-balance sheet arrangements. We do not have any interests in variable interest entities.

Accounting Changes and Recent Accounting Pronouncements

For a description of accounting changes and recent accounting standards, including the expected dates of adoption and estimated effects, if any, on our unaudited interim consolidated financial statements, see Note 2 in the Notes to Unaudited Consolidated Financial Statements of this Quarterly Report which disclosure is incorporated herein by reference.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks in the ordinary course of our business. These risks include primarily:

Interest Rate Risk

We had cash and cash equivalents of \$66.4 million as of February 29, 2012, which are invested in demand deposits, money market funds and time deposits. Such interest-earning instruments carry a degree of interest rate risk. We do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure. We have not been exposed nor do we anticipate being exposed to material risks due to changes in interest rates. A hypothetical 10% change in interest rates during the six months ended February 29, 2012 would not have had a material impact on our unaudited interim consolidated financial statements.

As of February 29, 2012, we had long-term notes payable of \$6.5 million and lines of credit of \$1.1 million. Long-term notes payable carry variable interest rates and these interest rates, which ranged between 1.8% to 2.0% per annum as of February 29, 2012, are based on the annual time deposit rate plus a specific spread. A hypothetical 10% change in the note payable interest rates during the six months ended February 29, 2012 would not have had a material impact on our unaudited interim consolidated financial statements.

Foreign Exchange Risk

The functional currency for certain of our consolidated and majority owned subsidiaries is in a currency other than U.S. dollars. For example, the functional currency for Taiwan SemiLEDs, SBDI, the Taiwan branch office of Helios Crew and Ning Xiang, is the NT dollar. We translate the assets and liabilities of our non-U.S. subsidiaries into U.S. dollars at exchange rates in effect at each balance sheet date and record the resulting translation adjustments to the accumulated other comprehensive income (loss) within equity. Certain of our non-U.S. subsidiaries also hold cash and cash equivalents in currencies other than their functional currencies, mainly in U.S. dollar-denominated demand deposits. In addition, a portion of our revenues and expenses are currently earned and paid, respectively, by our non-U.S. subsidiaries in currencies other than their functional currencies, mainly in U.S. dollars and to a lesser extent in Japanese Yen. We translate income and expense accounts at average exchange rates during the applicable period. Our exposure to foreign exchange risk primarily relates to currency gains and losses from the time we enter into and settle our sales and purchase transactions. Accordingly, we are subject to foreign currency related risks and incur foreign currency transaction losses and gains from time to time, which are recognized in our consolidated statements of operations. If there are significant changes in the exchange rates between NT dollar, U.S. dollar, Japanese Yen and other currencies, our consolidated financial results could be harmed. To date, we have not used any derivative financial instruments to hedge against the effect of exchange rate fluctuations. As a result,

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our consolidated financial condition or results of operations may be adversely affected due to changes in foreign exchange rates. A hypothetical 10% adverse change in foreign currency exchange rates between the U.S. dollar and NT dollar during the six months ended February 29, 2012 would have resulted in an adjustment to the accumulated other comprehensive loss of \$9.3 million and an additional foreign exchange loss of approximately \$1.1 million.

Commodities Risk

We utilize significant amounts of precious metals, gases and other commodities in our manufacturing processes. General economic conditions, market specific changes or other factors outside our control may affect the pricing of these commodities. We do not use financial instruments to hedge commodity prices.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

Our management, with the participation of our chief executive officer, or CEO, and chief financial officer, or CFO, 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 February 29, 2012. 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 February 29, 2012, 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 Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC 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 February 29, 2012 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 in the following legal proceedings, and from time to time may be named in various other claims arising in the ordinary course of our business:

Cree

On October 14, 2010, Cree, our competitor and a major manufacturer of LED products, filed a complaint against us and Helios Crew, our wholly owned subsidiary, with the United States District Court of Delaware, alleging that we and Helios Crew have infringed certain of their patents and seeking injunctive relief, unspecified monetary damages, pre- and post-judgment interest and attorneys' fees. We and Helios Crew filed an answer to the complaint on November 3, 2010, denying all allegations of infringement. Cree filed a motion on December 10, 2010 to amend its initial complaint to add additional United States patents that it alleges we have infringed. On March 22, 2011, the court granted Cree's motion to amend and the second amended complaint was placed on file. Cree then filed a third amended complaint, based on the same Cree patents and adding a subsidiary of our Company, Taiwan SemiLEDs, as a defendant. The third amended complaint similarly alleges that we have infringed certain of Cree's patents in the United States and seeks injunctive relief, unspecified monetary damages, pre- and post-judgment interest and attorneys' fees. We answered the third amended complaint on May 16, 2011, denying all allegations of infringement. On November 1, 2011, Cree filed a motion for leave to file a fourth amended complaint adding a claim of willful infringement on one of the six patents-in-suit. On December 21, 2011, the court granted Cree's motion for leave to amend. Accordingly, Cree will be seeking treble damages on its claim that we have willfully infringed one of the six patents-in-suit. The *Markman* hearing in this case was held on January 24, 2012, and the court issued a *Markman* ruling on March 21, 2012. Trial is scheduled for March 2013. We believe we have meritorious defenses and intend to contest this lawsuit vigorously. However, in the event that Cree is successful in obtaining some or all of the relief it seeks, we may be barred from importing or selling our products into the United States and may be subject to damages and penalties. Moreover, Cree has an extensive patent portfolio and we cannot assure you that Cree will not assert additional claims of infringement of its other patents. We believe that, as our visibility within the LED market increased as a result of our initial public offering, the risk that additional infringement claims, with or without merit, will be asserted against us will increase. On August 15, 2011, we and Taiwan SemiLEDs filed a complaint against Cree in the United States District Court of Delaware seeking injunctive relief, damages, pre- and post-judgment interest, costs, expenses and attorneys' fees for infringing a number of our patents. On October 11, 2011, Cree filed an answer and counterclaims to our complaint, denying all allegations of infringement, alleging that we and Taiwan SemiLEDs have infringed certain of its patents and seeking injunctive relief, unspecified monetary damages, pre- and post-judgment interest and attorneys' fees. We and Taiwan SemiLEDs filed our answer to Cree's counterclaims on November 4, 2011. On November 22, 2011, Cree filed an amended counterclaim adding a claim of willful infringement on one of the patents-in-suit, pursuant to which Cree will be seeking treble damages. We answered the amended counterclaim on December 5, 2011. The Court held an initial scheduling conference in this case on January 24, 2012. Trial is scheduled for November 2013.

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Item 1A. Risk Factors

There are no material changes related to risk factors from the risk factors described in Item 1A Risk Factors in Part I of our 2011 Annual Report, except to the extent amended or supplemented as follows:

We derive our revenues mainly from the sale of our LED chips and LED components. Our inability to grow our revenues generated from the sales of LED chips and LED components would have a negative impact on our financial condition and results of operation.

An increasing percentage of our revenues is generated from the sale of LED components and lighting products, as compared to the sale of LED chips. Revenues attributable to the sale of our LED chips represented 78%, 77% and 58% of our revenues for the years ended August 31, 2009, 2010 and 2011, respectively, and 23% of our revenues for the six months ended February 29, 2012. Revenues attributable to the sale of our LED components represented 20%, 21% and 32% of our revenues for the years ended August 31, 2009, 2010 and 2011, respectively, and 58% of our revenues for the six months ended February 29, 2012. In addition to the sales of LED chips and LED components, our core products, revenues attributable to the sale of lighting products, which represent an addition to our product portfolio as a result of our acquisition of an equity interest in Ning Xiang, accounted for 11% of our revenues for the six months ended February 29, 2012. We expect to continue to generate our revenues mainly from the sale of LED chips and LED components for the foreseeable future. As such, the continued market acceptance of our LED chips and LED components is critical to our continued success, and our inability to grow our revenues generated from the sales of LED chips and LED components would have a negative impact on our business, financial condition and results of operations.

Our gross margins could fluctuate as a result of decreases in the average selling prices of our products, underutilization of our manufacturing capacity, changes in our product mix and other factors, which may adversely impact our operating results.

Increased competition and the adoption of alternatives to our products, more complex engineering requirements, lower demand, over-capacity in the market and other factors may also lead to price erosion and, as a result, lower product margins and lower revenues. 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 the gross margin of our products. We anticipate our competitors will continue to implement such competitive strategies from time to time in the future. We also 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.

We depend on contract manufacturing for portions of our supply chain. The inability of our contract manufacturers to produce products that satisfy our requirements may have a material adverse affect on our business.

From time to time, we may use contract manufacturers to produce products or some parts of our products. Our reliance on such contract manufacturers exposes us to a number of significant risks, including:

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- reduced control over delivery schedules, quality assurance, manufacturing yields and production costs;
- lack of guaranteed production capacity or product supply; and
- the possible breach of the manufacturing agreement by the contract manufacturers because of factors beyond our control.

If these contract manufacturers fail to deliver products on time and at a satisfactory level of quality, we could have difficulties fulfilling our customer orders and our net revenue could decline. If our contract manufacturers were to become unable or unwilling to continue to manufacture our products at requested quality, quantity, yields and costs, or in a timely manner, our business and reputation could be seriously harmed. As a result, we would have to attempt to identify and qualify substitute manufacturers, which could be time consuming and difficult, and might result in unforeseen manufacturing and operations problems. In such events, our customer relationships, business, financial condition and results of operations would be adversely affected.

We derive a significant portion of our revenues from a limited number of 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 derive a significant portion of our revenues from a limited number of customers. For the three and six months ended February 29, 2012, our top ten customers collectively accounted for 70% and 60% of our revenues. Some of our largest customers have changed from year to year primarily as a result of our limited operating history, rapid growth, broadening customer base, and the timing of discrete, large project-based purchases. For the three months ended February 29, 2012, sales to our three largest customers, in the aggregate, accounted for 57% of our total revenues.

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 enter into long-term commitment contracts with our customers. As such, these customers may alter their purchasing

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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.

Sales of our products are concentrated in a few select markets. Adverse developments in these markets could have a material and disproportionate impact on us.

Our revenues are highly concentrated in a few select markets. For example, revenues generated from sales of our LED chips and LED components to just two markets, Taiwan and China (including Hong Kong), accounted for 79%, 76% and 68% of our revenues for the years ended August 31, 2009, 2010 and 2011, respectively. For the three and six months ended February 29, 2012, four such select markets—China, Taiwan, Russia and North America—accounted for 77% and 81%, respectively, of our net revenues. As a result of our revenue concentration in these markets, economic downturns, changes in governmental policies and increased competition in these markets could have a material and disproportionate impact on our revenues, operating results, business and prospects.

We will be required to assess our internal control over financial reporting on an annual basis and any future adverse findings from such assessment could result in a loss of investor confidence in our financial reports, significant expenses to remediate any internal control deficiencies and ultimately have an adverse effect on our share price.

Section 404 of the Sarbanes-Oxley Act of 2002 requires that we include a management report that assesses the effectiveness of our internal control over financial reporting in our annual report on Form 10-K beginning with our annual report for the fiscal year ending August 31, 2012. Our testing may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, which we will be required to disclose. Our compliance with Section 404 will require that we incur substantial accounting expenses and expend significant management resources and time on compliance related issues. If we are unable to comply with the requirements of Section 404 in a timely manner, or if we identify deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses, we may be subject to sanctions or investigations by regulatory agencies such as the SEC. In addition, failure to meet the requirements of Section 404 or to disclose any material weakness may cause investors to lose confidence in our financial statements and the trading price of our common stock may decline. Moreover, if we fail to remedy any material weakness, our financial statements may be inaccurate, our ability to report our financial results on a timely and accurate basis may be adversely affected, our access to the capital markets may be restricted, we may be subject to sanctions or investigation by regulatory authorities, including the SEC and The NASDAQ Stock Market, and our stated results of operations and reputation may be materially and adversely affected.

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

Unregistered Sales of Equity Securities

None.

Use of Proceeds

On December 8, 2010, the registration statement on Form S-1 (File No. 333-168624) was declared effective for initial public offering of our common stock. On December 14, 2010, we sold 6,038 thousand shares of common stock, and 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 February 29, 2012, we had used \$22.3 million to purchase additional manufacturing space at our Hsinchu, Taiwan headquarters and partially build out existing space in such building, and purchase additional reactors and other manufacturing equipment. We had also used \$2.3 million to acquire and invest in other businesses, and \$11.1 million for working capital and other general corporate purposes.

There has been no material change in the planned use of proceeds from our initial public offering as described in our final prospectus filed with the SEC pursuant to Rule 424(b).

Repurchases

None.

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Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

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: April 13, 2012

By: /s/ David Young
Name: David Young
Title: Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

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INDEX TO EXHIBITS

| Exhibit No. | Description |
|--------------------|--|
| 10.1 | SemiLEDs Corporation 2010 Equity Incentive Plan, Form of Stock Unit Agreement (Director Form) (incorporated by reference to Exhibit 99.1 to Registrant's Current Report on Form 8-K filed on February 9, 2012, File No. 001-34992) |
| 10.2 | SemiLEDs Corporation 2010 Equity Incentive Plan, Form of Stock Unit Agreement (Officer Form) (incorporated by reference to Exhibit 99.1 to Registrant's Current Report on Form 8-K filed on February 24, 2012, File No. 001-34992) |
| 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 |

* In accordance with Rule 406T of Regulation S-T, these XBRL (eXtensible Business Reporting Language) documents are furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections.