

SemiLEDs Corp  
Form 10-K  
December 12, 2014

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-K**

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(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended August 31, 2014

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**SemiLEDs Corporation**

(Exact name of registrant as specified in its charter)

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

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

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

**350**  
(Zip Code)

Registrant's telephone number including area code: **+886-37-586788**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, par value \$0.0000056 per share	The NASDAQ Stock Market

Securities registered pursuant to Section 12(g) of the Act:

**None**

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the 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

The aggregate market value of voting stock held by non-affiliates of the registrant as of February 28, 2014 (the last business day of the registrant's most recently completed second fiscal quarter), based upon the closing price of the common stock reported by the NASDAQ Global Select Market on such date, was approximately \$18.1 million. Shares of common stock held by each executive officer and director of the registrant and by each person who owns 10% or more of the registrant's outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Number of shares outstanding of the registrant's Common Stock, par value \$0.0000056 per share, as of November 30, 2014: 28,424,493.

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**Smaller Reporting Company Scaled Disclosure**

Pursuant to Item 10(f) of Regulation S-K promulgated under the Securities Act of 1933, as amended, as indicated herein, we have elected to comply with the scaled disclosure requirements applicable to "smaller reporting companies."

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**PART I.**

**Forward-looking Statements**

*This Annual Report on Form 10-K 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 Form 10-K, 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, including those described in Item 1A, Risk Factors. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Form 10-K may not occur, 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.*

*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.*

**Item 1. Business**

**Company Overview**

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

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

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

reusing sapphire substrate in subsequent production runs;

optimizing our epitaxial growth processes to create layers that efficiently convert electrical current into light;

employing a copper alloy base manufacturing technology to improve our chip's thermal and electrical performance;

utilizing nanoscale surface engineering to improve usable light extraction; and

developing a LED structure that generally consists of multiple epitaxial layers which are vertically-stacked on top of and a copper alloy base.

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

We were incorporated in the State of Delaware on January 4, 2005 and sold our first LED chips in November 2005. We are a holding company for various wholly and majority owned subsidiaries. Our most significant subsidiary is our wholly owned operating subsidiary, SemiLEDs Optoelectronics Co., Ltd., or Taiwan SemiLEDs, where a substantial portion of our assets are held and located, where a substantial portion of our research, development, manufacturing, marketing and sales activities take place, and where most of our employees are based. Taiwan SemiLEDs owns a 100% equity interest in Taiwan Bandaoti Zhaoming Co., Ltd., formerly known as Silicon Base Development, Inc., which is engaged in the research, development, manufacture, marketing and sale of LED components. As of August 31, 2014, the Company also owned an 87% interest in Ning Xiang Technology Co., Ltd., or Ning Xiang, which consisted of a 51% interest acquired in August 2011, an additional 15% interest acquired in April 2013 and an additional 21% interest acquired in November 2013. Ning Xiang is engaged in the design, manufacture and sale of lighting fixtures and systems.

We also have interests in unconsolidated joint ventures that we have accounted for as equity method investments and as such have not consolidated for financial reporting purposes. As of August 31, 2014, we owned a 33% interest in SILQ (Malaysia) Sdn. Bhd. or SILQ, a joint venture established in Malaysia to design, manufacture and sell lighting fixtures and systems. Originally, we and the other investor each owned a 50% equity interest in the joint venture. In January 2014, we participated in SILQ's capital increase and contributed \$76 thousand. Following this capital increase, our equity interest in SILQ was diluted from 50% to 49%. In April 2014, we sold part of our equity interest in SILQ to the other investor in SILQ for cash consideration of \$114 thousand. Upon consummation of the sale, our equity interest in SILQ was reduced from 49% to 33%. We subsequently invested \$130 thousand in SILQ's capital increase and our equity interest remains unchanged.

## **Recent Developments**

Beginning in our fiscal 2014, in response to challenging business conditions and to improve our overall cost competitiveness and cash flow generation, we initiated actions to accelerate operating cost reductions and improve operational efficiencies. In January 2014, we announced the relocation and consolidation of our manufacturing operations at Sinwu, Taiwan, or Sinwu Facility, to our other existing facilities. In connection with the closing and relocation of our Sinwu Facility, we have built out existing space in the building we own at Chu-Nan, Hsinchu Science Park. We are also conducting an ongoing review of our staffing requirements and structure, such as eliminating duplicate administrative and support functions, reassigning resources to align with our business strategies, and reducing headcount as appropriate. We have incurred capital expenditures to expand our Chu-Nan facility and expect to

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continue to incur costs and expenses associated with these planned activities until completion of the relocation. For example, we started the relocation activities in July 2014 and the costs to relocate equipment and other assets from the Sinwu Facility to our other facilities are expensed as incurred. A significant portion of the equipment has been moved from the Sinwu Facility to the new area of our Chu-Nan facility, which resulted in a temporary production suspension affecting our margins and operating results in the fourth quarter of our fiscal 2014. In the first quarter of our fiscal 2015, we have started to realize the benefits of operating cost reductions, such as savings on lease and overhead costs related to the Sinwu Facility, lower payroll expenses due to workforce reductions and normal attrition, and improvement in operational efficiencies through the consolidation of facilities.

In August 2014, we introduced a line of 80 × 80mil rugged metal LED chips, which include white, blue, and UV variations, and provide packagers and integrators with a wider variety of high-efficiency/high-output choices to address the growing number of applications in both the commercial lighting and industrial spaces. In addition, we launched a new Enhanced Flip Chip, or EF, LED series and our newest line of white chip scale packages, the ReadyMount Enhanced CSP, or EC series. The EF series launched with the EF-B40, a blue 40-mil flip chip that simplifies the packaging and integration process by eliminating wire-bonding while increasing both lumen-density and decreasing the lumen-per-dollar value proposition while enabling packagers to use standard surface mount assembly techniques. By combining SemiLEDs's Enhanced Flip chip approach with our innovative ReadyWhite phosphor technology, the EC delivers unprecedented flexibility, reliability and manufacturability in a single 1.4mm × 1.4mm low profile device. Rated for input power of up to 3W, the EC is a fully packaged white emitter SMD component, ready for surface mounting on any board level module or COB application, lowering capital costs and enabling extremely high lumen density configurations.

**Our Technology**

Our proprietary technology integrates copper alloy in a vertical LED structure. We first grow epitaxial layers on a sapphire wafer. The epitaxial layers are multiple doped GaN layers. At this point in the process, our structure has the following order: (i) sapphire; (ii) n-doped GaN (N-GaN); (iii) multi-quantum well layers (MQWs); and (iv) p-doped GaN (P-GaN). Next, we deposit and define (by patterning and etching) multiple metal layers on the P-GaN layer. These metal layers consist of several different mirror layers and copper alloy layers, which are deposited on top of the mirror layers by electroplating. The copper alloy metal layers, which are collectively called the P-Contact Metal Layer, create low resistance contact with the P-GaN layer.

We then remove the sapphire wafer from the N-GaN layer through laser radiation, and the sapphire wafer is removed from the production line and recycled. The remaining device structure consisting of the P-Contact Metal Layer on top of the epitaxial layers is then ready for further processing. To complete our LED device structure, we then deposit and define additional metal layers on top of the N-GaN layers to achieve low resistance contact with the N-GaN layers. These additional metal layers are collectively called the N-Contact Metal Layer.

After this process, our final LED chip structure is: (i) copper alloy metal layer; (ii) P-GaN; (iii) MQWs; (iv) N-GaN; and (v) N-contact Metal layer. Our final LED chip structure is diced into individual LED chips and then separated, tested and binned according to customer specifications, such as wavelength (color) and brightness. When a constant electrical current flows from our P-Contact Metal Layer to our N-Contact Metal Layer, light is generated in the MQWs and emitted through the surface of the N-GaN.

A significant difference in our production process from conventional sapphire-based LED chip production is our ability to recycle and re-use the sapphire wafer multiple times. By reusing sapphire wafers, we reduce our dependence on sapphire and our wafer materials cost. In addition, the difference in the thermal expansion properties of the sapphire wafer and the doped GaN layers results in a "bowed" wafer due to the high temperatures used in the growth process. When the wafer "bows"

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significantly, the chip yield decreases substantially. Larger wafer sizes exacerbate the "bowing" effect. Our ability to remove the sapphire allows us to reduce wafer bowing during the patterning process, which we believe will enable us to more easily migrate to larger wafer sizes.

We believe that most conventional GaN LEDs grown on sapphire wafers are based on a lateral design. However, we believe a superior combination of both light output efficiency and heat removal is realized in a vertical LED chip design with a copper alloy metal structure. Among pure metals at room temperature, copper has the second highest electrical and thermal conductivity, after silver. Heat is generated by passing electrical current through resistive materials. In our vertical LED chips, electrical current flows from the low resistance copper alloy base to the epitaxial layers also with low electrical resistance, thereby resulting in lower heat generation. Furthermore, due to the high thermal conductivity of the copper alloy layer, the heat generated in our device is effectively conducted to the packaging materials, where it can be dissipated through a heat sink. The resulting lower operating temperature helps to maintain LED device performance and reliability.

Once light is generated in the MQWs of our LED chips, the light is emitted out of the N-GaN surface. Our chip uses a high reflectivity metal between the copper alloy layer and the P-GaN surface that acts as a mirror to reflect light more effectively out of the internal structure of the device. In contrast, in conventional sapphire-based LED devices, leakage can occur when light escapes through the sides of the substrate or is converted to heat due to the higher internal resistance of the device. Furthermore, by optimizing the internal structure and surface of our epitaxial layers through our proprietary nanosurface engineering, a greater portion of light is extracted after generation within the device, whereas conventional sapphire-based LED devices have a semi-transparent contact layer (STCL) which absorbs and reduces the amount of light that can be emitted vertically from the chip.

**Our Products**

Our core products are LED chips and LED components, but lighting products have also become an increasingly important part of our business.

*LED Chips*

We produce a wide variety of blue, white, green and UV LED chips, including our EV LED product series, currently ranging from chip sizes of 380 microns, or  $\mu\text{m}$ , by 380 $\mu\text{m}$  to 1520 $\mu\text{m}$  by 1520 $\mu\text{m}$ , which are capable of providing over 120 lumens per watt when properly packaged as cool white emitters. We sell our LED chips to packaging customers or to distributors, who in turn sell to packagers. Our LED chips are used primarily for applications in the general lighting market, including street lights and commercial, industrial and residential lighting. Our LED chips may also be used in specialty industrial applications, such as UV curing of polymers, LED light therapy in medical/cosmetic applications, counterfeit detection, LED lighting for horticulture applications, and architectural lighting. In August 2014, we launched our new Enhanced Flip Chip, or EF, LED series and newest line of white chip scale packages, the ReadyMount Enhanced CSP, or EC series. The EF series launched with the EF-B40, a blue 40-mil flip chip that simplifies the packaging and integration process by eliminating wire-bonding while increasing both lumen-density and decreasing the lumen-per-dollar value proposition while enabling packagers to use standard surface mount assembly techniques. By combining SemiLEDs's Enhanced Flip chip approach with our innovative ReadyWhite phosphor technology, the EC delivers unprecedented flexibility, reliability and manufacturability in a single 1.4mm  $\times$  1.4mm low profile device. Rated for input power of up to 3W, the EC is a fully packaged white emitter SMD component, ready for surface mounting on any board level module or COB application, lowering capital costs and enabling extremely high lumen density configurations. Revenue from sales of our LED chips represented 33% and 30% of our revenues for the years ended August 31, 2014 and 2013, respectively.

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***LED Components***

We currently package a portion of our LED chips into LED components for sale to distributors and end-customers in selected markets. The majority of our LED components use our 1200µm by 1200µm, 1070µm by 1070µm and 860µm by 860µm chips, most of which are combined with phosphors to produce components with various color temperatures. In June 2013, we expanded our UV LED product portfolio with the launch of our mid-power P50N product series and high-power N9 product series, designed for industrial applications such as printing, coating, curing, signage and medical/cosmetic uses. We also introduced low-power 3020 product series and 5mm through-hole lamp type UV LED components to our LED components portfolio in January 2013. In July 2013, we acquired an additional LED components production line and added an array of LED components products to our existing portfolio, including LED emitters ranging from one watt to 50 watts, and LED modules for lighting applications. These LED components products are used primarily for general lighting applications, including residential, commercial and industrial lighting, and industrial applications such as UV curing and horticulture applications. In November 2013, we launched a new 10-watt M63 RGBW integrated 6363 LED, capable of delivering over 410 total lumens of combined red, green, blue and white light output. The M63 RGBW LED component integrates our vertical LED structure, white color chip and ceramic packaging technologies, designed for a wide range of color-changing applications, including entertainment lighting (such as stage lights, backdrops and spotighting), large scale displays, and architectural lighting. This compact multi-color LED component offers our customers easy color mixing and higher integration that simplifies the design of lighting fixtures and reduces the number of LED components used. Our LED components include different form factors comprised of lead frame, silicone, surface mount, ceramic and through-hole packaged devices. We apply our proprietary design for the packaging process, such as wafer level phosphor coating, to optimize the optical and thermal properties of the LED component. Our packaging process includes chip bonding, wire bonding, phosphor coating, encapsulation, scribing, dicing and testing. We may, from time to time, establish packaging operations in selected markets for sale to distributors and end-customers in such markets. We also contract with 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. Revenue from sales of our LED components represented 37% and 39% of our revenues for the years ended August 31, 2014 and 2013, respectively.

***Lighting Products***

We design, assemble and sell lighting fixtures and systems for general lighting applications, including commercial, residential and industrial lighting. Our lighting products consist primarily of LED luminaries and LED retrofits. Our lighting product customers are primarily ODMs of lighting products and the end-users of lighting devices. Revenue from sales of our lighting products represented 24% and 23% of our revenues for the years ended August 31, 2014 and 2013, respectively.

**Manufacturing**

Our manufacturing operations, including those of Ning Xiang, are located in Taiwan. Starting in the fourth quarter of our fiscal 2011 and continuing through the fourth quarter of our fiscal 2014, we suffered from the underutilization of our manufacturing capacity, primarily for our LED chips. Consequently, a portion of our manufacturing equipment was idled, resulting in significant excess capacity charges. We also use contract manufacturers to produce for our sale certain LED products, and for certain aspects of our product fabrication, assembly and packaging processes, based on our design and technology requirements and under our quality control specifications and final inspection process.



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**Raw Materials and Components**

We use the following raw materials in our LED chip manufacturing: metal organics, sapphire, copper alloy, gold slugs, sodium gold sulfite, aluminum granules and electrolytic nickel, among others. We use the following assembly materials in the production of our LED component products: gold bond wire, lead frame, ceramic substrate, phosphor, silicon zener-diode, silicone rubber, eutectic (AuSn) bonding material and silver paste, among others. We also purchase industrial and general chemicals and gases for the manufacture of both our LED chips and LED components. We do not manufacture our lighting products from the raw materials but we assemble our lighting products from individual components, such as LED emitters, electronic components, printed circuit boards, heat-sink, lenses and other metal and plastic components.

We purchase raw materials and components from a wide range of suppliers around the world. The raw materials and components we use are readily available. We have two or more suppliers for a majority of the raw materials we use. Historically, we have never experienced any significant delay or shortage in the supply of our raw materials and components.

**Quality Management**

We have implemented quality control measures at each stage of our operations, including obtaining supplier qualifications, inspecting incoming raw materials and random testing during our production process, to ensure consistent product yield and reliability. We test all new processes and new products prior to commercial production. We also inspect all final products prior to delivery to our customers to ensure that production standards are met. If we encounter defects, we conduct an analysis in an effort to identify the cause of the defect and take appropriate corrective and preventative measures. We provide standard product warranties on our products, which generally range from three months to two years. Our manufacturing fabs located in Hsinchu Science Park, Taiwan, are certified in compliance with ISO9001:2008. All these facilities are subject to periodic inspection by the relevant governmental authorities for safety, environmental and other regulatory compliance.

We require all of our employees involved in the manufacturing and engineering process to receive quality control training, according to a certification system depending on the level of skills and knowledge required. The training program is designed to ensure consistent and effective application of our quality control procedures.

**Sales and Marketing**

We market and sell our products through both our direct sales force and distributors. We primarily sell our LED chips to packagers and distributors. Our packaging customers package our LED chips and sell the packaged product to distributors or end-customers. Our distributors resell our LED chips either to packagers or to end-customers. We sell our LED components to distributors and end-customers in selected markets, such as Taiwan, Republic of Turkey and China. Our lighting product customers consist primarily of ODMs of lighting products and the end-users of lighting devices with the sales made by our and Ning Xiang's direct sales force.

Our direct sales force is primarily based in Taiwan. We assign our sales personnel to different geographic regions so that they can keep abreast of trends in specific markets. We plan to continue expanding our sales coverage in Asia as we grow our business. In addition, we may enter into strategic relationships with companies in Taiwan or other countries that we believe may provide strategic value to us.

We focus our marketing efforts on brand awareness, product advantages and qualified lead generation. We rely on a variety of marketing strategies, including participation in industry conferences and trade shows, to share our technical message with customers, as well as public relations, industry research and online advertising.

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**Customers**

We sell our LED chips products to packaging customers and LED chip distributors. In addition, we package a portion of our LED chips into LED components, which we sell to distributors and end-customers in selected markets. Sales to distributors represented 17% and 20% of our revenues for the years ended August 31, 2014 and 2013, respectively.

We have historically derived a significant portion of our revenues from a limited number of customers. For the years ended August 31, 2014 and 2013, our top ten customers collectively accounted for 45% and 35%, respectively, of our revenues. Some of our largest customers and what we produce/have produced for them have changed from quarter to quarter primarily as a result of the timing of discrete, large project-based purchases and broadening customer base, among other things. For the years ended August 31, 2014 and 2013, sales to our three largest customers, in the aggregate, accounted for 26% and 14% of our revenues, respectively. For the year ended August 31, 2014, sales to Panasonic Industrial Devices Optical Semiconductor Co., Ltd accounted for 14% of our total revenues.

Our revenues are concentrated in a few select markets, including Taiwan, the United States and China (including Hong Kong). Net revenues generated from sales to customers from these countries, in the aggregate, accounted for 61% and 54% of our net revenues for the years ended August 31, 2014 and 2013, respectively. We expect that our revenues will continue to be substantially derived from these countries for the foreseeable future. Given that we are operating in a rapidly changing industry, our sales in specific markets may fluctuate from quarter to quarter. Therefore, our financial results will be impacted by general economic and political conditions in these markets.

**Our Joint Ventures and Investments**

We have grown our business in part through strategic alliances and acquisitions, and may from time to time continue to grow our operations by participating in joint ventures, making acquisitions or establishing other strategic alliances with third parties in the LED and LED-related industries. As of August 31, 2014, we had an active joint venture, SILQ.

SILQ is a joint venture enterprise we established in Malaysia in September 2009 to design, manufacture and sell lighting fixtures and systems. We also entered into this joint venture to assist with market intelligence and channel development. As of August 31, 2014, we owned a 33% interest in SILQ. The other 67% is held by a Malaysian company. SILQ began operating in June 2010 and is developing business and selling products in Malaysia. We expect that it will incur losses for the near term.

In October 2012, we completed the acquisition of a 9.9% equity interest in High Power Optoelectronics, Inc., or HPO, for total cash consideration of \$2.9 million. HPO and its shareholders also granted us the right to increase our shareholdings in HPO to more than 50% within the one-year period after the closing. The purchase right expired, unexercised in October 2013. Due to the negative impact caused by economic and industry downturn, HPO has incurred significant net losses and negative cash flows from operations. Since our investment in October 2012, HPO's financial condition and sources of liquidity have continued to deteriorate. HPO also failed to comply with financial covenants for certain of its borrowing arrangements, and its cash and financial resources are limited. Due to these conditions and events, substantial doubt exists about HPO's ability to continue as a going concern. In the third quarter of fiscal 2013, we reviewed the operating performance and financial condition of HPO based on HPO's latest audited financial statements, other publicly available information and events that have occurred after HPO's balance sheet date. We also considered an extensive due diligence review completed in January 2013 by independent consultants we appointed. We considered the extent and duration of time to which the fair value of our investment has been less than the carrying amount, the financial condition of HPO and prospect for recovery in the near term, and recognized an other-than-temporary impairment loss of \$1.9 million on our investment in HPO for

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the year ended August 31, 2013. We reviewed HPO's financial condition based on its latest audited financial statements, other publicly available information and events that have occurred after its balance sheet date, and determined that no event or change in circumstances had occurred that may have a significant adverse effect on our investment in HPO. In addition, we intended to hold our investment in HPO for a period of time during which the fair value of our investment may recover to the carrying amount. For these reasons, we did not recognize any additional impairment loss as of August 31, 2014.

In July 2013, we acquired an additional LED components production line and added an array of LED components products to our existing portfolio, including LED emitters ranging from one watt to 50 watts, and LED modules for lighting applications. These LED components products are used primarily for general lighting applications, including residential, commercial and industrial lighting, and industrial applications such as UV curing and horticulture applications. The acquisition allows us to expand our production capacity for LED components, and strengthen our product portfolio, technology and know-how related to LED components.

**Intellectual Property**

Our ability to compete successfully depends upon our ability to protect our proprietary technologies and other confidential information. We rely, and expect to continue to rely, on a combination of confidentiality and license agreements with our employees, licensees and third parties with whom we have relationships, and trademark, copyright, patent and trade secret protection laws, to protect our intellectual property, including our proprietary technologies and trade secrets.

As of August 31, 2014, we had 131 patents issued and 26 patents pending with the United States Patent and Trademark Office covering various aspects of our core technologies. As of August 31, 2014, we also had 182 patents issued and 68 patents pending before patent and trademark offices outside the United States. Of these 313 issued patents, 12 expire between the years 2014 and 2015, 28 expire between the years 2016 and 2020, 106 expire between the years 2021 and 2025, 160 expire between the years 2026 and 2032, and seven expire after year 2032. Ninety-eight of our issued patents are design patents and two of our pending patents are design patents. The foregoing numbers of issued and pending patents did not include those owned or filed by Ning Xiang. However, we believe that factors such as the technological and innovative abilities of our personnel, the success of our ongoing product development efforts and our efforts to maintain trade secret protection are more important than patents in maintaining our competitive position. We pursue the registration of certain of our trademarks in the United States, Taiwan and China and have been granted trademarks with respect to "SemiLEDs" in the United States and "MvpLED" in Taiwan, China and United States.

Our industry is characterized by frequent intellectual property litigation involving patents, trade secrets, copyrights, mask designs, among others. From time to time, third parties may allege that our products infringe on their intellectual property rights. Defending against any intellectual property infringement claims would likely result in costly litigation and ultimately may lead to our not being able to manufacture, use or sell products found to be infringing. Furthermore, other third parties may also assert infringement claims against our customers with respect to our products, or our customers' products that incorporate our technologies or products. Any such legal action or the threat of legal action against us, or our customers, could impair such customers' continued demand for our products. This could prevent us from growing or even maintaining our revenues, or cause us to incur additional costs and expenses, and adversely affect our financial condition and results of operations. See "Risk Factors Risks Related to Our Business Intellectual property claims against us or our customers could subject us to significant costs and materially damage our business and reputation."

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**Research and Development**

We focus our research and development efforts on our design methodology and process technology for our LED products. We also focus on improving our production yields and increasing wafer sizes to lower our production costs. Our research and development team works closely with our manufacturing team. For the years ended August 31, 2014 and 2013, we invested approximately \$4.2 million and \$4.6 million, respectively, in research and development activities. We conduct our research and development activities at our manufacturing facilities in Taiwan.

**Competition**

We believe that our advanced technology helps us to compete in the innovative, intensely competitive and rapidly changing market of LED design and manufacturing. To succeed, however, we must continue to manufacture products that meet the demanding requirements of high efficacies at low costs. We do not account for a significant percentage of the total market volume today, and we face significant competition from other more established providers of similar products as well as from new entrants into our markets.

We compete with many LED chip manufacturers and LED packaging manufacturers. With respect to our LED chips and LED components, we primarily compete with Citizen Electronics Co., Ltd., Cree, Epistar Corporation, Genesis Photonics Inc., Nichia Corporation, or Nichia, Philips (Lumileds), Siemens (Osram) GmbH, or Siemens (Osram), Showa Denko K.K., or Showa Denko, Toyoda Gosei Co., Ltd., or Toyoda Gosei, and Edison Opto Corporation, or Edison. We have a number of competitors that compete directly with us and are much larger than us, including, among others, Cree, Epistar Corporation, Nichia, Philips (Lumileds), and Siemens (Osram). Several substantially larger companies, such as Philips (Lumileds), Siemens (Osram) and Toyoda Gosei, compete against us with a relatively small segment of their overall business. In addition, several large and well-capitalized semiconductor companies, such as Samsung Electronics Co., Ltd., or Samsung, LG Innotek Co., Ltd., or LG Innotek, Sharp Ltd. and Taiwan Semiconductor Manufacturing Co., or TSMC, have entered into the LED chip and lighting market. These potential competitors have extensive experience in developing semiconductor chips, which is similar to the manufacturing process for LED chips. We are also aware of a number of well-funded private companies that are developing competing products. We will also compete with numerous smaller companies entering the market, some of whom may receive significant government incentives and subsidies pursuant to government programs designed to encourage the use of LED lighting and to establish LED-sector companies.

We believe that we generally compete favorably within the marketplace. However, some of our existing and potential competitors possess significant advantages, including longer operating histories, greater financial, technical, managerial, marketing, distribution and other resources, more long-standing and established relationships with our existing and potential customers, greater name recognition, larger customer bases and greater government incentives and support.

We believe that the key competitive factors in our markets are:

consistently producing high-quality LED chips with high efficacy;

balancing lumen output generation with providing low lumen cost;

providing a low total cost of ownership (i.e., cost, efficacy and lifespan) for end-customers; and

our sales channels.

Competition in the markets for LED products is intense, and we expect that competition will continue to increase, thereby creating a highly aggressive pricing environment. Some of our competitors

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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. When prices decline, we must also write down the value of our inventory.

In the lighting market, we face competition from fixtures and bulbs manufactured and marketed by other LED lighting fixture companies and from lighting products incorporating incandescent, fluorescent, halogen, ceramic metal halide or other lighting technology. In addition to lighting companies such as Cree, Philips (Lumileds) and Siemens (Osram), which are substantially larger and more established than us, we are also competing with numerous smaller companies that have traditionally been in the lighting industry or recently entered into the LED lighting market.

**Environmental Regulation**

In our research and development and manufacturing processes, we use a variety of hazardous materials and industrial chemicals. In each of the jurisdictions in which we operate, we are subject to a variety of laws and regulations governing the exposure to and storage, handling, emission, discharge and disposal of these materials or otherwise relating to the protection of the environment. Environmental laws and regulations are complex and subject to constant change, with a tendency to become more stringent over time. Failure to comply with any new or existing laws, whether intentional or inadvertent, could subject us to fines, penalties and other material liabilities to the government or third parties, injunctions requiring the suspension of operations, redemption costs or other remedies, and the need for additional capital, equipment or other process requirements, any of which could have a material adverse effect on our business and reputation.

**Working Capital**

For a discussion of our working capital practices, see "Liquidity and Capital Resources" in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of this Annual Report.

**Employees**

As of August 31, 2014, we had approximately 376 employees. Most of these employees were based in Taiwan, with a small number of employees in China. None of our employees is represented by a labor union. We consider relations with our employees to be good.

**Financial Information about Geographic Areas**

We derive a substantial portion of our revenue from product sales to international customers. For information concerning geographic areas of our customers and geographic information concerning our long-lived assets, see Note 12, "Product and Geographic Information," of the Notes to Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data, of this Annual Report. International operations expose us to risks that are different from operating in the United States, including foreign currency translation and transaction risk, risk of changes in tax laws, application of import/export laws and regulations and other risks described further in Item 1A, Risk Factors, of this Annual Report.

**Available Information**

Our website is [www.semileds.com](http://www.semileds.com). We make available free-of-charge through our website our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13 or 15(d) of the Securities

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Exchange Act of 1934, as amended, or the Exchange Act, as soon as reasonably practicable after such materials are electronically filed with or furnished to the SEC. Our SEC reports can be accessed through the "Investors" section of our website. The information found on our website is not part of this or any other report we file with or furnish to the SEC. A copy of our Annual Report on Form 10-K is available without charge to stockholders upon written request to: Investor Relations, SemiLEDs Corporation, 3F, No. 11 Ke Jung Rd., Chu-Nan Site, Hsinchu Science Park, Chu-Nan 350, Miao-Li County, Taiwan, R.O.C.

**Item 1A. Risk Factors**

*A wide range of factors could materially affect our performance. The following factors and other information included in this Annual Report should be carefully considered. Although the risk factors described below are the ones management deems significant, additional risks and uncertainties not presently known to us or that we presently deem less significant may also impair our business operations. If any of the following risks actually occur, our business, operating results, and financial condition could be adversely affected. In that event, the trading price of our common stock could decline and you could lose part or all of your investment.*

**Risks Related to Our Business**

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

We incurred net losses attributable to SemiLEDs stockholders of \$24.5 million and \$43.7 million for the years ended August 31, 2014 and 2013, respectively. We can give no assurance that we will not incur net losses in future periods. Our revenue and operating results may continue to decline for a variety of reasons, some of which are described elsewhere in this "Risk Factors" section and are beyond our control. As of August 31, 2014, we had an accumulated deficit of \$132.6 million and net cash balances had declined to only \$12.6 million. These facts and conditions raise doubt about our ability to continue as a going concern. However, our management believes it has developed a liquidity plan, as further described in elsewhere in this annual report that if executed successfully, should provide sufficient liquidity to meet our obligations as they become due for a reasonable period of time. While we believe that these liquidity plan measures will be adequate to satisfy our liquidity requirements for the twelve months ending August 31, 2015, there is no assurance that the liquidity plan will be successfully implemented. Failure to successfully implement the liquidity plan may have a material adverse effect on our business, results of operations and financial position, and may adversely affect our ability to continue as a going concern. If we do not become consistently profitable, our accumulated deficit will grow larger and our cash balances will decline further, and we will require additional financing to continue operations. If we do not become consistently profitable and additional funding is required to support our business, financing may not be accessible on acceptable terms, if at all. If we cannot generate sufficient cash or obtain additional financing, we may be required to downsize our business further or discontinue our operations altogether.

*Our success depends on the successful development, introduction, commercialization and acceptance of new generations of products and enhancements to existing product lines.*

Rapid change and technical innovation characterize the LED chips and components market. Our success depends on the successful development, introduction, commercialization and acceptance of new generations of products and enhancements to existing product lines. We have made and continue to make significant investments in growth initiatives. For example, in January 2013, we introduced our low-power 3020 product series and 5mm through-hole lamp type UV LED components, and in June 2013, we expanded our UV LED product portfolio with the launch of our mid-power P50N

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products series and high-power N9 product series, designed for industrial applications such as printing, coating, curing, signage and medical/cosmetic uses. Furthermore, in November 2013, we launched a new 10-watt M63 RGBW integrated 6363 LED, capable of delivering over 410 total lumens of combined red, green, blue and white light output. Additionally, in August 2014, we launched a new Enhanced Flip Chip, or EF, LED series and our newest line of white chip scale packages, the ReadyMount Enhanced CSP, or EC series. We expect to continue our efforts at further research and development of innovative products. We may need to spend more time and money than we expect to develop and introduce new products or enhancements and, even if we succeed, they may not be sufficiently profitable for us to recover all or a meaningful part of our investment. In addition, our new products or enhancements may need certifications or require qualifications by our customers or potential customers both of which are lengthy and uncertain process that may negatively impact our sales and marketing efforts to sell or transition our customers to such new products or enhancements. Furthermore, once introduced, new products may adversely impact sales of our older generation products, or make them less desirable or even obsolete, and could adversely impact our revenues and operating results. For example, in our fiscal 2013, we experienced delays relating to the adoption of our new LED products, which negatively impacted our sales and results of operations. Our results in fiscal 2013 were also negatively impacted by our decision to phase out and clear a significant volume of older generation inventory in our LED chips portfolio at discounted prices in a one-time sale.

Our ability to successfully develop and introduce new products and product enhancements, and the revenues and costs associated with these efforts, are affected by our ability to (i) properly identify customer needs, (ii) prove the feasibility of new products, (iii) price our products competitively and profitably, (iv) accurately predict and control costs and yields associated with manufacturing the products, (v) manufacture and deliver new products timely and in sufficient volume, (vi) assist the customers in qualifying or adopting the new products in a timely manner and (vii) anticipate and compete successfully with competitors. Even if we are successful, if a customer requires certain certifications for or new qualification process of our new products, the time when that customer will actually purchase our products and we will be able to receive revenue from that customer will be significantly delayed.

***We may not be able to effectively develop, maintain and expand our sales and distribution channels, which could negatively affect our ability to expand our sales and business and damage our brand reputation.***

As part of our strategy, we market and sell our products through third-party distributors in certain markets such as Taiwan, the United States and China (including Hong Kong). We rely on these distributors to service end-customers, and our failure to maintain strong working relationships with such distributors could have a material adverse impact on our operating results and revenues from such jurisdictions and damage our brand reputation. If we are unable to effectively develop and expand our distribution channels, or do so in a timely manner, to ensure our products are reaching the appropriate customer base, our sales and results of operations may be adversely impacted. In addition, if we successfully develop these channels, we cannot guarantee that customers will accept our products or that we will be able to manufacture and deliver products in the timeline established by our customers. Beginning in our fiscal 2014, for example, we have attempted to direct our efforts to areas of business where we see the best opportunity for the most profitable sales of our LED products, which includes primarily a focus on the UV LED market segment, de-emphasizing LED chips sales (but placing a greater emphasis on the sale of LED components) in selected markets where pricing pressure is significant, and pursuing new market opportunities that leverage our core competencies. This strategy, however, negatively impacted our revenues during the year ended August 31, 2014, primarily because we were unable to develop and expand our customer base and distribution channels in a timely manner, among other reasons.

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We do not control the activities of our distributors with respect to the marketing and sales of and customer service support for our products. Therefore, the reputation and performance of our distributors and the ability and willingness of our distributors to sell our products, uphold our brand reputation for quality, by providing, for example, high quality service and pre- and post-sales support, and their ability to expand their businesses and their sales channels are essential to the future growth of our business and has a direct and material impact on our sales and profitability in such jurisdictions. Also, as with our individual customers, we do not have long-term purchase commitments from our distributor customers, and they can therefore generally cancel, modify or reduce orders with little or no notice to us. As a result, any reductions or delays in, or cancellations of, orders from any of our distributors may have a negative impact on our sales and budgeting process.

In addition, we have entered and may from time to time enter into exclusivity or other restrictions or arrangements of a similar nature as part of our agreements with our distributors. Such restrictions or arrangements may significantly hinder our ability to sell additional products, or enter into agreements with new or existing customers or distributors that plan to sell our products, in certain markets, which may have a material adverse effect on our business, financial condition and results of operations.

Moreover, we may not be able to compete successfully against those of our competitors who have greater financial resources and are able to provide better incentives to distributors, which may result in reduced sales of our products or the loss of our distributors. The loss of any key distributor may force us to seek replacement distributors, and any resulting delay may be disruptive and costly.

***We operate in highly competitive markets that are characterized by rapid technological changes and declining average selling prices. Competitive pressures from existing and new companies and/or damage to our brand may harm our business and operating results.***

Competition in the markets for LED products is intense, and we expect that competition will continue to increase. Increased competition could result in increased pricing pressure, reduced profit margins, increased sales and marketing expenses, and failure to increase, or the loss of, market share, any of which would likely seriously harm our business, operating results and financial condition. Competitors may reduce average selling prices faster than our ability to reduce costs, and competitive pricing pressures may accelerate the rate of decline of our average selling prices. To address increased pricing pressure, we have improved and increased our production yields to reduce the per-unit cost of production for our products. However, such cost savings currently have a limited impact on our gross profit, as we have suffered from the underutilization of manufacturing capacity and must absorb a high level of fixed costs, such as depreciation.

We compete with many LED chip manufacturers and LED packaging manufacturers. With respect to our LED chips and LED components, we primarily compete with Citizen Electronics Co., Ltd., Cree, Epistar Corporation, Genesis Photonics Inc., Nichia, Philips (Lumileds), Siemens (Osram), Showa Denko, Toyoda Gosei, and Edison. We have a number of competitors that compete directly with us and are much larger than us, including, among others, Cree, Epistar Corporation, Nichia, Philips (Lumileds), and Siemens (Osram). Several substantially larger companies, such as Philips (Lumileds), Siemens (Osram) and Toyoda Gosei, compete against us with a relatively small segment of their overall business. In addition, several large and well-capitalized semiconductor companies, such as Samsung, LG Innotek, Sharp Ltd. and TSMC, have entered into the LED chip and lighting market. These potential competitors have extensive experience in developing semiconductor chips, which is similar to the manufacturing process for LED chips. We are also aware of a number of well-funded private companies that are developing competing products. We will also compete with numerous smaller companies entering the market, some of whom may receive significant government incentives and subsidies pursuant to government programs designed to encourage the use of LED lighting and to establish LED-sector companies. For example, the Chinese government subsidizes equipment costs,



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which enables manufacturers in China to remain price competitive and make it very difficult for foreign companies to compete.

In the lighting market, we face competition from fixtures and bulbs manufactured and marketed by other LED lighting fixture companies and from lighting products incorporating incandescent, fluorescent, halogen, ceramic metal halide or other lighting technology. In addition to lighting companies such as Cree, Philips (Lumileds) and Siemens (Osram), which are substantially larger and more established than us, we also compete with numerous smaller companies that have traditionally been in the lighting industry or recently entered into the LED lighting market.

Our existing and potential competitors may have a number of significant advantages over us, including greater financial, technical, managerial, marketing, distribution and other resources, more long-standing and established relationships with our existing and potential customers, greater name recognition, larger customer bases and greater government incentives and support. In addition, some of our competitors have been in operation much longer than we have and therefore may have more long-standing and established relationships with our current and potential customers.

We compete primarily on the basis of our products' performance, price, quality, and reliability and on our ability to customize products to meet customer needs. However, our competitors may be able to develop more competitive products, respond more quickly to new or emerging technologies, offer comparable products at more competitive prices or bring new products to the market earlier. Any failure to respond to increased competition in a timely or cost-effective manner could have a material adverse effect on our business, financial condition, results of operations and prospects. Furthermore, intellectual property claims against us, including pending claims and litigation, regardless of the outcome, could be used by our competitors to damage our brand reputation and our relationships with existing and potential customers.

***We derive our revenues mainly from the sales 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.***

LED chips and LED components are the core products from which we derive our revenues. Revenues attributable to the sales of our LED chips represented 33% and 30% of our revenues for the years ended August 31, 2014 and 2013, respectively. Revenues attributable to the sales of our LED components represented 37% and 39% of our revenues for the years ended August 31, 2014 and 2013, respectively. Although revenues attributable to the sale of lighting products accounted for 24% and 23% of our revenues for the years ended August 31, 2014 and 2013, respectively, we expect to continue to generate our revenues mainly from the sales 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. 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.

***The market for LEDs has historically been, and we expect will continue to be, highly volatile, which could harm our business and result in significant fluctuations in the market price of our common stock.***

Fluctuations in supply and demand for LEDs pose serious risks to our prospects, business, financial condition and results of operations. Our industry, akin to the semiconductor industry, is highly cyclical and characterized by rapid technological change, rapid product obsolescence, declining average

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selling prices and wide fluctuations in supply and demand. Our industry's cyclicity results from a complex set of factors, including, but not limited to:

fluctuations in demand for end-products that incorporate LED chips and LED components;

ongoing reductions in the number of LED chips and LED components required per application due to performance improvements; and

fluctuations in the unutilized manufacturing capacity available to produce LED chips and LED components.

If market demand increases and we are not able to increase our capacity or if we experience delays or unforeseen costs in increasing our capacity levels, we may not be able to achieve our financial targets. Alternatively, as market demand decreases or as market supply surpasses demand, we may not be able to reduce manufacturing expenses or overhead costs proportionately. If an increase in supply outpaces the increase in market demand, or if demand decreases, the resulting oversupply could adversely impact our sales and result in the underutilization of manufacturing capacity, high inventory levels, changes in revenue mix and rapid price erosion, which would lower our margins and adversely impact our financial results. For example, over the past few years, we recorded significant excess capacity charges as we suffered from underutilization of our manufacturing capacity as a result of a decrease in customer demand, and significant write-downs of inventories as a result of a decline in their average selling prices. We may experience similar problems in the future, and we cannot predict when they may occur or the severity of such difficulties and the impact on our margins and operating results.

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

Beginning in our fiscal 2014, we initiated actions to accelerate operating cost reductions and improve operational efficiencies in response to changes in the economic environment, our industry and demand. In connection with the implementation of our cost reduction program, we developed a strategic plan to address areas of business where we see the best opportunity for the most profitable sales of our LED products, which includes primarily a focus on the UV LED market segment, de-emphasizing LED chips sales (but placing a greater emphasis on the sale of LED components) in selected markets where pricing pressure is significant, and pursuing new market opportunities that leverage our core competencies.

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

***Our operating results may fluctuate from quarter to quarter, which could make our future performance difficult to predict and could cause our operating results for a particular period to fall below expectations, resulting in a severe decline in the price of our common stock.***

Our quarterly operating results are difficult to predict and may fluctuate significantly in the future. We have experienced seasonal and quarterly fluctuations in the past. As such, our past quarterly operating results may not be good indicators of future performance.

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The following factors could cause our operating results to fluctuate:

our ability to retain existing customers, attract new customers and successfully enter new geographic markets;

changes in supply and demand and other competitive market conditions, including pricing actions by our competitors and our customers' competitors;

timing of orders from and shipments to major customers and end-customers, including as part of LED project-based orders, and our ability to forecast demand and manage lead times for the manufacturing of our products; and

seasonal fluctuations in our customers' purchasing patterns.

For these or other reasons, the results of any prior quarterly or annual periods should not be relied upon as indications of our future performance, and our actual revenue and operating results in future quarters may fall short of the expectations of investors and financial analysts, which could have a severe adverse effect on the trading price of our common stock.

***If we are unable to implement our product innovation strategy effectively, our business and financial results could be materially and adversely affected.***

As part of our growth strategy, we plan to continue to be innovative in product design, to deliver new products and improve our manufacturing efficiencies. In particular, as the LED industry develops and technical specifications and market standards change, we must continue to innovate and develop competitive products that are accepted by the marketplace. Our existing or potential customers could develop, or acquire companies that develop, products or technologies that may render our products or technologies obsolete or noncompetitive. 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 achieve technological breakthroughs, introduce new products that are commercially viable and meet rapidly evolving customer requirements, and keep pace with evolving technological standards and market development, we may experience reduced market share and our ability to compete may be adversely impacted. If we are 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 respond to competition.

***We may be exposed to intellectual property infringement or misappropriation claims by third parties, which could adversely affect our financial condition and results of operations.***

Trademark, patent, copyright and other intellectual property rights are critical to our business and the business of our competitors. Our industry is characterized by frequent intellectual property litigation involving patents, trade secrets, copyrights, and mask designs among others. 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.

Litigation to determine the validity and scope of any claim against us for infringement, misappropriation, misuse or other violation of third-party intellectual property rights can be highly uncertain because of the complex scientific, legal and factual questions and analyses involved. Defending against any intellectual property infringement claims would likely result in costly litigation, diversion of the attention and efforts of our technical and management personnel and ultimately may lead to our not being able to manufacture, use or sell products found to be infringing. As a result of any such dispute, we may be required to develop non-infringing technology, pay substantial damages, enter into royalty or licensing agreements to use third-party technology, cease selling certain products,

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adjust our marketing and advertising activities or take other actions to resolve the claims. These actions, if required, may be costly or unavailable on terms acceptable to us. If we are unable to obtain sufficient rights or develop non-infringing intellectual property or otherwise alter our business practices on a timely basis, our business and competitive position may be adversely affected. For example, although we and Cree executed a settlement agreement providing for dismissal of our amended complaints against each other without prejudice, we agreed to the entry of a permanent injunction that was effective October 1, 2012 that precludes us from (and/or from assisting others in) making, using, importing, selling and/or offering to sell in the United States certain accused products and/or any device that includes such an accused product after that date and to payment of a settlement fee for past damages.

The intellectual property rights related to packaging LEDs with phosphors to make white light LED components are particularly complex and characterized by aggressive enforcement of those rights. Many of our competitors and other third parties hold patents or licenses or cross-licenses that relate to phosphors and the use of phosphors in LED packages to make white light LED components. We have sought to minimize the risk that one of our competitors or another third party will assert a claim related to our packaged LED components by marketing these products only in certain countries in which we believe enforcement of intellectual property rights has historically been more limited. We cannot assure you that our belief with respect to the enforcement of rights within those markets is accurate. In addition, if the products we sell in a particular country are subsequently shipped or resold to another country, the intellectual property laws of the country of final destination may also apply to our products. Further, we may be subject to claims if our packaging customers for our LED chips lack sufficient intellectual property rights with respect to their packaging process and related packaging materials. We cannot assure you that our competitors or others will not claim that our LED chips or our LED components infringe their intellectual property rights or that, if such claims are made, we will be able to successfully dispute such claims.

***Intellectual property claims against us, or our customers, including our distributor customers, could subject us to significant costs and materially damage our business and reputation.***

From time to time, third parties may assert infringement claims against us, or our customers with respect to our products, or our customers' products that incorporate our technologies or products, and any such legal action or the threat of legal action against us, or our customers, could impair such customers' continued demand for our products. For example, Nichia, filed a lawsuit in Japan against a Japanese subsidiary of Seoul Semiconductor Co., Ltd., or Seoul Semiconductor, which is one of our customers, and another lawsuit in Korea against Seoul Semiconductor. In those two lawsuits, Nichia asserted that our LED chips infringed two patents in Japan and one in Korea. While we were not named as a defendant in either of those lawsuits, we intervened as independent or supplementary parties. Although the Japanese lawsuit was settled, it is still possible for Nichia to file a new lawsuit on the two patents originally at issue in the action in Japan. In addition, although the Korean district court found the patent at issue to be invalid, Nichia's subsequent appeal and Seoul Semiconductor's related invalidation action were both withdrawn after the parties entered into a cross-licensing agreement. As such, the invalidity finding by the district court was vacated.

Furthermore, we agree to defend and indemnify our customers in the event that they are sued by third parties for intellectual property infringement claims involving the sale or use of our products. There can be no assurance that we will be successful in defending these claims. Our indemnification obligations could increase the cost to us of an adverse ruling in any such action.

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***We may incur significant costs associated with pending legal proceedings, and the ultimate outcome of these matters is uncertain.***

We, and certain of our current and former officers and directors, are the subjects of a number of purported class action lawsuits and derivative lawsuits. We cannot predict the duration, outcome or impact of these pending matters, but the lawsuits could result in judgments against us and directors and officers named as defendants. Our legal expenses incurred in defending the lawsuits may be significant in the future. In addition, members of our senior management may be required to divert significant attention and resources to these matters, reducing the time, attention and resources they have available to devote to managing our business. These additional expenses and diversion of attention and resources, along with any reputational issues raised by these lawsuits, may have a material negative impact on our business, financial condition and results of operations.

***If LEDs fail to achieve widespread adoption in the general lighting market, or if alternative technologies gain market acceptance, our prospects will be materially and adversely impacted and we may be unable to achieve and maintain our profitability.***

Our LED chips and LED components are primarily sold for use in LED general lighting applications and our lighting products are also oriented to this market. Our financial condition, results of operations and prospects substantially depend on increased market acceptance of LEDs in general lighting globally, and in particular in Asia. Although LED lighting has grown rapidly in recent years, adoption of LEDs for general lighting has only recently begun, is still limited and faces significant challenges. In addition, in fiscal 2014, the demand for medium power multiple LEDs chips increased for general lighting applications, instead of higher power single chip, which is the specialty of SemiLEDs.

If LED lighting does not achieve widespread acceptance and adoption, or if demand for LED products does not grow as we anticipate, our revenues may decline and our prospects for growth and profitability will be limited. Moreover, if existing sources of light other than LED devices, such as organic light emitting diodes (OLEDs), achieve adoption, or if new sources of light are developed, our current products and technologies could become less competitive or obsolete.

Potential customers for LED general lighting systems may not adopt LED lighting as an alternative to traditional lighting technology because of LEDs' higher upfront cost. In addition, manufacturers of general lighting systems may have substantial investments and know-how related to their existing lighting technologies, such as traditional incandescent, fluorescent, halogen and high intensity discharge, or HID, lighting devices, and may perceive risks relating to the complexity, reliability, quality, usefulness and cost-effectiveness of LED products. Even if LED lighting continues to achieve performance improvements and cost reductions, limited customer awareness of the benefits of LEDs, lack of widely accepted standards governing LED lighting and customer unwillingness to adopt LEDs in favor of entrenched solutions could significantly limit the demand for LED products. Additional factors that may limit the adoption of LEDs for general lighting include, among others:

a significant reduction in or discontinuation of government regulations and economic incentives to promote the development of the LED industry or government regulations that discourage the use of some traditional lighting technologies;

changes in economic and market conditions that affect the viability of some traditional lighting technologies, for example declining energy prices that favor existing lighting technologies; and

capital expenditures for new and replacement lighting systems by end-users of LED products, which may decline during economic downturns.

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

We anticipate that our gross margins will fluctuate from period to period as a result of the mix of products that we sell and the utilization of our manufacturing capacity in any given period, among other things. For example, as a strategic plan, we placed greater emphasis on the sales of LED components rather than the sales of LED chips where we have been forced to cut prices on older chips inventory. In particular, we sold a significant volume of a category of lower-priced LED components designed to meet our customers' demand. While such a shift in product mix decreased our average selling price, lower than expected sales volume harmed our revenues and gross margin in fiscal 2014. We intend to continue to pursue opportunities for profitable growth in areas of business where we see the best opportunity for our EV LED product series of LED chips (particularly the UV market) and continue to expand the lower-priced LED components as appropriate. However, as we expand and diversify our product offerings and with varying average selling prices, or execute new business initiatives, a change in the mix of products that we sell in any given period may increase volatility in our revenues and gross margin from period to period.

Increased competition and the adoption of alternatives to our products, more complex engineering requirements, lower demand, over-capacity in the market and other factors has led 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. Our introduction of new LED chip and component products, such as the EV LED chips and our LED components that incorporate such chips may further reduce the selling prices of our older generation products or render them obsolete.

***We rely on a limited number of key suppliers for certain key raw materials and equipment. The loss of key suppliers may have a material adverse effect on our business.***

There are a limited number of companies which supply certain of the specialized raw materials that are important to the manufacture of our products as well as a very limited number of manufacturers of equipment that are critical to our operations. We generally enter into spot purchase orders with our suppliers and do not have long-term or guaranteed supply arrangements with any of them. For example, we purchase sapphire products, the key wafer material used in the manufacture of our LEDs, and red color LED chips, a key material used in the manufacture of our RGBW LED component products, from a limited number of suppliers. A major shortage of these key raw materials would impair our ability to meet our production needs resulting in increased costs.

We also purchase gases, photo chemicals and other materials from various suppliers on the spot market. Although supply constraints do not currently have an impact on our ability to procure supply, supply constraints have occurred in the past and may occur again from time to time in the future. Additionally, we use metals such as copper alloy and other commodities in our manufacturing process. The price volatility of such materials may make our procurement planning challenging. If the prices of materials increase it may adversely affect our operating margins. Although these materials are generally available and are not considered to be specialty chemicals, our inability to procure such materials in volumes and at commercially reasonable prices could result in a material adverse effect on our business, financial condition and results of operations.

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Furthermore, the global LED chip manufacturing industry currently relies on only a few manufacturers of MOCVD reactors. Because the MOCVD reactor is the key equipment used to produce LED chips, a significant increase in demand for production capacity could place significant pressure on these equipment manufacturers. These equipment manufacturers may not be able to timely meet such demand. In addition, lead times for MOCVD reactors may be lengthy depending on the supply and demand for such reactors. In the event that we are unable to procure sufficient equipment for our future capacity expansions and future migration to larger wafer sizes, our business, financial condition and results of operations would be materially adversely affected.

If any of our key raw material and equipment suppliers fails to meet our needs on time or at all, we may not be able to procure replacement supplies from other sources on a timely basis or on commercially reasonable terms and our production may be delayed or interrupted, which could impair our ability to meet our customers' needs and damage our customer relationships.

***Disclosure requirements under the Dodd-Frank Act relating to "conflict minerals" could increase our costs and limit the supply of certain metals used in our products and affect our reputation with customers and shareholders.***

As required under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, as amended, or the Dodd-Frank Act, in August 2012 the SEC promulgated final rules regarding annual disclosures by public companies of their use of certain minerals and metals, known as "conflict minerals," which are mined from the Democratic Republic of the Congo, or the DRC, and adjoining countries, and their efforts in to prevent the sourcing of such conflict minerals from these countries. These conflict minerals are commonly referred to as "3TG" and include tin, tantalum, tungsten, and gold. These rules require us to ascertain and disclose the origin of some of the raw materials that we use, including gold, annually no later than May 31 of each year. We expect to incur costs associated with complying with these disclosure requirements, including due diligence to determine the sources of conflict minerals used in our products and other potential changes to our products, processes, or sources of supply as a consequence of such due diligence activities. The implementation of these rules and our compliance procedures could adversely affect the sourcing, supply, and pricing of materials used in our products. As there may be only a limited number of suppliers offering "conflict free" conflict minerals, we cannot be sure that we will be able to obtain sufficient quantities of conflict minerals from such suppliers or at competitive prices. Also, our reputation with our customers, shareholders and other stakeholders could be damaged if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to sufficiently verify the origins for all conflict minerals used in our products through the procedures we may implement. If we cannot guarantee that all of our products exclude conflict minerals sourced from the DRC or adjoining countries, certain of our customers may discontinue, or materially reduce, purchases of our products, which could result in a material adverse effect on our results of operations and financial condition may be adversely affected.

***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 effect 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:

reduced control over delivery schedules, quality assurance, manufacturing yields and production costs;

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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 have a limited operating history which makes it difficult for you to evaluate our business, financial condition, operating results and prospects and which impairs our ability to accurately forecast our future performance.***

We were incorporated in January 2005 and our first sales of LED chips occurred in November 2005. In the past, we have experienced revenue declines and incurred net losses. For the years ended August 31, 2014 and 2013, we incurred significant net losses attributable to SemiLEDs stockholders of \$24.5 million and \$43.7 million, respectively. Our limited operating history, combined with the rapidly evolving nature of the LED industry in which we compete, may not provide an adequate basis for you to evaluate our operating and financial results and business prospects. In addition, we only have limited insight into emerging trends that may adversely affect our business, prospects and our operating results. As such, our limited operating history may impair our ability to accurately forecast our future performance.

***We may not be able to effectively expand our production capacity or upgrade our production facilities or do so in a timely or cost-effective manner, which could prevent us from growing our sales, margins and market share.***

While we intend to focus on managing our costs and expenses in the short term, over the long term we expect to be required to invest substantially if we are to grow. This will mean having to continually expand our production capacity or upgrade our production facilities as we deem appropriate under future market conditions and future customer demand. For example, we acquired an additional LED components production line in July 2013 to expand our LED components production and research and development capabilities, and broaden our LED components portfolio. Such investment could take time to become fully operational, and could otherwise increase our costs, and we may not be able to execute quickly to take advantage of market opportunities as they arise.

Upgrading or expanding existing facilities could result in manufacturing problems that may reduce our yields and utilization rates below our target levels. For example, we have experienced difficulties in the past in achieving acceptable yields when we moved our manufacturing facilities to a new location and when we introduced new products or new manufacturing processes, which has adversely affected our operating results.

Upgrading or expanding production facilities or capacity requires a significant amount of fixed cost since it requires us to add and purchase manufacturing lines, equipment and additional raw materials and other supplies. If we are not able to recoup these costs through increased sales and profits, our business, financial condition and results of operations could be materially and adversely affected.



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***We may have difficulty managing our future growth and the associated changes to our operations, which could materially and adversely affect our business and operating results.***

We had experienced a period of significant growth prior to the recent changes to the market and our business that resulted in net losses for the past few years. However, we intend to continue to upgrade our business and operations in Taiwan, as appropriate, including a focus on the introduction of new products and improving our production yields, with a view to positioning us to capture future growth of the market and our business.

Our future expansion plans may place a significant strain on our managerial, administrative, operational, technological and financial resources. In order to manage our growth, we must continue to hire, recruit and manage our workforce effectively as well as implement adequate controls and reporting systems and procedures in a timely manner. If we fail to manage our growth, we may encounter, among other things, delays in production and operational difficulties. Moreover, any additional capital investments would increase our overall costs.

In order to effectively support our growth, we must also continue to:

maintain adequate manufacturing facilities and equipment;

secure and maintain sufficient and stable supplies of raw material;

continue to expand our research and development, sales and marketing, technological and distribution capabilities;

enhance the skills and capabilities of our key personnel and hire additional experienced senior level managers and technical personnel; and

attract and retain qualified employees.

If we are unable to effectively manage our growth and the associated changes to our operations, our financial results, financial condition, business or prospects could be harmed significantly.

***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, including Taiwan, the United States and China (including Hong Kong), as well as in Russia in fiscal 2013. Net revenues generated from sales to customers in Taiwan, the United States and China, in the aggregate, accounted for 61% and 54% of the Company's net revenues for the years ended August 31, 2014 and 2013, respectively. Net revenues generated from sales to customers in Russia accounted for 2% and 9% of the Company's net revenues for years ended August 31, 2014 and 2013, respectively. As a result of the concentration of our revenues 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. For example, some of our customers in Russia have experienced temporary liquidity constraints as a result of the impact of the banking crisis in Cyprus in March 2013 on the Russian economy, which have led to significantly reduced and/or delayed purchases of our products by these customers. Furthermore, the reduction in LED street and tunnel lighting projects financed by the Chinese government and aggressive support by the Chinese government for the LED industry through significant government incentives and subsidies to encourage the use of LED lighting and to establish the LED-sector companies has resulted in production overcapacity in the market and intense competition. Starting in March 2014, as a result of Russia's military intervention in Ukraine and annexation of Crimea, the United States and European Union have imposed and extended sanctions on certain individuals and financial institutions and have proposed to use broader

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economic sanctions. Russia also imposed reciprocal sanctions against the United States and European Union. If the confrontation worsens, our business in Russia and/or related markets could be adversely affected as a result of potential trade sanctions or economic uncertainty or slowdown. Any unfavorable economic or market conditions in such jurisdictions could have a negative impact on our sales and profitability.

***We may not succeed in cost-effectively producing LED chips using larger wafer sizes.***

We expect to have to continually develop new technologies that allow us to produce LED chips using larger wafer sizes. We believe larger wafer sizes will enable us to reduce the per-unit costs of our products and allow us to compete more effectively against companies that already possess or are developing such technologies. However, growing epitaxial layers on larger wafers generally involves processes that are materially more difficult than on smaller wafers. In addition, the cost of larger wafers is also significantly higher than smaller wafers. Therefore, if we are unable to manufacture LED chips on larger size wafer with acceptable yield and consistency, the higher cost of the wafer may not be justifiable and we will not be able to reduce the per-unit cost of such LED chips to compete effectively against our competitors. We are currently manufacturing our LED chips using 4" wafer technology. We have improved and increased our production yields to reduce the per-unit cost of production of our products. However, such cost savings currently have limited impact on our gross profit, as we currently suffer from the underutilization of manufacturing capacity and must absorb a high level of fixed costs, such as depreciation.

While we will continue to invest in process technologies and know-how to improve our LED chips using 4" wafers and to manufacture LED chips using larger wafer sizes, as appropriate, no assurance can be given that we will be successful in doing so. We have not commenced research and development to manufacture LED chips using 6" wafers, as we currently suffer from significant underutilization of our manufacturing capacity. Even if we develop the technology and know-how necessary to successfully manufacture LED chips using larger wafer sizes, we may not be able to cost-effectively migrate to larger wafer sizes and other manufacturers could succeed in developing cost-effective technology to manufacture wafer sizes greater than 4" before we do. For example, there are currently several of our competitors, such as Cree, Philips (Lumileds), Samsung and LG Innotek, have begun manufacturing LED chips based on 6" wafers. If we are unable to cost-effectively migrate to larger wafer sizes, or if these and other manufacturers succeed in developing cost-effective 6" or greater size wafer technology before we do, our financial condition, results of operations, competitiveness and prospects would be materially and adversely affected.

***Variations in our production yields and limitations in the amount of process improvements we can implement could impact our ability to reduce costs and could cause our margins to decline and our operating results could suffer.***

Our products are manufactured using technologies that are highly complex. The number of saleable products, or yield, from our production processes may fluctuate as a result of many factors, including but not limited to the following:

variability in our process repeatability and control;

contamination of the manufacturing environment;

equipment failure, variations in the manufacturing process, or power outages;

lack of consistency and adequate quality and quantity of components and raw materials;

losses from broken wafers, inventory damage or human errors;

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defects in packaging either within our facilities or at our subcontractors; and

any transitions or changes in our production process, planned or unplanned.

Introduction of new products and manufacturing processes are often characterized by lower yields in the initial commercialization stage. LED chip and component manufacturing is complicated and consists of many layers of complex materials that must interact with each other. In addition, when we introduce new products and processes we often use new chemical solutions and chemical compounds with which we have less experience. We must analyze how the various solutions, compounds and layers of materials interact with each other and perform as parts of the LED chip structure. It takes time for us to analyze the data from our initial manufacturing runs and optimize our processes, and over time we generally achieve higher yield rates as we gain more experience with the product or processes. During our fiscal 2014, we improved and increased our production yields to reduce the per-unit cost of production for our new EV LED chips and the LED components that incorporate such chips; however, such cost savings currently have limited impact on our gross profit, as we currently suffer from the underutilization of manufacturing capacity and must absorb a high level of fixed costs, such as depreciation. In the past, we have experienced difficulties in achieving acceptable yields when introducing new products or new manufacturing processes, which has adversely affected our operating results. We may experience similar problems in the future, and we cannot predict when they may occur or the severity of such difficulties and the impact on our business.

In some instances, we may offer products for future delivery at prices based on planned yield improvements or increased cost efficiencies from other production advances. Failure to achieve these planned improvements or advances could significantly affect our margins and operating results.

***Some of our packaging customers may reduce orders if they perceive us as competing with them and we may face challenges further expanding our LED components business. In addition, our strategy of marketing our LED components in jurisdictions with limited intellectual property enforcement regimes may limit the markets where we can sell our LED components and may subject our intellectual property rights to infringement.***

We have expanded our sales of LED components and plan to continue to focus on increasing such sales in the future. As we continue to expand our LED components business, some of our packaging customers may perceive us as a competitor and may reduce or cease purchasing our LED chips. If such reduction in orders occurs faster than our growth in our LED components business or if future demand for these products does not grow, our business, financial condition and results of operations could be materially and adversely affected.

In addition, we face challenges in further expanding our LED components business because it involves processes and technologies that are significantly different from our manufacturing processes for LED chips, which has been our core product to date. For example, we are developing advanced-level LED component manufacturing techniques, such as processes that allow us to manufacture wafer-level packaging. We have also recently acquired certain technologies and know-how related to wafer-level packaging. If we are not able to further develop our LED components business or if competitors create or adopt more advanced packaging technologies than ours, then our business, financial condition and results of operations could be materially and adversely affected.

Our distribution strategy limits the sales of our LED components as we are selling only in countries that may not necessarily have the highest demand or market potential. The intellectual property rights related to LED components are particularly complex and characterized by aggressive enforcement of those rights. To minimize the likelihood that one of our competitors or another third party will assert a claim related to our LED components, we have sought to market these products only in countries in which we believe enforcement of intellectual property rights has historically been more limited as identified below, because we believe that, given our early stage of development, it is

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important for us to consciously manage our exposure to litigation. Any such litigation, whether with or without merit, could divert our management, financial and other resources away from our business and thereby have a negative impact on our continued development and growth. Consistent with this strategy, we currently limit sales of our LED components to distributors and end-customers mainly in Taiwan, China, Republic of Turkey, and other countries in which we believe cost of litigation is low. We do not currently sell our LED components in all countries that meet, what we believe to be, an acceptable litigation risk profile. We review profiles of different countries and may determine from time to time that we should sell our products in one or more additional countries that meet our litigation risk profile for sale of our LED components. However, we may not be able to identify additional countries that we find to be suitable markets for these products. We have considered the potential loss of revenues and income that we may suffer as a result of our strategy to sell only in certain select countries and have concluded that, on balance, the potential loss of such revenues and income is not outweighed by the potential litigation risks. Also, there can be no guarantee that, by selling our LED components in these countries, we have not exposed our intellectual property rights, including our patents, to infringement by others. With respect to any potential infringement of our patents and other intellectual property rights by others in countries where we currently sell our LED components, we have considered the potential loss of revenues and income that we may suffer associated with such sales and have made a business judgment that the benefits outweigh any potential loss. In addition, if the countries in which we currently sell our LED components increase their enforcement of intellectual property rights, the risk of litigation would materially increase and our ability to continue to sell our LED components in these markets may be materially and adversely affected. Sales of our LED components and our other products may also be limited in the event that they are subsequently shipped or otherwise resold in a country and a claim is brought against us or our customer pursuant to the intellectual property laws of the country of final destination.

***As we expand into the lighting fixtures market, we will face additional competition and our existing customers may reduce orders.***

As we expand into the lighting fixtures market and increase our sales of lighting products in the future, we will face competition from fixtures and bulbs manufactured and marketed by other LED lighting fixture companies and from lighting products incorporating incandescent, fluorescent, halogen, ceramic metal halide or other lighting technology. In addition, many of our existing customers who purchase our LED chips and LED components develop and manufacture lighting fixtures using those chips and components. As we expand into that market, our customers may respond by reducing or discontinuing their orders for our products. This could prevent us from growing or even maintaining our revenues from the sale of LED chips and LED components, which would negatively impact our business, financial condition and results of operations.

As with our LED components, to minimize the likelihood that one of our lighting fixture competitors or another third party will assert an intellectual property right related to our lighting fixtures, we have sought to market these products only in countries in which we believe enforcement of intellectual property rights has been more limited. Our sales of lighting products to customers in the United States decreased significantly in fiscal 2013 and 2014. This distribution strategy may limit our sales to countries that do not have the highest demand or market potential, and raise similar issues and risks to those raised with respect to our use of this strategy in connection with marketing our LED components.

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

We have historically derived a significant portion of our revenues from a limited number of customers, including distributor customers. For the years ended August 31, 2014 and 2013, our top ten customers collectively accounted for 45% and 35%, respectively, of our revenues. Some of our largest customers and what we produce/have produced for them have changed from quarter to quarter primarily as a result of the timing of discrete, large project-based purchases and broadening customer base, among other things. For the years ended August 31, 2014 and 2013, sales to our three largest customers, in the aggregate, accounted for 26% and 14% of our revenues, respectively.

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 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.

***We rely on certain key personnel. The loss of any of our key personnel, or our failure to attract, assimilate and retain other highly qualified personnel in the future, could harm our business.***

Our future success depends on the continued service and performance of our key personnel, including in particular Mr. Trung T. Doan, our chief executive officer, and members of our executive team. We do not maintain key man insurance on any of our officers or key employees.

If Mr. Doan or others of our key personnel were unable or unwilling to continue in their present positions, we may not be able to replace them readily or on terms that are reasonable, if at all. As such, the loss of Mr. Doan or other key personnel, including other key members of our management team and certain of our key marketing, sales, product development or technology personnel, could significantly disrupt our operations and prevent the timely achievement of our development strategies and growth, which would likely have an adverse effect on our financial condition, operating results and prospects. Moreover, we may lose some of our customers if any of our officers or key employees were to join a competitor or form a competing company. The loss of the services of our senior management for any reason could adversely affect our business, operating results and financial condition.

In addition, competition for experienced employees in our industry can be intense, and we may not be successful in recruiting, motivating or retaining sufficiently qualified personnel on terms that are reasonable, or at all. Cyclical volatility in our industry and in our business may aggravate this problem. For example, the challenges we faced in fiscal 2013 and fiscal 2014 relating to loss of market share and a sustained decrease in the market price of our common stock, among others, could impact our ability to attract and retain employees. When consumer demand for our products is reduced or delayed, we expect lower net revenue and reduced profitability. When our stock price declines, our equity incentive awards may lose retention value. In response to such downturns, we may also implement cost reduction initiatives, including spending controls, forced holidays and company shutdowns, employee layoffs, shortened work-weeks and involuntary salary reductions. Layoffs during an industry downturn could

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make it more difficult for us to retain key talent and staff members, or to rehire employees should business improve.

***We are highly dependent on our customers' ability to produce and sell products incorporating our LED products. If our customers are not successful, our operating results could be materially and adversely affected.***

Our customers incorporate our LED products into their products. As such, demand for our products is dependent on demand for our customers' end-products that incorporate our LED products and our customers' ability to sell these products. The general lighting market has only recently begun to develop and adopt standards for fixtures that incorporate LED devices. If the end-customers for our products are unable to manufacture fixtures that meet these standards, our customers' sales, and consequently our sales, will suffer.

With respect to our LED chips, substantially all of our sales are to packagers or distributors, a substantial portion of which is used in LED general lighting applications and, to a lesser extent, in specialty industrial applications, such as UV curing of polymers, LED light therapy in medical/cosmetic applications, counterfeit detection, LED lighting for horticulture applications, and architectural lighting. Our packaging customers package our LED chips and sell the packaged product to distributors or end-customers. Our distributors resell our LED chips either to packagers or to end-customers. General lighting applications typically require white lighting whereas we typically sell blue chips or chips with other non-white color characteristics. Therefore, our customers coat our LED chips with an appropriately colored phosphor that converts the LED light emission into the desired color. Sales of our LED chips are highly dependent upon our customers' ability to procure high quality phosphors, develop high quality and highly efficient white LED components and obtain the necessary intellectual property rights, such as the rights to use various phosphors. Even if our customers are able to develop competitive white LED components using our LED chips, there can be no assurance that our customers will be successful in the marketplace.

With respect to the sale of our LED components, a majority of our sales are to distributors that sell to end-customers, or directly to such end-customers in selected markets. Sales by end-customers of our products are generally dependent on their ability to develop high quality and highly efficient lighting products and require complex designs and processes, including thermal design, optical design and power conversion.

***If our intellectual property, including our proprietary technologies and trade secrets, are not adequately protected to prevent misuse or misappropriation by our competitors, the value of our brand and other intangible assets may be diminished, and our business may be materially and adversely affected.***

Our future success and competitive position depends in part on our ability to protect our intellectual property, including proprietary technologies and trade secrets. In particular, we have developed advanced capabilities and proprietary know-how in sapphire reclamation, gallium nitride, or GaN, epitaxial growth, copper alloy technology, nanoscale surface engineering and vertical LED structure technology that are critical to our business. We rely, and expect to continue to rely, on a combination of confidentiality and license agreements with our employees, licensees and third parties with whom we have relationships, and trademark, copyright, patent and trade secret protection laws, to protect our intellectual property, including our proprietary technologies and trade secrets.

There can be no assurance that the steps we have taken or plan to take in the future are adequate to protect our intellectual property, including our proprietary technologies and trade secrets. We expect to continue to seek patent and trademark protection for our technologies and know-how. However, we will only be able to protect such technologies and know-how from unauthorized use by third parties to the extent that valid, protectable and enforceable rights cover them. We cannot be certain that our

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patent and trademark applications will lead to patents being issued and registered trademarks being granted in a timely manner, or at all. Even if we are successful in obtaining such rights, the intellectual property laws of other countries in which our products are sold or may in the future be sold may not protect our products and intellectual property rights to the same extent as the laws of the United States. For example, China currently is thought to afford less protection to intellectual property rights generally than some other jurisdictions. As such, the lack of strong patent and other intellectual property protection in China may significantly increase our vulnerability as regards unauthorized disclosure or use of our intellectual property and undermine our competitive position. The legal standards relating to the validity, enforceability and scope of protection of intellectual property rights in LED-related industries are uncertain and still evolving, both in the United States and in other countries. Moreover, the contractual agreements that we enter into with employees, licensees and third parties to protect our intellectual property and proprietary rights afford only limited protection and may not be enforceable.

We also expect that the more successful we are, the more likely it will be that competitors will try to develop or patent similar or superior technologies, products and services. In the event that our competitors or others are able to obtain knowledge of our know-how, trade secrets and technologies through independent development, our failure to protect such know-how, trade secrets and technologies and/or our other intellectual property and proprietary rights may undermine our competitive position. In addition, third parties may knowingly or unknowingly infringe our trademarks and other intellectual property rights, and litigation may be necessary to protect and enforce our intellectual property rights or determine the validity and scope of our proprietary rights. Any such litigation could be very costly and could divert management attention and resources away from our business, and the outcome of such litigation may not be in our favor. If the protection of our intellectual property, including our proprietary technologies and trade secrets, is inadequate to prevent use or appropriation by third parties, the value of our brand and other intangible assets may be diminished and competitors may be able to more effectively mimic our products and methods of operation. Any of these events may have a material adverse effect on our business, financial condition, reputation and competitive position.

***Confidentiality agreements with employees and others may not adequately prevent disclosure of trade secrets and other proprietary information.***

To protect a substantial amount of our technologies, we have chosen to rely primarily on trade secrets law rather than seeking protection through patents. Trade secrets are inherently difficult to protect. In order to protect our intellectual property rights, including our proprietary technologies and trade secrets, we rely in part on security measures, as well as confidentiality agreements with our employees, licensees and other third parties. These measures and agreements may not effectively prevent disclosure of confidential information, including trade secrets, and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. While we believe we use reasonable efforts to protect our trade secrets, we could potentially lose future trade secret protection if any unintentional or willful disclosure by our directors, employees, consultants or contractors of such information occurs, including disclosure by employees during or after the termination of their employment with us, in particular if they were to join one of our competitors. Laws regarding trade secret rights in certain markets in which we operate may afford little or no protection. The loss of trade secret protection could make it easier for third parties to compete with our products by copying functionality. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our business, revenue, reputation and competitive position.

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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 could cause demand for our products to decline, which could materially and adversely affect our revenues, profits and margins.***

We believe the near-term growth of the LED market will be driven in part by government policies in certain countries that either directly promote the use of LEDs or discourage the use of some traditional lighting technologies. Today, the upfront cost of LED lighting exceeds the upfront cost for some traditional lighting technologies that provide similar lumen output in many applications. However, for environmental reasons, among others, some governments around the world have used policy initiatives to accelerate the development and adoption of LED lighting and other non-traditional lighting technologies that are seen as more environmentally-friendly compared to some traditional lighting technologies. Reductions in, or eliminations of, government investment and favorable energy policies could result in decreased demand for our products and decrease our revenues, profits, margins and prospects.

***We may be exposed to litigation, which could adversely affect our financial condition and results of operations.***

In the ordinary course of our business, we may be exposed to general commercial claims related to the conduct of our business, class action lawsuits, employment claims and other litigation claims. For example, in July 2013, we, and certain of our current and former officers and directors, were the subjects of a number of purported class action lawsuits and derivative lawsuits. These cases were closed and dismissed without prejudice in February 2014. Any such litigation, whether with or without merit, could result in significant costs. In addition, members of our senior management may be required to divert significant attention and resources to these matters, reducing the time, attention and resources they have available to devote to managing our business. These additional expenses and diversion of attention and resources, along with any reputational issues raised by these lawsuits, may have a material negative impact on our business, financial condition and results of operations.

***We are 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. 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 requires 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, or NASDAQ, and our stated results of operations and reputation may be materially and adversely affected.



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***We have incurred and continue to incur significant increased costs as a result of operating as a public company, and our management is required to devote substantial time to compliance efforts.***

As a public company, we have incurred and continue to incur significant legal, accounting, investor relations and other expenses that we did not incur as a private company, including costs associated with public company reporting requirements. The Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as rules subsequently implemented by the SEC and NASDAQ, impose additional requirements on public companies, including enhanced corporate governance practices. For example, the listing requirements for NASDAQ provide that listed companies must satisfy, among other things, certain corporate governance requirements relating to independent directors, audit committees, distribution of annual and interim reports, stockholder meetings, stockholder approvals, solicitation of proxies, conflicts of interest, stockholder voting rights and codes of business conduct. Our management and other personnel devote a substantial amount of time to satisfy these compliance requirements. Moreover, these rules and regulations have increased our legal and financial compliance costs and have made some activities more time consuming and costly.

***Impairment of our goodwill, long-lived assets, equity-method investments or cost-method investments could reduce our earnings.***

As part of our business strategy, we have and may continue to pursue acquisitions of businesses and assets, strategic alliances and joint ventures. Goodwill is recognized when the purchase price of a business exceeds the fair market value of the tangible and separately measurable intangible net assets. We are required to test goodwill on an annual basis or when events or circumstances occur indicating that goodwill might be impaired. Long-lived assets, including property, plant and equipment and intangible assets with finite useful lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount might not be recoverable.

In addition, some of our investments are accounted for under the equity method of accounting, which we record our proportionate share of their net income or loss, or using the cost method. However, they must also be tested for impairment. For the investments we account for under the equity method or the cost method, the impairment test considers whether the fair value of the equity investment as a whole, not the underlying net assets, has declined and whether that decline is other than temporary. If we determine that impairment is indicated, we would be required to take an immediate non-cash charge to earnings, which could adversely impact our operating results. During our fiscal 2013, we experienced a significant reduction to our earnings as a result of impairment charges on our long-lived assets, goodwill, and our investments accounted for under the equity method and the cost method of accounting; see Note 3, "Balance Sheet Components Property, Plant and Equipment Intangible Assets; and Goodwill" and Note 5, "Investments in Unconsolidated Entities," of the Notes to Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data, of this Annual Report for detailed information.

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

We have grown our business in part through strategic alliances and acquisitions. For example, we formed China SemiLEDs in January 2010 to focus on the growing market in China; we acquired Silicon Base Development, Inc., or SBDI, in April 2010 to process LED chips into LED components; in August 2011, we acquired 51% equity interest in Ning Xiang, an additional 15% interest acquired in April 2013 and an additional 21% interest acquired in November 2013, among other things, to assist with market intelligence; and in July 2013, we acquired an additional LED components production line to expand our LED components production and research and development capabilities, and broaden

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our LED components portfolio. As we experienced with China SemiLEDs, such undertakings may not be successful or may take a substantially longer period than initially expected to become successful, and we may never recover our investments or achieve desired synergies or economies from these undertakings.

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

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

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

***Any undetected defects in our products may harm our sales and reputation and adversely affect our manufacturing yields.***

The manufacture of LED chips is highly complex, requiring precise processes in a highly controlled and sterile environment using specialized equipment. We manufacture our LED products to meet customer requirements with respect to quality, performance and reliability. Although we utilize quality control procedures at each stage of our manufacturing process, our products may still contain defects that are undetected until after they are shipped or inspected by our customers, or on operation of the device. For example, there could be sub-micron defects that would not be detected by our quality control procedures; such sub-micron defects may increase the current leakage in the device and could negatively affect the product performance over time. Unsatisfactory performance of or defects in our products may cause us to incur additional expenses, including costs in relation to product warranties, cancellation and rescheduling of orders and shipments, and product returns or recalls. Failure to detect and rectify defects in our products before delivery could subject us to product liability claims and harm our credibility and market reputation, which could materially adversely affect our business and results of operations.

In addition, we do not currently have fully automated manufacturing processes, which could potentially introduce contaminants to the production processes through human error. Defects or other difficulties in the manufacturing process can prevent us from achieving maximum capacity utilization, which is the actual number of wafers that we are able to produce in relation to our capacity, and also can prevent acceptable yields of quality LED chips from those wafers.

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***Global economic conditions could negatively impact on our business, financial condition and results of operations.***

The global financial crisis that began in late 2007 caused extreme disruption in the financial markets. Although the disruption in the financial markets moderated thereafter, the global financial markets continue to reflect uncertainty about a sustained economic recovery. Uncertainty about global economic conditions could result in slow economic activity, concerns about inflation and energy costs, decreased business and consumer confidence, reduced capital spending and adverse business conditions, as well as diminished liquidity and credit availability in many financial markets. In addition, these economic and business conditions could have led to reduced spending in our target markets and made it difficult for our customers and us to accurately forecast and plan future business activities. Continued weak economic conditions and further adverse trends in general economic conditions, consumer confidence, employment levels, business conditions, interest rates, availability of credit, inflation and taxation have in the past and may again in the future cause consumer spending to decline further, reduce demand for and prices of our products and our customers' products, affect the prices and availability of raw materials, limit our ability to obtain financing for our operations and constrain the ability or willingness of governments to invest in the LED industry or fund public projects using LED lighting products. Furthermore, our customers may be unable to access capital efficiently, or at all, which could adversely affect our financial condition by resulting in product delays, increased defaults in accounts receivables and increased inventory exposures. Any unfavorable economic or market conditions could have a material adverse effect on our business, financial condition and results of operations.

***Our operations depend on an adequate and timely supply of electricity and water.***

We consume significant amounts of electricity and water in our manufacturing process. We may experience future disruptions or shortages in our electricity or water supply, which could result in a drop in or loss of throughput and product yield or even the loss of an entire production run, depending on the duration of disruption or shortage. Although we maintain generators and other backup sources of electricity, these replacement sources are only capable of providing effective backup supplies for limited periods of time. We do not currently have any alternative sources of water nor do we maintain backup tanks. We cannot assure you that we will not experience disruptions or shortages in our electricity or water supply or that there will be sufficient electricity and water available to us to meet our future requirements. Any material disruption could significantly impact our normal business operations, cause us to incur additional costs and adversely affect our financial condition and results of operations.

***Our operations involve the use of hazardous materials and we must comply with environmental laws, which can result in significant costs, and may affect our business and operating results.***

Our research and development and manufacturing activities involve the use of hazardous materials, including acids, adhesives and other industrial chemicals. As a result, we are subject to a variety of environmental, health and safety laws and regulations governing the use, storage, handling, transportation, emission, discharge, exposure to, and disposal of such hazardous materials. Compliance with applicable environmental laws and regulations in each of the jurisdictions in which we operate can be costly, and there can be no assurance that violations of these laws will not occur in the future as a result of human error, accident, equipment failure, or other causes. Liability under environmental and health and safety laws can be joint and several, and without regard to fault or negligence. The failure to comply with past, present, or future laws could subject us to increased costs and significant fines and penalties, damages, legal liabilities, suspension of production or operations, alteration of our manufacturing facilities or processes, curtailment of our sales and adverse publicity. Any of these events could harm our business and financial condition.

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Furthermore, environmental protection and workplace safety regulations may become more stringent in the future, and although we cannot predict the ultimate impact of any such new laws, they may impose greater compliance costs or result in increased risks or penalties, which could harm our business. Existing and future environmental laws and regulations could also require us to acquire pollution abatement or remediation equipment, modify our product designs or incur other expenses associated with such laws and regulations. As our industry continues to evolve, we may be required to evaluate and use new materials in our manufacturing process that may be subject to regulation under existing or future environmental laws and regulations, and our use of such new materials may be restricted. Any such restriction could require us to alter our manufacturing processes or increase our expenses. If we fail to comply with current and future environmental laws and regulations, whether intentional or inadvertent, we may be required to pay fines and other liabilities to the government or third parties, suspend production or even cease operation.

***We have operations and sales in various jurisdictions globally, which may subject us to increasingly complex taxation laws and regulations.***

As a multinational organization with operations and sales in various jurisdictions, we may be subject to taxation in such jurisdictions. The various tax laws and regulations are becoming increasingly complex, with the interpretation and application of such laws and regulations becoming more challenging and uncertain. We may be subject to additional taxes, fines and penalties to the extent we are not correct in our interpretation and the amount of taxes we declare and pay. In addition, given the continuing global economic slowdown, as well as high government debt levels of many countries, there is an increasing likelihood that the amount of taxes we pay in these jurisdictions could increase substantially. Any such events would have a material impact on our reputation, financial condition and results of our operations.

***Taxing authorities could reallocate our taxable income among our subsidiaries, which could increase our consolidated tax liability.***

We conduct operations through subsidiaries in various tax jurisdictions pursuant to transfer pricing arrangements between our subsidiaries. If two or more affiliated companies are located in different countries, the tax laws or regulations of each country generally will require that transfer prices be the same as those between unrelated companies dealing at arms' length and that contemporaneous documentation is maintained to support the transfer prices. While we believe that we operate in compliance with applicable transfer pricing laws and intend to continue to do so, our transfer pricing procedures are not binding on applicable tax authorities. If tax authorities in any of these countries were to successfully challenge our transfer prices as not reflecting arms' length transactions, they could require us to adjust our transfer prices and thereby reallocate our income to reflect these revised transfer prices, which would result in a higher tax liability to us. In addition, if the country from which the income is reallocated does not agree with the reallocation, both countries could tax the same income, resulting in double taxation. If tax authorities were to allocate income to a higher tax jurisdiction, subject our income to double taxation or assess interest and penalties, it would increase our consolidated tax liability, which could adversely affect our financial condition, results of operations and cash flows.

***Proposed U.S. federal income tax legislation could negatively impact our effective tax rate.***

Proposed U.S. tax legislation that could be enacted in the future could substantially impact the tax treatment of our non-U.S. earnings. These proposed changes include limitations on the ability to claim and utilize foreign tax credits and require the deferral of interest expense deductions until non-U.S. earnings are taxed in or repatriated to the United States.

Such proposed legislation, if enacted, could negatively impact the amount of our taxes payable in the United States and our effective tax rate and adversely affect our results of operations and cash flows.

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**Risks Relating to Our Holding Company Structure**

***Our ability to receive dividends and other payments from Taiwan SemiLEDs may be restricted by commercial and legal restrictions, which may materially and adversely affect our ability to grow, fund investments, make acquisitions, pay dividends and otherwise fund and conduct our business.***

We are a holding company with one material asset, which is our ownership interest in Taiwan SemiLEDs.

Dividends and interest on intercompany loans we receive from our subsidiaries in Taiwan, if any, will be subject to withholding tax under Taiwan law. The ability of our subsidiaries in Taiwan to pay dividends, repay intercompany loans from us or make other distributions to us is restricted by, among other things, the availability of funds, the terms of various credit arrangements entered into by our subsidiaries, as well as statutory and other legal restrictions. In addition, although there are currently no foreign exchange control regulations that restrict the ability of our subsidiaries located in Taiwan to distribute dividends to us, we cannot assure you that the relevant regulations will not be changed and that the ability of our subsidiaries to distribute dividends to us will not be restricted in the future. A Taiwan company is generally not permitted to distribute dividends or to make any other distributions to stockholders for any year in which it did not have either earnings or retained earnings (excluding reserves). In addition, before distributing a dividend to stockholders following the end of a fiscal year, the company must recover any past losses, pay all outstanding taxes and set aside 10% of its annual net income (less prior years' losses and outstanding taxes) as a legal reserve until the accumulated legal reserve equals its paid-in capital, and may set aside a special reserve.

***Our ability to make further investments in Taiwan SemiLEDs may be dependent on regulatory approvals in Taiwan.***

Taiwan SemiLEDs depends on us to meet its equity financing requirements. Any capital contribution by us to Taiwan SemiLEDs requires the approval of the relevant Taiwan authorities, such as the Hsinchu Science Park Administration. We may not be able to obtain any such approval in the future in a timely manner, or at all. We cannot assure you that we will be able to complete these government registrations or obtain the government approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our subsidiaries or any of their respective subsidiaries. If we fail to complete these registrations or obtain the approvals, our ability to capitalize Taiwan SemiLEDs may be negatively affected, which could adversely and materially affect our liquidity and our ability to fund and expand our business.

***The rights of stockholders may be limited as we conduct a substantial portion of our operations in Taiwan and a substantial portion of our assets and substantially all of our directors and officers reside outside the United States.***

Although we are incorporated in Delaware, a substantial portion of our operations are conducted in Taiwan through Taiwan SemiLEDs and its subsidiaries. As such, a substantial portion of our assets are located in Taiwan. In addition, substantially all of our directors and officers reside outside the United States, and a substantial portion of the assets of those persons are located outside of the United States. Therefore, it may be difficult or impossible for you to bring an action against us or against these individuals in the United States in the event that you believe that your rights have been infringed under applicable securities laws or otherwise. Even if you are successful in bringing an action, the laws of Taiwan may render you unable to enforce a United States judgment against our assets or the assets of our directors and officers.

For judgments obtained in courts outside of Taiwan to be recognized and enforceable in Taiwan without review of the merits, the Taiwan court in which the enforcement is sought must be satisfied that: the foreign court rendering such judgment has jurisdiction over the subject matter in accordance

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with the Taiwan law; the judgment and the court procedure resulting in the judgment are not contrary to the public order or good morals of Taiwan; the judgment is a final judgment for which the period for appeal has expired or from which no appeal can be taken; if the judgment was rendered by default by the foreign court, the defendant was duly served in the jurisdiction of such court within a reasonable period of time in accordance with the laws and regulations of such jurisdiction, or process was served on the defendant with the Taiwan judicial assistance; and judgment of Taiwan courts is recognized and enforceable in the foreign court rendering the judgment on a reciprocal basis.

**Political, Geographical and Economic Risks**

*Due to the location of our operations, we are vulnerable to natural disasters and other events, which may seriously disrupt our operations.*

Most of our operations are located in Taiwan, and the operations of many of our LED manufacturing service providers, suppliers and customers are located in Taiwan and the PRC. For the years ended August 31, 2014 and 2013, 44% and 40%, respectively, of our revenues were derived from customers located in Taiwan and China (including Hong Kong). Our operations and the operations of our customers and suppliers are vulnerable to earthquakes, tsunamis, floods, droughts, typhoons, fires, power losses and other major catastrophic events, including the outbreak, or threatened outbreak, of any widespread communicable diseases. Disruption of operations due to any of these events may require us to evacuate personnel or suspend operations, which could reduce our productivity. Such disasters may also damage our facilities and equipment and cause us to incur additional costs to repair our facilities or procure new equipment, or result in personal injuries or fatalities or result in the termination of our leases and land use agreements. Any resulting delays in shipments of our products could also cause our customers to obtain products from other sources. Although we maintain property insurance for such risks, there is no guarantee that future damages or business losses from earthquakes and catastrophic other events will be covered by such insurance, that we will be able to collect from our insurance carriers, should we choose to claim under our insurance policies, or that such coverage will be sufficient. In addition, natural disasters, such as earthquakes, tsunamis, floods and typhoons, may also disrupt or seriously affect the operations of our customers and suppliers, resulting in reduced orders or shipments or the inability to perform contractual obligations. The occurrence of any of these events could have a material adverse effect on our business, financial condition and results of operations.

*Our operations in China expose us to certain inherent legal and other risks that could adversely affect our business.*

As a Delaware corporation, we are subject to laws and regulations applicable to foreign companies operating in China in general and specifically to the laws and regulations applicable to foreign invested joint stock companies. The PRC legal system is a civil law system based on written statutes. Unlike common law systems, prior court decisions may be cited for reference but have limited precedential value. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. The overall effect of legislation since then has been to significantly enhance the protections afforded to various forms of foreign investments in China. The PRC legal system continues to rapidly evolve and the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties, which may limit legal protections available to us. For example, our current and future operating subsidiaries in China must obtain relevant permits (including land use permits), licenses and approvals necessary for to commence operations and sales and, no assurance can be given that they will be able to do so or that if obtained that such permits, licenses or approvals will be adequate or that they will not be revoked or cancelled in the future. In addition, some regulatory requirements issued by certain PRC government authorities may not be consistently applied by other government authorities

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(including local government authorities), thus making strict compliance with all regulatory requirements impractical, or in some circumstances, impossible. For example, we may have to resort to administrative and court proceedings to enforce the legal protection that we have either by law or contract. However, since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we have. These uncertainties may impede our ability to enforce the contracts we have entered into with our business partners, customers and suppliers.

Because the legal and regulatory environment in China is subject to inherent uncertainties, the enforcement of our rights as a foreign company investing in China may be difficult. For example, our intellectual property may be afforded less protection in China than in some other countries. By entering the market in China in general and by licensing our intellectual property to China SemiLEDs for example, our vulnerability towards unauthorized disclosure or use of our intellectual property may be significantly increased.

Future litigation could result in substantial costs and diversion of our management's attention and resources, and could disrupt our business, as well as have a material adverse effect on our financial condition and results of operations. Given the relative unpredictability of China's legal system and potential difficulties enforcing a court judgment in China, we may be unable to halt the unauthorized use of our intellectual property through litigation, which could adversely affect our competitive position, our ability to attract customers, and our results of operations.

***Strained relations between the PRC and Taiwan could negatively affect our business and the market price of our common stock.***

Taiwan has a unique international political status. Since 1949, Taiwan and the PRC have been separately governed. The PRC government claims that it is the sole government in China and that Taiwan is part of China. Although significant economic and cultural relations have been established during recent years between Taiwan and the PRC, the PRC government has refused to renounce the possibility that it may at some point use force to gain control over Taiwan. Furthermore, the PRC government adopted an anti-secession law relating to Taiwan. Relations between Taiwan and the PRC governments have been strained in recent years for a variety of reasons, including the PRC government's position on the "One China" policy and tensions concerning arms sales to Taiwan by the United States government. Any tension between the Taiwan government and the PRC government, or between the United States and China, could materially and adversely affect the market prices of our common stock.

***If the U.S. dollar or other currencies in which our sales, raw materials, component purchases and capital expenditures are denominated fluctuate significantly against the New Taiwan, or NT, dollar and other currencies, our profitability may be seriously affected.***

We have significant foreign currency exposure, and are primarily affected by fluctuations in exchange rates among the U.S. dollar, the NT dollar, the Japanese Yen and other currencies. A portion of our revenues and expenses are denominated in currencies other than NT dollars, primarily U.S. dollars. We do not hedge our net foreign exchange positions through the use of forward exchange contracts or otherwise and as a result we are affected by fluctuations in exchange rates among the U.S. dollar, the NT dollar and other currencies. Any significant fluctuation in exchange rates may be harmful to our financial condition and results of operations.

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***The PRC government's control of currency conversion and changes in the exchange rate between the Renminbi and other currencies could negatively affect our financial condition and our ability to pay dividends.***

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from State Administration of Foreign Exchange in China, or SAFE, provided that we satisfy certain procedural requirements. However, approval from SAFE or its local counterpart is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. Our revenue from sales in China (including Hong Kong) accounted for 10% of our revenues for both the years ended August 31, 2014 and 2013.

***Failure to comply with the U.S. Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences.***

We are subject to the U.S. Foreign Corrupt Practices Act, or FCPA, which generally prohibits U.S. companies from engaging in bribery or making other prohibited payments to foreign officials for the purpose of obtaining or retaining business. In addition, we are required to maintain records that accurately and fairly represent our transactions and have an adequate system of internal accounting controls. Foreign companies, including some that may compete with us, may not be subject to these prohibitions, and therefore may have a competitive advantage. In the past, there have been instances of corruption, extortion, bribery, pay-offs, theft and other fraudulent practices in Taiwan and China, as well as other Asian countries and Russia. We cannot assure that our employees or other agents will not engage in such conduct and render us responsible under the FCPA. If our employees or other agents are found to have engaged in corrupt or fraudulent business practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations.

**Risks Related to Owning Our Common Stock**

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

In December 2010, our common stock was approved for listing on The NASDAQ Global Select Market and continues to be listed on The NASDAQ Global Select Market. To maintain that listing, we must satisfy the continued listing requirements of NASDAQ for inclusion in the Global Select Market, including among other things, a minimum stockholders' equity of \$10.0 million and a minimum bid price for our common stock of \$1.00 per share. On July 15, 2014, the closing minimum bid price of our common stock dropped below \$1.00. On August 26, 2014, we received a letter from The NASDAQ Stock Market notifying us that we were not in compliance with the minimum bid price requirement set forth in NASDAQ Listing Rule 5450(a)(1) for continued listing on the NASDAQ Global Select Market. The NASDAQ Listing Rules require listed securities to maintain a minimum bid price of \$1.00 per share and, due to our common stock having traded for 30 consecutive business days below the minimum closing bid price requirement, we no longer met that requirement at that time. In accordance with NASDAQ Listing Rule 5810(c)(3)(A), we were provided a cure period until February 23, 2015, to regain compliance with NASDAQ Listing Rule 5450(a)(1). To regain compliance, our common stock is required to have a closing bid price of at least \$1.00 for a minimum of 10 consecutive business days.

The Company is currently evaluating various alternative courses of action to regain compliance with the NASDAQ minimum bid price requirement. There can be no assurance that we will be able to



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

#### ***We may seek additional capital that may result in stockholder dilution.***

We may require additional capital due to continuing losses, deteriorating business conditions or other future developments. If our current sources of capital are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain bank loans and credit facilities. The sale of convertible debt securities or additional equity securities could result in dilution to our stockholders. The incurrence of further indebtedness, whether in the form of public debt or bonds or bank financing, would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations and liquidity.

Our ability to obtain external financing is subject to a number of uncertainties, including:

our future financial condition, results of operations and cash flows and the trading price of our common stock;

the state of global credit markets and our creditworthiness;

general market conditions for financing activities by companies in our industry; and

economic, political and other conditions in Taiwan, China and elsewhere.

We cannot assure you that financing, if needed, would be available in amounts or on terms acceptable to us, if at all.

#### ***Our stock price has been and may continue to be volatile and you may be unable to resell shares of our common stock at or above the price you paid.***

The trading price of our common stock has been and may continue to be subject to broad fluctuations. The market price of shares of our common stock could be subject to wide fluctuations in response to various risk factors listed in this section and others beyond our control, including:

actual or anticipated fluctuations in our key operating metrics, financial condition and operating results;

changes in the composition of and the orders received from our customers;

actual or anticipated changes in our growth rate;

issuance of new or updated research or reports by securities analysts that have a change in outlook regarding the performance of our business or the future trading price of our common stock;

our announcement of actual results for a fiscal period that are higher or lower than projected or expected results or our announcement of revenue or earnings guidance that is higher or lower than expected;

fluctuations in the valuation of companies perceived by investors to be comparable to us;

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share price and volume fluctuations attributable to inconsistent trading volume levels of our shares;

sales or expected sales of additional common stock;

announcements from, or operating results of, our competitors; and

general economic and market conditions.

Furthermore, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions, such as recessions, interest rate changes or international currency fluctuations, may cause the market price of shares of our common stock to decline. In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We are currently a defendant in two filed actions and may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business.

***Future sales of shares of our common stock by existing stockholders could cause our stock price to fall.***

Sales of substantial amounts of our common stock in the public market, or the perception that these sales might occur, could depress the market price of our common stock and impair our ability to raise capital through the sale of additional equity securities.

As of November 30, 2014, 28.4 million shares of common stock were issued and outstanding, including approximately 6.0 million shares of common stock issued in the initial public offering, which are freely tradable without restriction by non-affiliates. Certain stockholders owning more than a majority of our outstanding shares of common stock are entitled, under agreements providing for registration rights, to cause us to register those shares under the Securities Act of 1933, as amended, or the Securities Act, for public sale in the United States. As of the date hereof, we have not received any such request to register shares. Registration of these shares under the Securities Act would result in these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of such registration. In addition, certain stockholders, including stockholders owning a majority of our outstanding shares as well as current and former employees, are eligible to resell shares of common stock in the public market under Rule 144, which, in the case of our affiliate and persons who have been affiliates in the last three months, would be subject to volume limitations and certain other restrictions under Rule 144, including that we are current in our SEC filings. In general, Rule 144 provides that any of our non-affiliates, who have held restricted common stock for at least six-months, are entitled to sell their restricted stock freely, provided that we are current in our SEC filings. After one year, a non-affiliate may sell without any restrictions.

We have also filed registration statements on Form S-8 under the Securities Act to register approximately 5.7 million shares for issuance pursuant to options or other rights to purchase common stock under our equity incentive plans. These shares can be freely sold in the public market upon issuance and once vested, subject to the applicable plan and/or the agreements entered into with holders of options or other rights to purchase common stock in connection with the issuance of such options or other rights to purchase common stock.

***Our directors, executive officers and principal stockholders have substantial control over us and will be able to influence corporate matters.***

As of November 30, 2014, our directors and executive officers, together with their affiliates, beneficially owned, in the aggregate, nearly one-half of our outstanding common stock. As a result,

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certain of these stockholders acting alone or these stockholders, acting together, would have the ability to control the outcome of matters submitted to our stockholders for approval, including the election of our directors and any merger, consolidation or sale of all or substantially all of our assets. In addition, these stockholders, acting together, would have the ability to control the management and affairs of our company. Accordingly, this concentration of ownership might harm the market price of our common stock by:

limiting stockholders' ability to influence corporate matters;

delaying, deferring or preventing a change in corporate control;

impeding a merger, consolidation, takeover or other business combination involving us; or

discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us.

There can be no assurance that our interests will not conflict with those of these stockholders, who may also take actions that are not in line, or may conflict, with our other stockholders' best interests.

***We do not anticipate paying any cash dividends on our common stock and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.***

We have never declared or paid any cash dividends on our common stock or convertible preferred stock and do not intend to do so for the foreseeable future. We currently intend to invest our future earnings, if any, to fund our growth. Therefore, you are not likely to receive any dividends on your common stock for the foreseeable future and the success of an investment in shares of our common stock will depend upon future appreciation in their value. There is no guarantee that shares of our common stock will appreciate in value or maintain the price at which our stockholders purchased their shares.

***Delaware law and our certificate of incorporation and bylaws will contain anti-takeover provisions that could delay or discourage takeover attempts that stockholders may consider favorable.***

Certain provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. As long as our major stockholder, Simplot Taiwan, Inc., which is beneficially owned by Scott R. Simplot, one of our directors, continues to hold 25% or more of the total voting power of all outstanding shares of our stock entitled to vote generally in the election of directors, shareholders holding at least 25% of the total voting power of all outstanding shares of our stock entitled to vote generally in the election of directors are able to call a special meeting in accordance with our bylaws; provided, however, at such time when the ownership interest of Simplot Taiwan, Inc. first falls below 25% of our total voting power, our amended and restated certificate of incorporation requires that a special meeting may be called only by a majority of our board of directors. Our amended and restated certificate of incorporation precludes stockholder action by written consent. In addition, our amended and restated bylaws require that any stockholder proposals or nominations for election to our board of directors must meet specific advance notice requirements and procedures, which may make it more difficult for our stockholders to make proposals or director nominations. In addition, the authorization of undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change our control.

Furthermore, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law. These provisions may prohibit or restrict large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us. These provisions in our certificate of incorporation and bylaws and under Delaware law could discourage potential takeover attempts and could reduce the price that investors might be willing to pay for shares of our common stock in the future and result in our market price being lower than it would be without these provisions.

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**Item 1B. Unresolved Staff Comments**

Not applicable.

**Item 2. Properties**

The following are significant manufacturing and office facilities that we own or lease as of August 31, 2014:

We own a five-story building located in Hsinchu Science Park, Taiwan. We occupy approximately 128,800 square feet of the building, and we lease approximately 50,100 square feet of the building to a third party tenant. Approximately 47% of our occupied space in the building is devoted to our manufacturing operations. We lease the land on which the building is situated from the Science Park Administration in Hsinchu.

Ning Xiang leases a total of approximately 22,100 square feet of manufacturing facilities and office space in Luzhu, Taoyuan County, Taiwan, of which approximately 65% is devoted to manufacturing operations.

We lease a total of approximately 1,300 square feet of office spaces in Shenzhen, China for sales and support functions.

Taiwan Bandaoti Zhaoming Co., Ltd., formerly known as Silicon Base Development, Inc, which leases a total of approximately 15,500 square feet of manufacturing facilities and office space in Hsinchu Science Park, Taiwan, of which approximately 48% is devoted to manufacturing operations.

We believe that our facilities are adequate to meet our current corporate and manufacturing needs and that additional space would be available on commercially reasonable terms.

**Item 3. Legal Proceedings**

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

On July 10, 2013, a putative class action lawsuit was filed in the United States District Court for the Southern District of New York against us and certain of our current and former officers and directors, styled as *Huard v. SemiLEDs Corporation, et al.*, alleging violations of the U.S. federal securities laws. On July 31, 2013, a second investor filed a complaint, styled as *Mohammad v. SemiLEDs Corporation, et al.* On September 30, 2013, the Court appointed Mohammad Yasir as lead plaintiff and Pomerantz Grossman Hufford Dahlstrom & Gross LLP as lead counsel. On November 15, 2013, the lead plaintiff filed its Amended Complaint, styled as *In re SemiLEDs Corporation Litigation*, Civil Action No. 1:13-cv-04776-DLC (S.D.N.Y.). The Amended Complaint alleged one count of violation of Section 10(b) of the Exchange Act and one count of violation of Section 20(a) of the Exchange Act, both arising out of alleged misstatements made by us and certain of our current and former officers and directors in connection with our initial public offering and our results in the first, second, and third quarter of 2011. On February 20, 2014, the plaintiffs filed a notice of voluntary dismissal of the action. On February 21, 2014, the Court signed the notice of dismissal and the case was closed. There were no material pending legal proceedings and claims as of August 31, 2014.

**Item 4. Mine Safety Disclosures**

Not applicable.

Table of Contents**PART II.****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Market Price Information for our Common Stock**

Our common stock has been traded on the NASDAQ Global Select Market under the symbol "LEDS" since December 8, 2010. The following table sets forth, for the quarters indicated, the high and low sales prices as reported by NASDAQ:

<b>Fiscal Year 2013</b>	<b>High</b>	<b>Low</b>
First Quarter (September - November 2012)	\$ 2.22	\$ 1.03
Second Quarter (December 2012 - February 2013)	\$ 1.12	\$ 0.60
Third Quarter (March - May 2013)	\$ 2.44	\$ 0.68
Fourth Quarter (June - August 2013)	\$ 2.09	\$ 0.79

<b>Fiscal Year 2014</b>	<b>High</b>	<b>Low</b>
First Quarter (September - November 2013)	\$ 1.45	\$ 0.84
Second Quarter (December 2013 - February 2014)	\$ 1.59	\$ 0.92
Third Quarter (March - May 2014)	\$ 1.66	\$ 0.90
Fourth Quarter (June - August 2014)	\$ 1.14	\$ 0.72

There were 82 holders of record of our common stock as of November 30, 2014.

**Dividend Policy**

We have never declared or paid, and do not have any present plan to declare or pay any cash dividends on our common stock in the foreseeable future. We currently intend to retain all available funds and any future earnings for use in the operation and expansion of our business. Any future determination as to the declaration and payment of dividends, if any, will be at the discretion of our board of directors and will depend on then existing conditions, including our financial condition, operating results, general business conditions, contractual restrictions, capital requirements, business prospects, restrictions on the payment of dividends under Delaware law and any other factors our board of directors may deem relevant.

**Recent Sales of Unregistered Securities**

None.

**Use of Proceeds from Initial Public Offering**

On December 8, 2010, the registration statement on Form S-1 (File No. 333-168624) was declared effective for the 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. Through August 31, 2014, we had used \$30.2 million to purchase additional manufacturing space at our Hsinchu, Taiwan headquarters and partially build out existing space in such building, purchase additional reactors and other manufacturing equipment and pay for leasehold improvements. We also used \$8.4 million to acquire and invest in other businesses, and \$50.9 million for working capital and other general corporate purposes.

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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), except that we no longer expect to use a portion of the proceeds to build a test line and for research and development expenses related to LED chip production based on 6" wafers.

**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

We did not make any repurchases of our common stock and no purchases of common stock were made on our behalf during the fourth quarter of our fiscal 2014.

**Item 6. Selected Financial Data**

Not applicable.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis of our financial condition and results of operations is based upon and should be read in conjunction with the audited consolidated financial statements and the notes included elsewhere in this Annual Report on Form 10-K, as well as the Risk Factors contained in Part I, Item 1A of this Annual Report on Form 10-K, and other information provided from time to time in our other filings with the SEC.

**Overview**

We develop, manufacture and sell LED chips and LED components. Our products are used primarily for general lighting applications, including street lights and commercial, industrial and residential lighting. Our LED chips may also be used in specialty industrial applications such as UV curing of polymers, LED light therapy in medical/cosmetic applications, counterfeit detection, LED lighting for horticulture applications, and architectural lighting. Our core products are LED chips and LED components, but lighting products have also become an increasingly important part of our business.

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

We are a holding company for various wholly and majority owned subsidiaries and joint ventures. Our most significant subsidiary is our wholly owned operating subsidiary, Taiwan SemiLEDs, where a substantial portion of our assets are held and located, where a substantial portion of our research, development, manufacturing, marketing and sales activities take place, and where most of our employees are based. As of August 31, 2014, we also owned a 87% interest in Ning Xiang, which consisted of a 51% interest that we acquired in August 2011, an additional 15% interest acquired in April 2013 and an additional 21% interest acquired in November 2013. Ning Xiang is engaged in the design, manufacture and sales of lighting fixtures and systems.

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We also have interests in unconsolidated joint ventures that we have accounted for as equity method investments and as such have not consolidated for financial reporting purposes. As of August 31, 2014, we owned a 33% interest in SILQ (Malaysia) Sdn. Bhd., or SILQ, a joint venture established in Malaysia to design, manufacture and sell lighting fixtures and systems. Originally, we and the other investor each owned a 50% equity interest in the joint venture. In January 2014, we participated in SILQ's capital increase and contributed \$76 thousand. Following this capital increase, our equity interest in SILQ was diluted from 50% to 49%. In April 2014, we sold part of our equity interest in SILQ to the other investor in SILQ for a cash consideration of \$114 thousand. Upon consummation of the sale, our equity interest in SILQ was reduced from 49% to 33%. We subsequently invested \$130 thousand in SILQ's capital increase and our equity interest remains unchanged.

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

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

***Industry growth and demand for products and applications using LEDs.*** The overall adoption of LED lighting devices to replace traditional lighting sources is expected to influence the growth and demand for LED chips and impact our financial performance. We believe the potential market for LED lighting will continue to expand. LEDs for efficient generation of UV light are also starting to gain attention for various medical, germicidal and industrial applications. Since a substantial portion of our LED chips, LED components and our lighting products are used by end-users in general lighting applications and specialty industrial applications such as UV curing, medical/cosmetic, counterfeit detection and horticulture, the adoption of LEDs into these applications will have a strong impact on the demand of LED chips generally and, as a result, for our LED chips, LED components and LED lighting products. Fluctuations in demand for LED lights products will also affect the results of Ning Xiang.

***Average selling price of our products.*** The average selling price of our products may decline for a variety of factors, including prices charged by our competitors, the efficacy of our products, our cost basis, changes in our product mix, the size of the order and our relationship with the relevant customer, as well as general market and economic conditions. Competition in the markets for LED products is intense, and we expect that competition will continue to increase, thereby creating a highly aggressive pricing environment. For example, some of our competitors have in the past reduced their average selling prices, and the resulting competitive pricing pressures have caused us to similarly reduce our prices, accelerating the decline in our revenues and the gross margin of our products. When prices decline, we must also write down the value of our inventory. Furthermore, the average selling prices for our LED products have typically decreased over product life cycles. Therefore, our ability to continue to innovate and offer competitive products that meet our customers' specifications and pricing requirements, such as higher efficacy LED products at lower costs, will have a material influence on our ability to improve our revenues and product margins, although in the near term the introduction of such higher efficacy LED chips may further reduce the selling prices of our existing products or render them obsolete. Reduction in the average selling price of LED lights products will also affect the results of Ning Xiang.

***Changes in our product mix.*** We anticipate that our gross margins will fluctuate from period to period as a result of the mix of products that we sell and the utilization of our manufacturing capacity in any given period, among other things. For example, as a strategic plan, we placed greater emphasis on the sales of LED components rather than the sales of LED chip where we have been forced to cut prices on older inventory. In particular, we sold a significant volume of a category of lower-priced LED components designed to meet our customers' demand. While



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such a shift in product mix decreased our average selling price, the significant sales volume helped to improve revenues and gross margin in fiscal 2012 and 2013. However, lower than expected sales volume as a result of intense competition harmed our revenues and gross margin in fiscal 2014. We intend to continue to pursue opportunities for profitable growth in areas of business where we see the best opportunity for our new EV LED product series of LED chips (particularly the UV market) and adjust the lower-priced LED components strategy as appropriate. However, as we expand and diversify our product offerings and with varying average selling prices, a change in the mix of products that we sell in any given period may increase volatility in our revenues and gross margin from period to period.

***Our ability to reduce cost to offset lower average prices.*** Competitors may reduce average selling prices faster than our ability to reduce costs, and competitive pricing pressures may accelerate the rate of decline of our average selling prices. To address increased pricing pressure, we have improved and increased our production yields to reduce the per-unit cost of production of our products. However, such cost savings currently have limited impact on our gross profit, as we currently suffer from the underutilization of manufacturing capacity and must absorb a high level of fixed costs, such as depreciation. While we intend to focus on managing our costs and expenses, over the long term we expect to be required to invest substantially in LED development and production equipment if we are to grow.

***Our ability to continue to innovate.*** As part of our growth strategy, we plan to continue to be innovative in product design, to deliver new products and to improve our manufacturing efficiencies. Our continued success depends on our ability to develop and introduce new, technologically advanced and lower cost products, such as more efficient, higher brightness LED chips. If we are unable to introduce new products that are commercially viable and meet rapidly evolving customer requirements or keep pace with evolving technological standards and market developments or are otherwise unable to execute our product innovation strategy effectively, we may not be able to take advantage of market opportunities as they arise, execute our business plan or be able to compete effectively. In June 2013, we expanded our UV LED product portfolio with the launch of mid- and high-power product series designed for industrial applications such as printing, coating, curing, signage and medical/cosmetic uses. We also broadened our LED components portfolio through an acquisition in July 2013. Our near-term success will depend upon how attractive these products are to our customers versus competitors' offerings and our customers' willingness and promptness in qualifying our new products. In November 2013, we launched a new 10-watt M63 RGBW integrated 6363 LED, capable of delivering over 410 total lumens of combined red, green, blue and white light output. The M63 RGBW LED component integrates our vertical LED structure, white color chip and ceramic packaging technologies, designed for a wide range of color-changing applications, including entertainment lighting (such as stage lights, backdrops and spotlighting), large scale displays, and architectural lighting. This compact multi-color LED component offers our customers easy color mixing and higher integration that simplifies the design of lighting fixtures and reduces the number of LED components used. In August 2014, we introduced a line of 80x80mil rugged metal LED chips, which include white, blue, and UV variations, and provide packagers and integrators with a wider variety of high-efficiency/high-output choices to address the growing number of applications in both the commercial lighting and industrial spaces. In addition, we launched a new Enhanced Flip Chip, or EF, LED series and our newest line of white chip scale packages, the ReadyMount Enhanced CSP, or EC series. The EF series launched with the EF-B40, a blue 40-mil flip chip that simplifies the packaging and integration process by eliminating wire-bonding while increasing both lumen-density and decreasing the lumen-per-dollar value proposition while enabling packagers to use standard surface mount assembly techniques. By combining SemiLEDs's Enhanced Flip chip approach with our innovative ReadyWhite phosphor technology, the EC delivers unprecedented flexibility,

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reliability and manufacturability in a single 1.4mm × 1.4mm low profile device. Rated for input power of up to 3W, the EC is a fully packaged white emitter SMD component, ready for surface mounting on any board level module or COB application, lowering capital costs and enabling extremely high lumen density configurations.

**General economic conditions and geographic concentration.** Many countries including the United States and the European Union members have instituted, or have announced plans to institute, government regulations and programs designed to encourage or mandate increased energy efficiency in lighting. These actions include in certain cases banning the sale after specified dates of certain forms of incandescent lighting, which are advancing the adoption of more energy efficient lighting solutions such as LEDs. The global financial crisis that began in late 2007 caused extreme disruption in the financial markets. Although the disruption in the financial markets moderated thereafter, the global financial markets continue to reflect uncertainty about a sustained economic recovery. When the global economy slows or a financial crisis occurs, consumer and government confidence declines, with levels of government grants and subsidies for LED adoption and consumer spending likely to be adversely impacted. Our revenues have been concentrated in a few select markets, including Taiwan, the United States and China (including Hong Kong). Given that we are operating in a rapidly changing industry, our sales in specific markets may fluctuate from quarter to quarter. Therefore, our financial results will be impacted by general economic and political conditions in such markets. For example, some of our customers in Russia have experienced temporary liquidity constraints as a result of the impact of the banking crisis in Cyprus in March 2013 on the Russian economy, which have led to significantly reduced and/or delayed purchases of our products by these customers. Furthermore, the reduction in LED street and tunnel lighting projects financed by the Chinese government and aggressive support by the Chinese government for the LED industry through significant government incentives and subsidies to encourage the use of LED lighting and to establish the LED-sector companies has resulted in production overcapacity in the market and intense competition. Starting in March 2014, as a result of Russia's military intervention in Ukraine and annexation of Crimea, the United States and European Union have imposed and extended sanctions on certain individuals and financial institutions and have proposed to use broader economic sanctions. Russia also imposed reciprocal sanctions against the United States and European Union. If the confrontation worsens, our business in Russia and/or related markets could be adversely affected as a result of potential trade sanctions or economic uncertainty or slowdown. In addition, we have historically derived a significant portion of our revenues from a limited number of customers. Some of our largest customers and what we produce/have produced for them have changed from quarter to quarter primarily as a result of the timing of discrete, large project-based purchases and broadening customer base, among other things. For the years ended August 31, 2014 and 2013, sales to our three largest customers, in the aggregate, accounted for 26% and 14% of our revenues, respectively.

**Intellectual property issues.** Competitors of ours and other third parties have in the past and will likely from time to time in the future allege that our products infringe on their intellectual property rights. Defending against any intellectual property infringement claims would likely result in costly litigation and ultimately may lead to our not being able to manufacture, use or sell products found to be infringing. In June 2012, we settled an intellectual property dispute involving Cree. We agreed to dismiss amended complaints filed against each other without prejudice. We agreed to the entry of a permanent injunction that was effective October 1, 2012 that precludes us from (and/or from assisting others in) making, using, importing, selling and/or offering to sell in the United States certain accused products and/or any device that includes such an accused product after that date and to payment of a settlement fee for past damages. All accused products sold before the date of settlement are released under this agreement and our customers and distributors are specifically released. All remaining claims between Cree and

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us were withdrawn without prejudice, with each retaining the right to assert them in the future. However, other third parties may also assert infringement claims against our customers with respect to our products, or our customers' products that incorporate our technologies or products. Any such legal action or the threat of legal action against us, or our customers, could impair such customers' continued demand for our products. This could prevent us from growing or even maintaining our revenues, or cause us to incur additional costs and expenses, and adversely affect our financial condition and results of operations.

***Our ability to realize our strategic initiatives.*** We have grown our business in part through strategic alliances and acquisitions. For example, our China strategy was initially premised on continuing our growth in China through China SemiLEDs. The launch of China SemiLEDs was not successful. As the world's second largest economy and one that is geographically close to our manufacturing operations, China continues to represent a key market for our products and we have been working towards formulating certain strategic alternatives to exploit the opportunities that it presents, including, but not limited to, developing and expanding our direct sales force and distribution channels through local third-party distributors. In addition, we continually evaluate and explore strategic opportunities as they arise, including product, technology, business or asset transactions, such as acquisitions or divestitures. For example, in July 2013, we acquired an LED component production line and related technology from certain third parties. This acquisition helped us expand our production capacity for LED components, and strengthen our product portfolio, technology and know-how related to LED components.

***Declining cash position.*** Our cash and cash equivalents decreased \$23.6 million in our fiscal 2014 due to the combination of our net loss, payments related to acquisition of business and long-term debt, an increase in inventory and a decrease in accounts payable balances, and cash outlays for fixed assets to expand our Chu-Nan Facility for the relocation and consolidation of our manufacturing operations at Sinwu, Taiwan. We have initiated actions to accelerate operating cost reductions and improve operational efficiencies. In the first quarter of our fiscal 2015, we have started to realize the benefits of operating cost reductions, such as savings on lease and overhead costs related to the Sinwu Facility, lower payroll expenses due to workforce reductions and normal attrition, and improvement in operational efficiencies through the consolidation of facilities. Based on our current financial projections, we believe that we will have sufficient sources of liquidity to fund our operations and capital expenditure plans for the next 12 months. Please see "Critical Accounting Policies and Estimates Basis of Presentation Going Concern" for more information about our liquidity plans.

**Components of Consolidated Statements of Operations**

***Revenues, net***

Our core products are LED chips and LED components, but lighting products have also become an increasingly important part of our business.

Our revenues are affected by sales volumes of our LED chips, LED components and lighting products and our average selling prices for such products. In addition, as we expand and diversify our product offerings and with varying average selling prices, any change in the mix of products that we sell in any given period may affect our total revenues. For example, average selling prices for our LED components are generally higher than for LED chips and the average selling prices for our lighting products are higher than for our LED chips and LED components.

We recognize revenue on sales of our products when persuasive evidence of an arrangement exists, the price is fixed or determinable, ownership and risk of loss has transferred and collection of the sales proceeds is probable. We obtain written purchase authorizations from our customers as evidence of an

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arrangement and these authorizations generally provide for a specified amount of product at a fixed price. We typically consider delivery to have occurred at the time of shipment, unless otherwise agreed in the applicable sales terms, as this is generally when title and risk of loss for the product passes to the customer.

Our larger customers typically provide us with non-binding rolling forecasts of their requirements for the coming one to three months; however, recent global economic uncertainty and weakness has led to reduced spending in our target markets and made it difficult for our customers and us to accurately forecast and plan future business activities. Our customers may increase, decrease, cancel or delay purchase orders already in place, with no material consequences to the customer. As a result, we may face increased inventories and our backlog may decline as a result of any economic downturn or material change in market conditions or economic outlook. We price our products in accordance with prevailing market conditions, taking into account the technical specifications of the product being sold, the order volume, the strength and history of our relationship with the customer, our inventory levels and our capacity utilization. When average selling prices drop, as they did in the years ended August 31, 2014 and 2013, inventory write-downs to net realizable values may also result.

Our customers for LED chips consist of both packagers and distributors who sell our LED chips to their packaging customers. Packagers in turn sell their packaged LED components to end-users of lighting devices. Our customers for LED components consist primarily of distributors and end-customers in selected markets. Our lighting product customers consist primarily of ODMs of lighting products and the end-users of these lighting devices. Distributors accounted for 17% and 20% of our revenues for the years ended August 31, 2014 and 2013, respectively. Our revenues attributable to our ten largest customers accounted for 45% and 35% of our revenues for the years ended August 31, 2014 and 2013, respectively.

Our revenues have been concentrated in a few select markets, including Taiwan, the United States and China (including Hong Kong). Net revenues generated from these countries, in the aggregate, accounted for 61% and 54% of our net revenues for the years ended August 31, 2014 and 2013, respectively. We expect that our revenues will continue to be substantially derived from these countries for the foreseeable future. Given that we are operating in a rapidly changing industry, our sales in specific markets may fluctuate from quarter to quarter. Therefore, our financial results will be impacted by general economic and political conditions in such markets.

Our revenues are presented net of estimated sales returns and discounts. We estimate sales returns and discounts based on our historical discounts and return rates and our assessment of future conditions.

***Cost of Revenues***

Our cost of revenues consists primarily of cost of materials, depreciation expenses, manufacturing overhead costs, direct labor costs and utilities cost, all related to the manufacture of our LED products. Materials include raw materials, other materials such as gases and chemicals, consumables, and assembly materials. Because our products are manufactured based on customers' orders and specifications and we purchase materials and supplies to support such orders, we generally purchase our materials at spot prices in the marketplace and do not maintain long-term supply contracts. We purchase materials from several suppliers. Our procurement policy is to select only a small number of qualified vendors who demonstrate quality of materials and reliability on delivery time. We are subject to variations in the cost of our materials and consumables from period to period. Moreover, because we consume a significant amount of electricity in our manufacturing process, any fluctuations in electricity costs will have an impact on our cost of revenues. We also use contract manufacturers to produce for our sale certain LED products, and for certain aspects of our product fabrication, assembly

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and packaging processes, based on our design and technology requirements and under our quality control specifications and final inspection process.

Direct labor costs consist of salary (including stock-based compensation), bonus, training, retirement and other costs related to our employees engaged in the manufacture of our products. Manufacturing overhead costs consist primarily of salaries, bonuses and other benefits (including stock-based compensation expenses) for our administrative personnel allocated to manufacturing functions, repairs and maintenance costs for equipment and machinery maintenance costs and lease expenses.

Our cost of revenues also includes excess capacity charges as a result of the underutilization of our manufacturing capacity and inventory valuation adjustments to write down our inventories to their estimated net realizable values as a result of declines in their average selling prices.

***Operating Expenses***

***Research and development.*** Our research and development expenses, which are expensed as incurred, consist primarily of expenses related to employee salaries, bonuses and other benefits (including stock-based compensation expenses) for our research and development personnel, engineering charges related to product design, purchases of materials and supplies, repairs and maintenance and depreciation related expenses.

***Selling, general and administrative.*** Selling, general and administrative expenses consist primarily of salaries, bonuses and other benefits (including stock-based compensation expenses) for our administrative, sales and marketing personnel, expenses for professional services, which include fees and expenses for accounting, legal, tax and valuation services, amortization and depreciation related expenses, marketing related travel, lease expenses, entertainment expenses, allowance for doubtful accounts and general office related expenses, as well as compensation to our directors. We expect our selling, general and administrative expenses to decrease as we continue to implement cost reduction initiatives, such as spending controls, and as we continue to streamline our operations.

***Impairment of long-lived assets.*** During the years ended August 31, 2013, we recognized impairment charges of \$10.1 million on our property, plant and equipment due to the underutilization of a significant portion of our manufacturing facilities, which in turn was due to declining sales as a result of reduced customer demand and intense competition within the LED industry. During the year ended August 31, 2013, we also recognized an impairment charge of \$0.8 million on our intangible asset for customer relationships that arose from our acquisition of a 51% equity interest in Ning Xiang in August 2011.

***Goodwill impairment.*** We did not recognize any impairment charge in the year ended August 31, 2014. In the third quarter of fiscal 2013, we performed an interim goodwill impairment test and wrote down goodwill assigned to the Ning Xiang reporting unit to its implied fair value of zero. The decline in the implied fair value of the Ning Xiang reporting unit goodwill and the resulting impairment loss was primarily driven by our updated long-term financial forecasts, which reflected lower estimated near-term and longer-term revenues and profitability compared to estimates that we developed at the time of the acquisition in August 2011.

***Other Income (Expense)***

***Impairment loss on investment.*** In the third quarter of fiscal 2013, we reviewed the operating performance and financial condition of HPO, an equity investment we account for using the cost method, based on the latest available financial statements of the investee and other publicly available information. We considered the extent and duration of time to which the fair value of the investment

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has been less than the carrying amount, the financial condition of the investee and prospect for recovery in the near term, and recognized an other-than-temporary impairment loss of \$1.9 million on our investment in HPO during the year ended August 31, 2013. The fair value of the investment was determined based on our best estimate of the amount that could be realized from the investment, which considered the latest audited net asset value reported by the investee and events that have occurred after the investee's balance sheet date, including the issuance price for new common shares in a private placement. We believe the estimated fair value reflected the exit price from a market participant's perspective as of August 31, 2013. We did not recognize any impairment loss on investment in the year ended August 31, 2014.

**Equity in losses from unconsolidated entities, net.** Loss from unconsolidated entities consists of our portion of the income or losses of SILQ. The entity has been accounted for using the equity method of accounting, and as such, we generally recognize our portion of the net income or loss from the entity in our consolidated statements of operations. We report our investment in the entity as investments in unconsolidated entities on our consolidated balance sheets and such investment amounts are initially stated at cost, and subsequently adjusted for our portion of equity in undistributed earnings or losses. If the value of our investment in such entities declines, and the decline is determined to be other-than-temporary, the investment would be written down to fair value.

**Interest income(expense), net.** Interest income (expense), net consists of interest income and interest expense. Interest income represents interest earned from our cash, cash equivalents and/or short-term investments deposited with commercial banks in the United States and Taiwan. As of August 31, 2014 and 2013, we had cash and cash equivalents of \$12.6 million and \$36.3 million, respectively, which consisted of time deposits with initial maturity of greater than three months. Interest expense consists primarily of interest on our long-term borrowings and/or short-term lines of credit with certain banks in Taiwan. As of August 31, 2014 and 2013, we had long-term debt totaling \$6.2 million and \$8.5 million as of August 31, 2014 and 2013, respectively.

**Other income, net.** Other income (expense), net consists primarily of rental income from the lease back of second floor of our Hsinchu building to the original owner, net of related depreciation charge, and income recognized from the assignment of 13 patents to China SemiLEDs.

**Foreign currency transaction loss, net.** 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, Ning Xiang and certain other subsidiaries, is the NT dollar, and the functional currency for Xuhe Guandong Co., Ltd. or Shenzhen SemiLEDs, is the Renminbi. Gains or losses on foreign currency transactions are recognized in our consolidated statements of operations as foreign currency transaction gains or losses. Certain purchase contracts for materials, supplies and equipment entered into by these subsidiaries are denominated in currencies other than NT dollars, mainly in U.S. dollars and to a lesser extent Japanese Yen. For our customers outside of Taiwan, these subsidiaries quote prices for our products and bill our customers in U.S. dollars, and record revenues and accounts receivable in NT dollars for such orders at the time of such sale based on our revenue recognition policies. Most of our sales to customers and purchases are on credit. Any changes in the exchange rates between the NT dollar, U.S. dollar, Japanese Yen and other currencies will result in our recognizing foreign currency transaction gains or losses, as the case may be, depending on the movement of the foreign exchange rates from the time when we record revenues and purchases, to the time we receive and make payment. We also have foreign currency transaction gains or losses from cash, cash equivalents and/or short-term investments, such as demand deposits and time deposits, held in currencies other than the functional currency of our non-U.S. subsidiaries that holds such deposits.

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*Provision for Income Taxes*

**United States tax treatment.** We and our subsidiary, Helios Crew, are United States corporations and are therefore required to file federal income tax returns with the Internal Revenue Service as well as with certain applicable state tax authorities. As our operations in the United States have been minimal, we have not to date recorded nor paid any significant federal or state corporate income tax.

We have investments in controlled foreign corporations and affiliates, which under Subpart F of the United States Internal Revenue Code, or Subpart F, may under certain circumstances subject our investments in controlled foreign corporations and affiliates to taxation in the United States. Subpart F provides that United States corporations may be required to include in their income certain undistributed earnings of the foreign corporations and affiliates as though such earnings had been distributed currently. Subpart F applies only to United States shareholders (such as us) who hold an interest in a foreign corporation and affiliates that meet the definition of a "controlled foreign corporation." Under Section 957(a) of the United States Internal Revenue Code, a "controlled foreign corporation" means any foreign corporation if more than 50% of either (i) the total combined voting power of all classes of stock of such corporation entitled to vote, or (ii) the total value of the stock of such corporation, is owned by "United States Shareholders" on any day during the foreign corporation's taxable year.

Subpart F does not apply, however, to the income of a controlled foreign corporation generated from the sale of goods that are manufactured in its country of incorporation. Also, any income attributable to a controlled foreign corporation and its affiliates that is not engaged in a United States trade or business is generally not subject to United States taxation until its earnings are distributed, or the stock of the foreign corporation is disposed. All of our products are manufactured in Taiwan by Taiwan SemiLEDs, our wholly owned foreign subsidiary. Because Taiwan SemiLEDs conducts its manufacturing activities in Taiwan, the income or loss of Taiwan SemiLEDs is included in our consolidated financial statements, but is not considered taxable income for United States taxation purposes pursuant to Section 954(d)(1)(A) of the United States Internal Revenue Code. This generally enables a United States taxpayer, such as us, to indefinitely defer United States taxation on the profits earned by its controlled foreign corporations and affiliates by retaining the earnings in such entities. We do not currently have any plans to repatriate any of our retained earnings from any of our controlled foreign subsidiaries or affiliates and we do not currently have any plans to declare or pay any dividends from such entities.

It has been reported, however, that the current presidential administration in the United States may seek to modify the rules governing taxation of controlled foreign corporations and affiliates and any such changes may result in our having to pay applicable taxes in the United States on income earned by such entities in the future.

**Taiwan tax treatment.** The corporate income tax rate in Taiwan is 17%. Corporate income taxes payable, however, are subject to an alternative minimum tax. The Taiwan government enacted the Taiwan Alternative Minimum Tax Act, or the AMT Act, on January 1, 2006. Under the AMT Act, a taxpayer must pay the higher of its taxable income multiplied by the corporate income tax rate or the alternative minimum tax, or AMT. In calculating the AMT amount, the taxpayer must include income that would otherwise be exempt from taxation pursuant to various tax holidays or investment tax credits, other than certain exemptions or tax credits that have been grandfathered for the purposes of calculating AMT. The AMT rate for business entities is 10%. Beginning in our fiscal 2014, the AMT rate has been increased to 12%. In addition to the statutory corporate taxes payable, or the AMT, corporate taxpayers in Taiwan are subject to an additional 10% tax on distributable retained earnings (after statutory legal reserves) to the extent that such earnings are not distributed prior to the end of the subsequent year. This undistributed earnings surtax is determined in the subsequent year when the

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distribution plan relating to earnings attributable to the prior year is approved by a company's stockholders and is payable in the subsequent year. Because most of our subsidiaries in Taiwan incurred losses before income tax for both our fiscal year 2014 and 2013, we do not expect to pay such taxes on undistributed earnings.

Taiwan SemiLEDs enjoyed tax credits of up to 20% under the Statute for Upgrading Industries for its investments in township areas in Taiwan with limited resources or with slow development. Such tax credits can be applied over a period of four years and expired in our fiscal year ended August 31, 2014. Certain of our consolidated and majority owned subsidiaries in Taiwan are entitled to certain tax credits under the Statute for Industrial Innovation. A Taiwan company is entitled to apply for a tax credit of up to 15% of the aggregate amount invested in research and development if the amount of such credit does not exceed 30% of its income tax payable for that year. Any unused credit cannot be carried over to later years.

Prior to our fiscal 2013, Taiwan SemiLEDs was entitled to certain tax exemption under the Statute for Upgrading Industries for income attributable from the use of equipment that we previously purchased to manufacture blue and green LED wafers and LED chips funded in whole or in part by proceeds from its initial capital investments and subsequent capital increases. Such tax exemption was available either to the shareholder of Taiwan SemiLEDs or, if we so determine, to Taiwan SemiLEDs itself. In addition, certain of our consolidated and majority owned subsidiaries in Taiwan were entitled to certain tax incentives under the Statute for Upgrading Industries for research and development expenses, employee training expenses and investments in automation equipment and technology. Both the tax exemption and tax credits expired in our fiscal 2013.

As of August 31, 2014, we had total foreign net operating loss carryforwards of \$79.5 million, arising primarily from certain of our consolidated and majority owned subsidiaries in Taiwan, which will begin expiring in various amounts beginning in our fiscal 2014. Pursuant to the Taiwan Income Tax Act, as amended in January 2009, net operating loss carryforwards can be carried forward for a period of ten years.

In addition, in accordance with the Taiwan Income Tax Act, dividends distributed by companies incorporated in accordance with the Taiwan Company Act shall be deemed as income derived from sources in Taiwan and income taxes shall be levied on the shareholders receiving such dividends. In the event that a Taiwan incorporated company distributes dividends to its foreign shareholders, it will be required to withhold tax payable by the foreign shareholders at the time of payment at a rate of 20% or a lower tax treaty rate if applicable. Therefore, dividends received from our subsidiaries in Taiwan, if any, will be subjected to withholding tax under Taiwan law.

***Net Loss Attributable to Noncontrolling Interests***

***Net loss attributable to noncontrolling interests.*** Noncontrolling interests represented a 49% of equity interest in Ning Xiang since the date of our acquisition in August 2011, which was reduced to 34% beginning in April 2013 and further reduced to 13% beginning in November 2013, as we acquired an additional 15% interest in April 2013 and an additional 21% interest in November 2013. The noncontrolling interests in Ning Xiang are reported in the consolidated statements of operations as part of consolidated net income (loss) and in the consolidated balance sheets as part of equity. Net loss attributable to noncontrolling interests represents the share of the net loss of Ning Xiang held by the noncontrolling holders.



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**Critical Accounting Policies and Estimates**

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses during each reporting period. We continually evaluate these estimates and assumptions based on historical experience, knowledge and assessment of current and other conditions, our expectations regarding our future based on available information and reasonable assumptions, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates.

We believe the following accounting policies involve the most significant judgments and estimates used in the preparation of our consolidated financial statements.

***Basis of Presentation - Going Concern***

Our consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The realization of assets and the satisfaction of liabilities in the normal course of business are dependent on, among other things, our ability to operate profitably, to generate cash flows from operations, and to pursue financing arrangements to support our working capital requirements. As described in Note 2 to our consolidated financial statements, since 2012 we have suffered significant recurring losses from operations, negative gross margins, and net usages of cash flows from operations. Further, our cash and cash equivalents are down to \$12.6 million at August 31, 2014. These facts and conditions raise initial substantial doubt about our ability to continue as a going concern. However, management has developed a liquidity plan as explained in Note 2 to our consolidated financial statements, which is summarized below, that if executed successfully, should provide sufficient liquidity to meet our obligations as they become due for a reasonable period of time.

Raise approximately \$5 million cash through the private placement of additional common shares of the Company to an investor (See Note 16 to our consolidated financial statements);

Improve operating cash flows through cost reductions and the sales of new higher margin products. Management has implemented cost reductions that include the closing and relocation of the manufacturing operations at our Sinwu facility, the consolidation of our facilities, and workforce reductions. We recently secured our first design-win for its UV LED product with a leading cosmetic manufacturer and expect to begin commercial sales of this new product in our fiscal second quarter of 2015. This is expected to have a positive impact on our future gross margin, operating results and cash flows;

Reduce planned capital expenditures and research and development costs for the fiscal year ending August 31, 2015. Management continues to monitor prices and, consistent with its existing contractual commitments, may decrease its activity level and capital expenditures further, which could adversely impact future sales. This plan reflects its strategy of controlling capital costs and maintaining financial flexibility;

Utilize the \$1 million available line of credit if necessary; and

Raise additional cash through further equity offerings, sales of assets and/or issuance of debt as considered necessary.

While we believe that these liquidity plan measures will be adequate to satisfy our liquidity requirements for the twelve months ending August 31, 2015, there is no assurance that the liquidity plan will be successfully implemented. Failure to successfully implement the liquidity plan may have a

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material adverse effect on our business, results of operations and financial position, and may adversely affect our ability to continue as a going concern. Our consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded assets or the amounts and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern.

***Inventory Valuation***

Inventories consist of raw materials, work in process and finished goods and are stated at the lower of cost or market value. We determine cost using a weighted average. For work in process and manufactured inventories, cost consists of raw materials, direct labor and an allocated portion of our production overhead. At each balance sheet date, we evaluate our ending inventories for excess quantities and obsolescence and we write-down our inventory to its estimated net realizable value based upon assumptions about future demand and market conditions. Our estimation of future demand is primarily based on the backlog of customer orders as of the balance sheet date and projections based on our actual historical sales trends and customers' demand forecast. We evaluated our inventories on an individual item basis. For our finished goods and work in process, if the estimated net realizable value for an inventory item, which is the estimated selling price in the ordinary course of business, less reasonably predictable costs to completion and disposal, is lower than its cost, the specific inventory item is written down to its estimated net realizable value. Market for raw materials is based on replacement cost. We also write-down items that are considered obsolete based upon changes in customer demand, manufacturing process changes or new product introductions that may eliminate demand for the product. Once written down, inventories are carried at this lower amount until sold or scrapped. Provisions for inventory write-downs are included in our costs of revenues in the consolidated statements of operations. There is significant judgment involved with the estimates of excess and obsolescence and if our estimates regarding customer demand or other factors are inaccurate or actual market conditions or technological changes are less favorable than those estimated by management, additional future inventory write-downs may be required that could adversely affect our operating results. Inventory write-downs totaled \$3.2 million for the year ended August 31, 2013 and \$2.3 million for the year ended August 31, 2014. A majority of our inventory write-downs during the years ended August 31, 2014 and 2013 was related to finished goods and work in process, primarily as a result of a decline in the average selling prices.

***Income Taxes***

We are subject to income taxes in both the United States and foreign jurisdictions. Significant management judgment is required in determining our income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. Our deferred tax assets represent future tax benefits to be received when certain expenses previously recognized in our consolidated statements of operations become deductible expenses under applicable income tax laws or when loss or credit carryforwards are utilized. Realization of these deferred tax assets is dependent on our ability to earn future taxable income against which these deductions, losses and credits can be utilized. Therefore, we assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not more likely than not, a valuation allowance is established. These estimates and judgments about our future taxable income are based on assumptions that are consistent with our future plans. A net cumulative loss in recent years is a significant piece of negative evidence in determining the realization of the benefits of deferred tax assets. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. We have provided a full valuation allowance on our deferred tax assets because our cumulative losses in recent years causes us to believe that realization of our deferred tax assets is not more likely than not.

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*Useful Life of Property, Plant and Equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Depreciation on property, plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful life of the asset. We make estimates of the useful life of our property, plant and equipment in order to determine depreciation expense to be recorded each reporting period based on similar assets purchased in the past and our historical experience with such similar assets, as well anticipated technological or market changes. The estimated useful life of our property, plant and equipment directly impacts the timing of when our depreciation expense is recognized. There is significant judgment involved with estimating the useful lives of our property, plant and equipment, and a change in the estimates of such useful lives could cause our depreciation expense in future periods to increase significantly. There have been no changes in the estimates of the useful life of our property, plant and equipment in any of the last two years.

*Impairment of Long-lived Assets*

In assessing the recoverability of our long-lived assets, we first, determine whether indicators of impairment are present. Circumstances such as the discontinuation of a product or product line, a sudden or consistent decline in the forecast for a product, changes in technology or in the way an asset is being used, a history of negative operating cash flow, or an adverse change in legal factors or in the business climate, among others, may trigger an impairment review. Second, if we determine that indicators of impairment are present, we determine whether the estimated undiscounted cash flows expected to be generated from the use and eventual disposal of the potentially impaired assets are less than the carrying amount. Third, if such estimated undiscounted cash flows do not exceed the carrying amount, we estimate the fair value of the asset and record an impairment charge if the carrying amount is greater than the fair value of the asset. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values and third-party independent appraisers, as considered necessary. We group our long-lived assets with other assets and liabilities at the lowest level for which identifiable cash flows are generated, or an asset group. We determined that we have two asset groups for impairment testing purposes, one of which is associated with the manufacture and sale of LED chips and LED components, and the other is associated with our Ning Xiang subsidiary, which is engaged in the manufacture and sale of lighting fixtures and systems.

The estimates of future cash flows involve subjective judgments and represent our best estimate at each date of assessment about future developments, determined based on reasonable and supportable assumptions and projections taking into account past experience, as well as market data obtained from independent external sources. The use of different assumptions could increase or decrease the estimates of expected future cash flows and consequently, increase or decrease the related impairment charges. For example, if the average selling prices continue to decline beyond the assumptions used in our forecast of future cash flows expected to be generated by the asset groups, or if demand for our LED products does not grow as we anticipate, or if utilization rates are lower than anticipated, it is reasonably possible that the estimate of expected future cash flows may change in the near term resulting in the need to adjust our determination of fair value.

During the years ended August 31, 2013, we recognized impairment charges of \$10.1 million on our property, plant and equipment due to the underutilization of a significant portion of our manufacturing facilities, which in turn was due to declining sales as a result of reduced customer demand and intense competition within the LED industry. During the year ended August 31, 2013, we also recognized an impairment charge of \$0.8 million on our intangible asset for customer relationships that arose from our acquisition of a 51% equity interest in Ning Xiang in August 2011. (See notes 3 and 13 to the consolidated financial statements).

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During the year ended August 31, 2014, sales of LED chips and LED components were significantly lower than projected primarily because further declines in average selling prices. Also, our market capitalization, based on the quoted price of our shares, is now significantly below our consolidated net book value. Consequently, we concluded that these were indicators of potential further impairment of our long-lived assets. The significant assumptions used in determining the estimated undiscounted cash flows for the LED chips and components asset group were revised to reflect the new operation status. This included downward revisions to the average selling price and revenue compound average growth rates. Based on this assessment, the expected undiscounted cash flows to be generated by this asset group exceeded its carrying value by 3.3%. Consequently, no further asset impairment was recognized during the year ended August 31, 2014.

**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 U.S. GAAP. At the same time, our subsidiaries use the local currency as their functional currency. For example, the functional currency for Taiwan SemiLEDs is the NT dollar. The assets and liabilities of the subsidiaries are, therefore, translated into U.S. dollars at exchange rates in effect at each balance sheet date, 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 were made at the exchange rates set forth in the statistical release of the Bank of Taiwan. On August 29, 2014, the exchange rate was 29.90 NT dollars to one U.S. dollar. On November 28, 2014, the exchange rate was 30.95 NT dollars to one U.S. dollar.

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

	NT dollars per U.S. dollar			
	Average(1)	High	Low	Period-End
Fiscal 2012	29.86	30.68	28.95	29.93
Fiscal 2013	29.57	30.20	28.95	29.93
Fiscal 2014	29.94	30.60	29.36	29.90
September 2014	30.11	30.48	29.86	30.42
October 2014	30.40	30.45	30.36	30.44
November 2014 (through November 28, 2014)	30.71	30.95	30.47	30.95

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

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

**Results of Operations**

The following table sets forth, for the periods presented, our consolidated statements of operations information. In the table below and throughout this "Management's Discussion and Analysis of

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Financial Condition and Results of Operations," the following consolidated statement of operations data for the years ended August 31, 2014 and 2013 have been derived from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The information contained in the table below should be read in conjunction with our consolidated financial statements and notes thereto included in Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K. The historical results presented below are not necessarily indicative of the results that may be expected for any future period:

	Years Ended August 31,			
	2014		2013	
	\$	% of Revenues	\$	% of Revenues
(in thousands)				
<b>Consolidated Statement of Operations Data:</b>				
Revenues, net	\$ 14,481	100%	\$ 17,967	100%
Cost of revenues	25,792	178%	32,665	182%
Gross loss	(11,311)	(78)%	(14,698)	(82)%
<b>Operating expenses:</b>				
Research and development	4,199	29%	4,592	26%
Selling, general and administrative	9,279	64%	11,377	63%
Impairment of long-lived assets			10,923	61%
Goodwill impairment			1,077	6%
Total operating expenses	13,478	93%	27,969	156%
Loss from operations	(24,789)	(171)%	(42,667)	(237)%
<b>Other income (expenses):</b>				
Impairment loss on investment			(1,885)	(10)%
Equity in losses from unconsolidated entities, net	(183)	(1)%	(249)	(1)%
Interest income (expenses), net	(83)	(1)%	11	0%
Other income, net	519	4%	213	1%
Foreign currency transaction loss, net	(74)	(1)%	(58)	0%
Total other income (expenses), net	179	1%	(1,968)	(11)%
Loss before income taxes	(24,610)	(170)%	(44,635)	(248)%
Income tax expense			3	0%
Net loss	(24,610)	(170)%	(44,638)	(248)%
Less: Net loss attributable to noncontrolling interests	(135)	(1)%	(914)	(5)%
Net loss attributable to SemiLEDs stockholders	\$ (24,475)	(169)%	\$ (43,724)	(243)%

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	Years Ended August 31,				Change \$	Change %
	2014	% of Revenues	2013	% of Revenues		
	\$		\$			
	(in thousands)					
LED chips	\$ 4,799	33%	\$ 5,466	30%	\$ (667)	(12)%
LED components	5,360	37%	6,924	39%	(1,564)	(23)%
Lighting products	3,432	24%	4,170	23%	(738)	(18)%
Other(1)	890	6%	1,407	8%	(517)	(37)%
<b>Total revenues, net</b>	<b>14,481</b>	<b>100%</b>	<b>17,967</b>	<b>100%</b>	<b>(3,486)</b>	<b>(19)%</b>
Cost of revenues	25,792	178%	32,665	182%	(6,873)	(21)%
<b>Gross loss</b>	<b>\$ (11,311)</b>	<b>(78)%</b>	<b>\$ (14,698)</b>	<b>(82)%</b>	<b>\$ 3,387</b>	<b>(23)%</b>

(1)

Other includes primarily revenues attributable to the sale of epitaxial wafers, scraps and raw materials, third party ancillary equipment that we sold along with our LED products, and the provision of services.

**Revenues, net**

Our revenues decreased by 19% from \$18.0 million for the year ended August 31, 2013 to \$14.5 million for the year ended August 31, 2014. The \$3.5 million decrease in revenues reflects a \$1.6 million decrease in revenues attributable to sales of LED components, a \$0.7 million decrease in revenues attributable to the sales of lighting products, a \$0.7 million decrease in revenues attributable to sales of LED chips and a \$0.5 million decrease in other revenues.

Revenues attributable to the sales of our LED chips represented 33% and 30% of our revenues for the years ended August 31, 2014 and 2013. During the year ended August 31, 2014, the average selling price of our LED chips was 56% lower as compared to the year ended August 31, 2013 and the volume of LED chips sold for the year ended August 31, 2014 was 102% higher than for the year ended August 31, 2013, reflecting primarily our sales of a significant volume of new lower-priced LED chips and clearance of a significant volume of older inventory in our LED chips portfolio at discounted prices.

Revenues attributable to the sales of our LED components represented 37% and 39% of our revenues for the years ended August 31, 2014 and 2013, respectively. The decrease in revenues attributable to sales of LED components was due to a 37% decrease in the volume of LED components sold, offset in part by a 24% increase in the average selling price of LED components. The volume of LED components sold decreased primarily due to a continued slowdown in demand for a category of older generation products in our LED components portfolio and a decline in sales of a category of lower-priced LED components due to intense competition. In addition, continued weak economic and political and market conditions in Russia, a target market previously significant to us, have also led to reduced purchases of our products by some of our customers. The average selling price of LED components was 24% higher primarily due to a shift in our product mix to a reduced proportion of the lower-priced LED components for the year ended August 31, 2014.

Revenues attributable to the sales of lighting products represented 24% and 23% of our revenues for the years ended August 31, 2014 and 2013, respectively. Revenues attributable to the sales of lighting products was higher for the year ended August 31, 2013 primarily due to project-based orders for LED lights products. The decrease in revenues attributable to the sales of lighting products was

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also due to reduced sales reported by Ning Xiang, primarily as a result of increased competition from competitors based in China.

The decrease in other revenues was primarily due to lower sales of scrap and third party ancillary equipment that we sold along with our LED products.

### ***Cost of Revenues***

Our cost of revenues decreased by 21% from \$32.7 million for the year ended August 31, 2013 to \$25.8 million for the year ended August 31, 2014. The decrease in cost of revenues was primarily due to lower sales and inventory write-downs for the year ended August 31, 2014. Our cost of revenues was higher during the year ended August 31, 2013 also due to the significant volume of LED chips sold as a result of inventory clearance. The decreases, however, were offset in part by a \$0.9 million increase in excess capacity charge, primarily for our LED components, as a result of low capacity utilization of the additional LED components production line we acquired in July 2013 during the year ended August 31, 2014. Inventory write-downs decreased from \$3.2 million for the year ended August 31, 2013 to \$2.3 million for the year ended August 31, 2014. A majority of our inventory write-downs during the years ended August 31, 2014 and 2013 was related to finished goods and work in process, primarily as a result of a decline in the average selling prices.

### ***Gross Loss***

Our gross loss decreased from a loss of \$14.7 million for the year ended August 31, 2013 to a loss of \$11.3 million for the year ended August 31, 2014. Our gross margin percentage was negative 78% for the year ended August 31, 2014, as compared to negative 82% for the year ended August 31, 2013. Gross margin percentage, although negatively impacted by our sales of a significant volume of LED chips at discounted prices, improved due to lower inventory write-downs.

### ***Operating Expenses***

	2014		2013		Change \$	Change %
	\$	% of Revenues	\$	% of Revenues		
	(in thousands)					
Research and development	\$ 4,199	29%	\$ 4,592	26%	\$ (393)	(9)%
Selling, general and administrative	9,279	64%	11,377	63%	(2,098)	(18)%
Impairment of long-lived assets			10,923	61%	(10,923)	N/A
Goodwill impairment			1,077	6%	(1,077)	N/A
<b>Total operating expenses</b>	<b>\$ 13,478</b>	<b>93%</b>	<b>\$ 27,969</b>	<b>156%</b>	<b>\$ (14,491)</b>	<b>(52)%</b>

**Research and development.** Our research and development expenses decreased from \$4.6 million for the year ended August 31, 2013 to \$4.2 million for the year ended August 31, 2014. The decrease was primarily due to a \$0.3 million decrease in salary-related expenses (including stock-based compensation expenses), mainly attributable to employee attrition and reassignment to other functions, and a \$0.1 million decrease in materials and supplies used in research and development, primarily as a result of fewer ongoing research and development activities during the year ended August 31, 2014.

**Selling, general and administrative.** Our selling, general and administrative expenses decreased from \$11.4 million for the year ended August 31, 2013 to \$9.3 million for the year ended August 31, 2014. The decrease was mainly attributable to a \$1.3 million decrease in bad debt expense and decreases in various other expenses including depreciation and amortization, insurance, travel related expenses, rent and advertisement of \$0.6 million as a result of our cost reduction initiatives. Bad debt

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expense (including related parties) for the year ended August 31, 2013 was \$1.1 million, primarily due to provisions for doubtful accounts receivables from several customers experiencing deteriorating business conditions and/or financial difficulties. We have ceased making sales to these customers and initiated legal action on certain of these customers to attempt to collect the amounts due. During the year ended August 31, 2014, we recovered \$0.3 million from the collection of previously provided doubtful accounts receivable.

**Impairment of long-lived assets.** We recognized a \$10.9 million impairment charge for the year ended August 31, 2013, which consisted of a \$10.1 million charge on our property, plant and equipment, and a \$0.8 million charge on the intangible asset for customer relationships that arose from our acquisition of a 51% equity interest in Ning Xiang in August 2011. The impairment charges on our property, plant and equipment of \$10.1 million for the years ended August 31, 2013, were related to machinery and equipment used primarily in the manufacturing of LED epitaxial wafers and chips. The charges stemmed primarily from significant revenue declines and negative gross margins. The impairment charge of \$0.8 million for the year ended August 31, 2013 on the intangible asset for customer relationships stemmed primarily from our updated long-term financial forecasts that reflected a lower estimated near-term and longer-term revenues and profitability compared to estimates developed at the time of the acquisition in August 2011. These charges are more fully described in Note 3 in the Notes to Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data, of this Annual Report.

**Goodwill impairment.** We recognized a \$1.1 million impairment loss during the year ended August 31, 2013 on goodwill that arose from our acquisition of a 51% equity interest in Ning Xiang in August 2011. All of the goodwill was assigned to the Ning Xiang reporting unit. The charge, which stemmed primarily from our updated long-term financial forecasts, is more fully described above in "Impairment of long-lived assets" and in Note 3 in the Notes to Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data, of this Annual Report.

### *Other Income (Expenses)*

	Years Ended August 31,			
	2014		2013	
	\$	% of Revenues	\$	% of Revenues
(in thousands)				
Impairment loss on investment	\$		\$ (1,885)	(10)%
Equity in losses from unconsolidated entities, net	(183)	(1)%	(249)	(1)%
Interest income (expenses), net	(83)	(1)%	11	0%
Other income, net	519	4%	213	1%
Foreign currency transaction loss, net	(74)	(1)%	(58)	0%
 Total other income (expenses), net	 \$ 179	 1%	 \$ (1,968)	 (11)%

**Impairment loss on investment.** We recognized a \$1.9 million other-than-temporary impairment loss on our investment in HPO during the year ended August 31, 2013, as more fully described in Note 5 in the Notes to Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data, of this Annual Report.

**Equity in losses from unconsolidated entities, net.** We recognized net losses from unconsolidated entities of \$0.2 million for both the years ended August 31, 2014 and 2013, which was from our portion of the net losses from SILQ. Net losses from SILQ for the year ended August 31, 2014 included a gain of \$37 thousand on the partial sale of our investment in SILQ. SILQ is still in an early stage of



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developing business and selling products in Malaysia and therefore, its operating results have fluctuated from quarter to quarter.

**Interest income (expense), net.** The decrease in interest income was primarily due to lower average cash balances and lower interest rates.

**Other income, net.** Our other income increased from \$0.2 million for the year ended August 31, 2013 to \$0.5 million for the year ended August 31, 2014, which was mainly due to the recognition on patents assignment of \$0.3 million.

**Foreign currency transaction loss, net.** We recognized net foreign currency transaction losses of \$0.1 million for both the years ended August 31, 2014 and 2013, primarily due to the depreciation of the U.S. dollar against the NT dollar during both fiscal years from bank deposits held by Taiwan SemiLEDs in currency other than the functional currency of such subsidiary. The losses arising from the U.S. dollar denominated bank deposits during the year ended August 31, 2014 were offset in part by a net foreign currency transaction gain due to the depreciation of Japanese Yen against the NT dollar from a Japanese Yen denominated purchase contract for equipment entered into by Taiwan SemiLEDs.

**Income Tax Expense (Benefit)**

	Years Ended August 31,			
	2014		2013	
	\$	% of Revenues	\$	% of Revenues
	(in thousands)			
Income tax expense	\$		\$ 3	0%

We did not recognize any income tax benefit for the year ended August 31, 2014, because although we incurred losses before income tax for most of our subsidiaries for the fiscal year, we provided a full valuation allowance on all deferred tax assets. We recognized an insignificant amount of income tax expense, despite a loss before income taxes, for the year ended August 31, 2013, for a subsidiary company in Taiwan, which is subject to a corporate statutory income tax rate of 17%.

As of August 31, 2014 and 2013, we recognized full valuation allowances of \$38.5 million and \$34.0 million, respectively, on our net deferred tax assets to reflect uncertainties related to our ability to utilize these deferred tax assets, which consist primarily of certain net operating loss carryforwards and foreign investment loss. We considered both positive and negative evidence, including forecasts of future taxable income and our cumulative loss position, and continued to report a full valuation allowance against our deferred tax assets as of both August 31, 2014 and 2013. We continue to review all available positive and negative evidence in each jurisdiction and our valuation allowance may need to be adjusted in the future as a result of this ongoing review. Given the magnitude of our valuation allowance, future adjustments to this allowance based on actual results could result in a significant adjustment to our results of operations.

As of August 31, 2014, we had U.S. federal net operating loss carryforwards of \$10.0 million and state net operating loss carryforwards of \$0.5 million, which will expire in various amounts beginning in our fiscal 2025 and fiscal 2017, respectively. Utilization of these net operating losses carryforwards may be subject to an annual limitation due to applicable provisions of the Internal Revenue Code of 1986, as amended, and state and local tax laws if we have experienced an "ownership change" in the past, or if an ownership change occurs in the future.

As of August 31, 2014, we had total foreign net operating loss carryforwards of \$79.5 million, arising primarily from certain of our consolidated and majority owned subsidiaries in Taiwan. Pursuant

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to the Taiwan Income Tax Act, as amended in January 2009, net operating losses carryforwards can be carried forward for a period of ten years.

#### *Net Loss Attributable to Noncontrolling Interests*

	Years Ended August 31,			
	2014	% of	2013	% of
	\$	Revenues	\$	Revenues
	(in thousands)			
Net loss attributable to noncontrolling interests	\$ (135)	(1)%	\$ (914)	(5)%

We recognized net losses attributable to noncontrolling interests of \$0.1 million and \$0.9 million for the years ended August 31, 2014 and 2013, respectively, which was attributable to the share of the net losses of Ning Xiang held by the remaining noncontrolling holders. Noncontrolling interests represented a 49% of equity interest in Ning Xiang since the date of acquisition, reduced to 34% beginning in April 2013 and further reduced to 13% beginning in November 2013.

#### **Liquidity and Capital Resources**

From our inception through the completion of our initial public offering in December 2010, we substantially satisfied our capital and liquidity needs from private sales of our convertible preferred stock and, to a lesser extent, from cash flow from operations, bank borrowings and credit lines. As a result of our initial public offering, we received net proceeds of \$92.0 million, after deducting underwriting discounts and commissions of \$7.2 million and offering-related expenses of \$3.5 million. As of August 31, 2014 and 2013, we had cash and cash equivalents of \$12.6 million and \$36.3 million, respectively, which were predominately held in U.S. dollar denominated demand deposits, money market funds and time deposits.

We have utilized operating lines of credit with certain banks to fulfill our short-term financing needs. We had the following credit facilities with certain banks which provided for approximately \$1.0 million and \$3.0 million in the aggregate borrowing capacity as of August 31, 2014 and 2013, respectively:

A one-year NT dollar denominated revolving credit facility entered into by our majority owned subsidiary in May 2013, which expired in January 2014, providing for approximately \$1.0 million. In March 2014, we renewed the credit facility with the bank for another year.

An unsecured NT dollar denominated revolving credit facility, which expired in October 2013, providing for approximately \$2.0 million.

We had no amount outstanding under these credit facilities as of both August 31, 2014 and 2013.

In April 2013, our majority owned subsidiary entered into a one-year unsecured NT dollar denominated loan in the amount of \$0.2 million with one of its shareholders to fulfill short-term financing needs. The subsidiary made a partial payment of \$0.1 million on the principal loan amount in January 2014 and the final payment in April 2014.

Our long-term debt, which consisted of NT dollar denominated long-term notes, totaled \$6.2 million and \$8.5 million as of August 31, 2014 and 2013, respectively. These long-term notes carry variable interest rates, based on the annual time deposit rate plus a specific spread, which ranged from 1.9% to 2.0% per annum as of both August 31, 2014 and 2013, are payable in monthly installments, and are secured by our property, plant and equipment. These long-term notes do not have prepayment penalties or balloon payments upon maturity.

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The first note payable requires monthly payments of principal and interest in the amount of \$14 thousand over the 15-year term of the note with final payment to occur in May 2024 and, as of August 31, 2014, our outstanding balance on this note payable was approximately \$1.4 million.

The second note payable requires monthly payments of principal and interest in the amount of \$29 thousand over the five-year term of the note with final payment to occur in August 2014 and, as of August 31, 2014, we had no amount outstanding under this agreement.

The third note payable requires monthly payments of principal and interest in the amount of \$28 thousand over the five-year term of the note with final payment to occur in May 2015 and, as of August 31, 2014, our outstanding balance on this note payable was approximately \$0.3 million.

The fourth note payable requires monthly payments of principal and interest in the amount of \$19 thousand over the 15-year term of the note with final payment to occur in December 2025 and, as of August 31, 2014, our outstanding balance on this note payable was approximately \$2.3 million.

The fifth note payable, which we entered in January 2013 and had been fully drawn down, requires monthly payments of principal and interest in the amount of \$114 thousand over the three-year term of the note with final payment to occur in July 2016 and, as of August 31, 2014, our outstanding balance on this note payable was approximately \$2.2 million.

Property, plant and equipment pledged as collateral for our notes payable were \$8.9 million and \$13.9 million as of August 31, 2014 and 2013, respectively.

We have incurred significant losses since inception, including net losses attributable to SemiLEDs stockholders of \$24.5 million and \$43.7 million during the years ended August 31, 2014 and 2013, respectively. Net cash used in operating activities for the year ended August 31, 2014 was \$15.7 million. As of August 31, 2014, we had cash and cash equivalents of \$12.6 million. We have undertaken initiatives to decrease losses incurred and implemented cost reduction programs in an effort to transform the Company into a profitable operation. These initiatives include the closing and relocation of the manufacturing operations at our Sinwu Facility, the consolidation of our facilities, workforce reductions, normal attrition, continued focus on managing our cost structure and pursuing opportunities for the most profitable sales of our LED products. We have also identified additional opportunities to generate liquidity through the anticipated sales of excess manufacturing equipment, other financing initiatives and future operating costs reduction activities.

Based on our current financial projections, we believe that we will have sufficient sources of liquidity to fund our operations and capital expenditure plans for the next 12 months. However, there can be no assurances that our planned activities will be successful in reducing losses and preserving cash. 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, or refinance our indebtedness, to support our working capital requirements or for other purposes. There can be no assurance that additional debt or equity financing will be available to us or that, if available, such financing will be available on terms favorable to us. Please see "Critical Accounting Policies and Estimates Basis of Presentation Going Concern" for more information on our liquidity plans.

Table of Contents***Cash Flows***

The following summary of our cash flows for the periods indicated has been derived from our consolidated financial statements, which are included elsewhere in this Annual Report on Form 10-K (in thousands):

	<b>Years Ended August 31,</b>	
	<b>2014</b>	<b>2013</b>
Net cash used in operating activities	\$ (15,698)	\$ (14,461)
Net cash provided by (used in) investing activities	\$ (5,503)	\$ 2,180
Net cash provided by (used in) financing activities	\$ (2,464)	\$ 1,024

***Cash Flows Used in Operating Activities***

Net cash used in operating activities for the years ended August 31, 2014 and 2013 was \$15.7 million and \$14.5 million, respectively. Cash used in operating activities for the year ended August 31, 2014 was \$1.2 million higher, primarily due to a decrease in cash collected from customers, as revenues were \$3.5 million lower for the year ended August 31, 2014 than for the year ended August 31, 2013 and because we recovered some long outstanding receivables during the year ended August 31, 2013, offset in part by decreases in cash used to pay for materials and supplies used in production.

***Cash Flows Provided by (Used in) Investing Activities***

Net cash used in investing activities for the year ended August 31, 2014 was \$5.5 million, consisting primarily of the purchases of \$2.7 million in property, plant and equipment representing primarily the purchases of machinery and equipment and payments for the build out of our manufacturing facility and leasehold improvements, the final payment of \$2.1 million for the LED components production line we acquired in July 2013, the placements of \$0.4 million in restricted time deposits, primarily for a government sponsored research and development project, the payments for development of intangible assets of \$0.3 million, and our investments in SILQ of \$0.2 million. These were offset in part by proceeds from the partial sale of our investment in SILQ of \$0.1 million, and provided by other investing activities of \$0.1 million.

Net cash provided by investing activities for the year ended August 31, 2013 was \$2.2 million, consisting primarily of the proceeds from the sales of short-term investments of \$8.8 million and return of our investment in a joint venture entity, SS Optoelectronics Co., Ltd. of \$0.3 million. These were offset in part by our \$2.9 million investment in HPO, the purchases of \$2.7 million in property, plant and equipment representing primarily the purchases of machinery and equipment, an initial partial payment of \$0.9 million for the acquisition of an LED components production line, and payments for the development of intangible assets of \$0.4 million.

***Cash Flows Provided by (Used in) Financing Activities***

Net cash used in financing activities for the year ended August 31, 2014 was \$2.5 million, consisting primarily of payments on long-term debt of \$2.3 million, payments on lines of credit of \$0.2 million and payments of loan from related party of \$0.2 million, offset in part by proceeds from the draw down on lines of credit of \$0.2 million.

Net cash provided by financing activities for the year ended August 31, 2013 was \$1.0 million, consisting primarily of proceeds from the issuance of long-term debt of \$4.0 million, loan from a related party \$0.2 million and employee exercises of stock options of \$0.1 million, offset in part by payments on lines of credit and long-term debt in the aggregate amount of \$3.1 million and cash paid to acquire an additional 15% interest in Ning Xiang of \$0.2 million.

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**Capital Expenditures**

We had capital expenditures of \$2.7 million for both the years ended August 31, 2014 and 2013. Our capital expenditures consisted primarily of the purchases of machinery and equipment, construction in progress, prepayments for our manufacturing facilities and prepayments for equipment purchases. We expect to continue investing in capital expenditures in the future as we expand our business operations and invest in such expansion of our production capacity as we deem appropriate under market conditions and customer demand.

**Off-Balance Sheet Arrangements**

As of August 31, 2014, we did not engage in any off-balance sheet arrangements. We do not have any interests in variable interest entities.

**Recent Accounting Pronouncements**

On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers," which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for the Company on September 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. Management is evaluating the effect that ASU 2014-09 will have on the Company's consolidated financial statements and related disclosures. Management has not yet selected a transition method nor has it determined the effect of the standard on the Company's ongoing financial reporting.

In June 2014, the FASB issued ASU No. 2014-12 "Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The amendments clarify the proper method of accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The Update requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The amendments in this Update are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The new standard is effective for the Company on September 1, 2016. Management has not yet selected a transition method nor has it determined the effect of the standard on the Company's financial statements.

In August 2014, the FASB issued ASU No. 2014-15 "Presentation of Financial Statements - Going Concern (Subtopic 205-40) (Topic 718): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern". The Update provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. This Update is intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. The Update is effective for the Company on September 1, 2017 and management has elected not to early adopt it. When the Update is effective, it could have a material effect on management's assessment of the Company's ability to continue as a going concern.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Not applicable.

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**Item 8. Financial Statements and Supplementary Data**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders  
SemiLEDs Corporation:

We have audited the accompanying consolidated balance sheets of SemiLEDs Corporation (the "Company") and subsidiaries as of August 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, changes in equity, and cash flows for each of the years in the two-year period ended August 31, 2014. In connection with our audits of the consolidated financial statements, we also have audited the consolidated financial statement schedules for the years ended August 31, 2014 and 2013 included herein. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SemiLEDs Corporation and subsidiaries as of August 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the two-year period ended August 31, 2014, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedules for the years ended August 31, 2014 and 2013, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG

Taipei, Taiwan (the Republic of China)  
December 12, 2014

Table of Contents**SEMILEDs CORPORATION AND SUBSIDIARIES****Consolidated Balance Sheets****(In thousands of U.S. dollars and shares, except par value)**

	August 31,	
	2014	2013
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 12,649	\$ 36,272
Accounts receivable, net of allowance for doubtful accounts of \$1,369 and \$1,616 as of August 31, 2014 and 2013, respectively	2,130	2,152
Accounts receivable from related parties, net of allowance for doubtful accounts of \$1,397 and \$1,395 as of August 31, 2014 and 2013, respectively	41	120
Inventories	9,212	10,500
Prepaid expenses and other current assets	1,909	1,080
Total current assets	25,941	50,124
Property, plant and equipment, net	27,063	30,473
Intangible assets, net	1,586	1,379
Goodwill	59	59
Investments in unconsolidated entities	2,204	2,275
Other assets	764	1,395
<b>TOTAL ASSETS</b>	<b>\$ 57,617</b>	<b>\$ 85,705</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current installments of long-term debt	\$ 1,934	\$ 2,294
Accounts payable	2,675	3,534
Accrued expenses and other current liabilities	4,860	6,825
Deferred income, current portion		51
Total current liabilities	9,469	12,704
Long-term debt, excluding current installments	4,256	6,169
Deferred income, net of current portion		339
Total liabilities	13,725	19,212
Commitments and contingencies (Note 7)		
<b>EQUITY:</b>		
SemiLEDs stockholders' equity		
Common stock, \$0.0000056 par value 75,000 shares and 32,143 shares authorized; 28,424 shares and 27,761 shares issued and outstanding as of August 31, 2014 and 2013, respectively		
Additional paid-in capital	170,953	169,114
Accumulated other comprehensive income	5,583	5,557
Accumulated deficit	(132,630)	(108,155)
Total SemiLEDs stockholders' equity	43,906	66,516
Noncontrolling interests	(14)	(23)
Total equity	43,892	66,493

TOTAL LIABILITIES AND EQUITY	\$	57,617	\$	85,705
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See notes to consolidated financial statements.



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

	<b>Years Ended August 31,</b>	
	<b>2014</b>	<b>2013</b>
Revenues, net	\$ 14,481	\$ 17,967
Cost of revenues	25,792	32,665
<b>Gross loss</b>	<b>(11,311)</b>	<b>(14,698)</b>
Operating expenses:		
Research and development	4,199	4,592
Selling, general and administrative	9,279	11,377
Impairment of long-lived assets (Note 3)		10,923
Goodwill impairment (Note 3)		1,077
<b>Total operating expenses</b>	<b>13,478</b>	<b>27,969</b>
Loss from operations	(24,789)	(42,667)
Other income (expenses):		
Impairment loss on investment (Note 5)		(1,885)
Equity in losses from unconsolidated entities, net	(183)	(249)
Interest income (expenses), net	(83)	11
Other income, net	519	213
Foreign currency transaction loss, net	(74)	(58)
<b>Total other income (expenses), net</b>	<b>179</b>	<b>(1,968)</b>
Loss before income taxes	(24,610)	(44,635)
Income tax expense		3
Net loss	(24,610)	(44,638)
Less: Net loss attributable to noncontrolling interests	(135)	(914)
<b>Net loss attributable to SemiLEDs stockholders</b>	<b>\$ (24,475)</b>	<b>\$ (43,724)</b>
<b>Net loss per share attributable to SemiLEDs stockholders:</b>		
Basic and diluted	\$ (0.87)	\$ (1.58)
<b>Shares used in computing net loss per share attributable to SemiLEDs stockholders:</b>		
Basic and diluted	28,141	27,630

See notes to consolidated financial statements.



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

	<b>Years Ended August 31,</b>	
	<b>2014</b>	<b>2013</b>
Net loss	\$ (24,610)	\$ (44,638)
Other comprehensive income, net of tax:		
Foreign currency translation adjustments, net of tax of \$0 for both periods	28	388
Comprehensive loss	\$ (24,582)	\$ (44,250)
Comprehensive loss attributable to noncontrolling interests	\$ (133)	\$ (904)
Comprehensive loss attributable to SemiLEDs stockholders	\$ (24,449)	\$ (43,346)

See notes to consolidated financial statements.

Table of Contents**SEMILEDs CORPORATION AND SUBSIDIARIES****Consolidated Statements of Changes in Equity****(In thousands of U.S. dollars and shares)**

	Common Stock		Additional	Accumulated	Accumulated	Total	Non-	Total
	Shares	Amount	Paid-in	Other	Deficit	SemiLEDs	Controlling	Equity
			Capital	Income		Equity	Interests	Equity
BALANCE September 1, 2012	27,470	\$	\$ 167,070	\$ 5,179	\$ (64,431)	\$ 107,818	\$ 1,033	\$ 108,851
Issuance of common stock under equity incentive plans	291		74			74		74
Stock-based compensation			2,020			2,020		2,020
Purchase of common shares in Ning Xiang from noncontrolling interests			(50)			(50)	(152)	(202)
Comprehensive income (loss):								
Foreign currency translation adjustments				378		378	10	388
Net loss					(43,724)	(43,724)	(914)	(44,638)
BALANCE August 31, 2013	27,761	\$	\$ 169,114	\$ 5,557	\$ (108,155)	\$ 66,516	\$ (23)	\$ 66,493
Issuance of common stock under equity incentive plans	663		10			10		10
Stock-based compensation			1,945			1,945		1,945
Purchase of common shares in Ning Xiang from noncontrolling interests			(142)			(142)	142	
Dilution gain on equity method investment			26			26		26
Comprehensive income (loss):								
Foreign currency translation adjustments				26		26	2	28
Net loss					(24,475)	(24,475)	(135)	(24,610)
BALANCE August 31, 2014	28,424	\$	\$ 170,953	\$ 5,583	\$ (132,630)	\$ 43,906	\$ (14)	\$ 43,892

See notes to consolidated financial statements.

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

	<b>Years Ended August 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (24,610)	\$ (44,638)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	6,614	8,317
Goodwill impairment		1,077
Impairment of long-lived assets		10,923
Impairment loss on investment		1,885
Stock-based compensation expense	1,945	2,020
Bad debt expense	89	1,071
Provisions for inventory write-downs	2,286	3,226
Loss on disposal or write-off of property, plant and equipment	30	417
Equity in losses from unconsolidated entities, net	183	249
Income recognized on patents assignment	(389)	(51)
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable, net	49	1,650
Inventories	(1,002)	(579)
Prepaid expenses and other	(5)	43
Accounts payable	(1,134)	292
Accrued expenses and other current liabilities	246	(363)
Net cash used in operating activities	(15,698)	(14,461)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property, plant and equipment	(2,682)	(2,716)
Purchase of investments	(206)	(2,873)
Payments related to acquisition of business	(2,069)	(888)
Payments for development of intangible assets	(309)	(429)
Proceeds from sales of short-term investments		8,831
Proceeds from sales of investment	114	
Proceeds from return of investment in unconsolidated entity		250
Increase in restricted cash	(386)	
Other investing activities, net	35	5
Net cash provided by (used in) investing activities	(5,503)	2,180
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from line of credit	170	
Payments on line of credit	(170)	(1,623)
Proceeds from long-term debt		4,024
Payments of long-term debt	(2,275)	(1,453)
Proceeds from (payments of) loan from related party	(201)	204
Acquisition of noncontrolling interests		(202)
Other financing activities	12	74
Net cash provided by (used in) financing activities	(2,464)	1,024
Effect of exchange rate changes on cash and cash equivalents	42	301
NET DECREASE IN CASH AND CASH EQUIVALENTS	(23,623)	(10,956)
CASH AND CASH EQUIVALENTS Beginning of year	36,272	47,228
CASH AND CASH EQUIVALENTS End of year	\$ 12,649	\$ 36,272

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SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid for interest	\$	149	\$	153
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Cash paid for income taxes	\$	4	\$	17
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NONCASH INVESTING AND FINANCING ACTIVITIES:

Accrual related to property, plant and equipment	\$	787	\$	511
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Accrual related to acquisition of business	\$		\$	2,049
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See notes to consolidated financial statements.

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**SEMILEDs CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**Years Ended August 31, 2014 and 2013**

**1. Business**

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

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

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

**2. Summary of Significant Accounting Policies**

**Basis of Presentation** The Company's consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

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

The Company has suffered losses from operations of \$24.8 million, \$42.7 million and \$36.4 million, gross losses on product sales of \$11.3 million, \$14.7 million and \$5.6 million, and net cash used in operating activities of \$15.7 million, \$14.5 million and \$15.8 million for the years ended August 31, 2014, 2013 and 2012, respectively. Further, at August 31, 2014, the Company's cash and cash equivalents is down to \$12.6 million. These facts and conditions raise initial substantial doubt about the Company's ability to continue as a going concern. However, management believes that it has developed a liquidity plan, as summarized below, that, if executed successfully, should provide sufficient liquidity to meet the Company's obligations as they become due for a reasonable period of time, and allow the development of its core business.

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**SEMILEDs CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

**Years Ended August 31, 2014 and 2013**

**2. Summary of Significant Accounting Policies (Continued)**

Raise approximately \$5 million cash through the private placement of additional common shares of the Company to an investor (See Note 16).

Improve operating cash flows by approximately \$5 million to \$7 million through cost reductions and the sales of new higher margin products. Management has implemented cost reduction that include the closing and relocation of the manufacturing operations at the Company's Sinwu facility, the consolidation of the Company's facilities, and workforce reductions. The Company recently secured its first design-win for its UV LED product with a leading cosmetic manufacturer and expects to begin commercial sales of this new product in its fiscal second quarter of 2015. This is expected to have a positive impact on the Company's future gross margin, operating results and cash flows.

Reduce planned capital expenditures to approximately \$1.1 million and reduce research and development expenditure expenses by approximately \$1.8 million for the fiscal year ending August 31, 2015. Management continues to monitor prices and, consistent with its existing contractual commitments, may decrease its activity level and capital expenditures further. This plan reflects its strategy of controlling capital costs and maintaining financial flexibility.

Utilize the \$1 million available line of credit if necessary (See Note 6).

Raise additional cash through further equity offerings, sales of assets and/or issuance of debt as considered necessary.

While the Company's management believes that the measures as described in the above liquidity plan will be adequate to satisfy its liquidity requirements for the twelve months ending August 31, 2015, there is no assurance that the liquidity plan will be successfully implemented. Failure to successfully implement the liquidity plan may have a material adverse effect on its business, results of operations and financial position, and may adversely affect its ability to continue as a going concern. The consolidated financial statements and schedules do not include any adjustments related to the recoverability and classification of recorded assets or the amounts and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern.

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

Investments in which the Company has the ability to exercise significant influence over the investee but not a controlling financial interest, are accounted for using the equity method of accounting and are not consolidated. These investments are in joint ventures that are not subject to consolidation under the variable interest model, and for which the Company: (i) does not have a majority voting interest that would allow it to control the investee, or (ii) has a majority voting interest but for which other shareholders have significant participating rights, but for which the Company has the ability to exercise significant influence over operating and financial policies. Under the equity method, investments are stated at cost after adding or removing the Company's portion of equity in undistributed earnings or losses, respectively. The Company's investment in these equity-method entities is reported in the consolidated balance sheets in investments in unconsolidated entities, and the



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**SEMILEDs CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

**Years Ended August 31, 2014 and 2013**

**2. Summary of Significant Accounting Policies (Continued)**

Company's share of the income or loss of these equity-method entities, after the elimination of unrealized intercompany profits, is reported in the consolidated statements of operations in equity in losses from unconsolidated entities. When net losses from an equity-method investee exceed its carrying amount, the carrying amount of the investment is reduced to zero. The Company then suspends using the equity method to provide for additional losses unless the Company has guaranteed obligations or is otherwise committed to provide further financial support to the equity-method investee. The Company resumes accounting for the investment under the equity method if the investee subsequently returns to profitability and the Company's share of the investee's income exceeds its share of the cumulative losses that have not been previously recognized during the period the equity method is suspended.

Investments in entities that are not consolidated or accounted for under the equity method are accounted for using the cost method. Under the cost method, investments are reported at cost on the consolidated balance sheets in investments in unconsolidated entities, and dividend income, if any, received is reported in the consolidated statements of operations in equity in losses from unconsolidated entities.

If the fair value of an equity-method or cost-method investment declines below its respective carrying amount and the decline is determined to be other-than-temporary, the investment will be written down to its fair value.

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

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

**Concentration of Supply Risk** Some of the components and technologies used in the Company's products are purchased and licensed from a limited number of sources and some of the Company's

Table of Contents**SEMILEDS CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Years Ended August 31, 2014 and 2013****2. Summary of Significant Accounting Policies (Continued)**

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, 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 August 31, 2014 and 2013, cash and cash equivalents of the Company consist of the following (in thousands):

Cash and Cash Equivalents by Location	August 31,	
	2014	2013
United States		
Denominated in U.S. dollars	\$ 7,838	\$ 18,631
Taiwan		
Denominated in U.S. dollars	2,909	16,158
Denominated in New Taiwan dollars	834	445
Denominated in other currencies	300	264
China (including Hong Kong)		
Denominated in U.S. dollars	262	345
Denominated in Renminbi	505	428
Denominated in H.K. dollars	1	1
<b>Total cash and cash equivalents</b>	<b>\$ 12,649</b>	<b>\$ 36,272</b>

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

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## SEMILEDS CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Years Ended August 31, 2014 and 2013

## 2. Summary of Significant Accounting Policies (Continued)

Customers that accounted for 10% or more of the Company's total net accounts receivable as of August 31, 2014 and 2013 consist of the following:

Customers	August 31,	
	2014	2013
Customer A	29%	
Customer B	13%	4%
Customer C	5%	10%
Customer D	0%	19%

Only one customer accounted for 10% or more of the Company's total net revenues for the years ended August 31, 2014 and 2013, as follows (in thousands, except percentages):

Customer	Years Ended August 31,			
	2014		2013	
	Amount	% of Revenues	Amount	% of Revenues
Customer E	\$ 1,995	14%	\$ 80	0%

Net revenues generated from sales to the top ten customers represented 45% and 35% of the Company's total net revenues for the years ended August 31, 2014 and 2013, respectively.

The Company's revenues have been concentrated in a few select markets, including Taiwan, the United States and China, as well as in Russia in fiscal 2013. Net revenues generated from sales to customers in Taiwan, the United States and China, in the aggregate, accounted for 61% and 54% of the Company's net revenues for the years ended August 31, 2014 and 2013, respectively. Net revenues generated from sales to customers in Russia accounted for 2% and 9% of the Company's net revenues for years ended August 31, 2014 and 2013, respectively.

**Cash and Cash Equivalents** The Company considers all highly liquid investment instruments purchased with initial maturities of three months or less to be cash equivalents.

As of August 31, 2014 and 2013, cash and cash equivalents of the Company consist of the following (in thousands):

Cash and Cash Equivalents	August 31,	
	2014	2013
Cash		
Cash and demand deposits	\$ 7,632	\$ 31,257
Cash equivalents		
Money market funds	5,017	5,015
Total cash and cash equivalents	\$ 12,649	\$ 36,272

**Foreign Currency** The Company's subsidiaries use the local currency as their functional currency. 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

Table of Contents**SEMILEDS CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Years Ended August 31, 2014 and 2013****2. Summary of Significant Accounting Policies (Continued)**

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 foreign currencies are recognized in the consolidated statements of operations as a separate component of other income (expense).

**Inventories** Inventories consist of raw materials, work in process and finished goods and are stated at the lower of cost or market. Cost is determined using a weighted average. For work in process and manufactured inventories, cost consists of raw materials, direct labor and an allocated portion of the Company's production overhead. The Company writes down excess and obsolete inventory to its estimated net realizable value based upon assumptions about future demand and market conditions. For finished goods and work in process, if the estimated net realizable value for an inventory item, which is the estimated selling price in the ordinary course of business, less reasonably predicible costs to completion and disposal, is lower than its cost, the specific inventory item is written down to its estimated net realizable value. Market for raw materials is based on replacement cost. Provisions for inventory write-downs are included in cost of revenues in the consolidated statements of operations. Once written down, inventories are carried at this lower cost basis until sold or scrapped.

**Property, Plant and Equipment** Property, plant and equipment are stated at cost less accumulated depreciation, amortization and impairment. Depreciation on property, plant and equipment is calculated using the straight-line method over the estimated useful lives, less estimated salvage values of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or estimated useful life of the asset.

The estimated useful lives of property, plant and equipment are as follows:

Buildings and improvements	5 to 20 years
Machinery and equipment	1 to 10 years
Leasehold improvements	2 to 10 years
Other equipment	2 to 6 years

**Major Maintenance Activities** The Company incurs maintenance costs on its major equipment. Repair and maintenance costs are expensed as incurred.

**Intangible Assets** Intangible assets consist of patents, trademarks, acquired technology and customer relationships. Intangible assets are initially recognized at their respective acquisition costs. All of the Company's intangible assets have been determined to have finite useful lives and are, therefore, amortized using the straight-line method over their estimated useful lives:

Patents and trademarks	5 to 25 years
Acquired technology	4 to 5 years
Customer relationships	5 years

During the year ended August 31, 2013, the intangible asset for customer relationships arising from the acquisition of a 51% equity interest in Ning Xiang in August 2011 was written down to its fair value of zero before the end of its estimated useful life; see Note 3 for further details.

**SEMILEDs CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

**Years Ended August 31, 2014 and 2013**

**2. Summary of Significant Accounting Policies (Continued)**

**Goodwill** Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is reviewed for impairment at least annually. The goodwill impairment test is a two-step test. Under step one, the fair value of the reporting unit is compared with its carrying amount (including goodwill). Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit is less than its carrying amount, an indication of goodwill impairment exists for the reporting unit and the entity must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Management has determined to perform the annual impairment review of goodwill on the first business day of August, or more frequently when a triggering event occurs between annual impairment tests.

**Impairment of Long-Lived Assets** Management evaluates the Company's long-lived assets, excluding goodwill, that consist of property, plant and equipment and intangible assets, for indicators of possible impairment when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Impairment exists if the carrying amounts of such assets exceed the estimates of future net undiscounted cash flows expected to be generated by such assets. Should impairment exist, the impairment loss would be measured based on the excess carrying amount of the asset over the estimated fair value of the asset. Fair value is determined through various valuation techniques, including discounted cash flow models, quoted market values and third-party independent appraisers, as considered necessary.

**Recovery of Investments in Unconsolidated Entities** Management evaluates the recoverability of the carrying amount of the Company's equity investments accounted for using the equity method and cost method when there is an indication of potential impairment. If the estimated realizable value of an equity investment falls below its carrying amount and management determines that this shortfall is other-than-temporary, the carrying amount of such investment is written down to its estimated realizable value. In determining whether a decline in value is other-than-temporary, management considers the length of time and the extent to which such value has been less than the carrying amount, the financial condition and prospects of the investee, and the Company's ability and intent to retain the equity investment for a period of time sufficient to allow for any anticipated recovery in value.

**Income Taxes** The Company accounts for income taxes under the asset and liability method. As part of the process of preparing the consolidated financial statements, the Company is required to estimate its income taxes in each of the jurisdictions in which it operates. The Company estimates actual current tax expense together with assessing temporary differences resulting from differing accounting treatment for items such as accruals and allowances that are not currently deductible for tax purposes. These differences result in deferred tax assets and liabilities which are included in the Company's consolidated balance sheets. In general, deferred tax assets represent future tax benefits to be received when certain expenses previously recognized in the Company's consolidated statements of operations become deductible expenses under applicable income tax laws or when operating loss or credit carryforwards are utilized. Accordingly, realization of the deferred tax assets is dependent on the

**SEMILEDs CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

**Years Ended August 31, 2014 and 2013**

**2. Summary of Significant Accounting Policies (Continued)**

Company's ability to earn future taxable income against which these deductions, losses and credits can be utilized. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applicable to the taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on the Company's deferred tax assets and liabilities is recognized in the consolidated statements of operations in the period the change in the tax law was enacted.

Management assesses the likelihood that the Company's deferred tax assets will be recovered from future taxable income and, to the extent management believes that recovery is not more likely than not, a valuation allowance is established. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company records interest and penalties related to unrecognized tax benefits in income tax expense.

**Stock-based Compensation** Compensation costs related to employee stock options and restricted stock units are based on the fair value of the options and stock units on the date of grant, net of estimated forfeitures. The Company determines the grant date fair value of the options using the Black-Scholes option-pricing model. The related stock-based compensation expense is generally recognized on a straight-line basis over the period in which an employee is required to provide service in exchange for the options and stock units, or the vesting period of the respective options and stock units.

**Research and Development Costs** Research and development costs are expensed as incurred. Research and development costs are presented as a separate line item in the consolidated statements of operations.

**Advertising Costs** Advertising costs are expensed as incurred. Advertising costs totaled \$153 thousand and \$212 thousand for the years ended August 31, 2014 and 2013, respectively, are included in selling, general and administrative expenses in the consolidated statements of operations.

**Segment Reporting** The Company uses the management approach in determining reportable operating segments. The management approach considers the internal organization and reporting used by the Company's chief operating decision maker for making operating decisions, allocating resources and assessing performance as the source for determining the Company's reportable segments. During the years ended August 31, 2014 and 2013, the Chief Executive Officer has been identified as the chief operating decision maker. The Company's chief operating decision maker regularly reviews consolidated assets and consolidated operating results prepared under U.S. GAAP for the enterprise as a whole when making decisions about allocating resources and assessing performance of the Company. Consequently, management has determined that the Company does not have any operating segments as defined in the Financial Accounting Standards Board (the "FASB") Accounting Standards Codification ("ASC") 280-10-50-1, "Segment Reporting."

**Deferred Rent** Certain of the Company's operating leases contain predetermined fixed escalations of the minimum rental payments to be made during the original terms of the leases. For these leases, the Company recognizes the related rental expense on a straight-line basis over the life of the lease and, therefore, the rent expense will not equal the related cash payments. The difference between the

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**SEMILEDs CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

**Years Ended August 31, 2014 and 2013**

**2. Summary of Significant Accounting Policies (Continued)**

actual cash payments and the straight-line expense is recorded as a deferred credit included in other current liabilities on the consolidated balance sheets. The deferred credit will ultimately be reduced to zero over the respective lease terms.

**Shipping and Handling Costs** The Company includes costs from shipping and handling within cost of revenues in the period in which they are incurred.

**Revenues Recognition** The Company recognizes revenues on sales of its products when persuasive evidence of an arrangement exists, the price is fixed or determinable, ownership and risk of loss has transferred and collection of the sales proceeds is probable. The Company obtains written purchase authorizations from its customers as evidence of an arrangement and these authorizations generally provide for a specified amount of product at a fixed price. Generally, the Company considers delivery to have occurred at the time of shipment as this is generally when title and risk of loss for the products will pass to the customer. The Company provides its customers with limited rights of return for non-conforming shipments and product warranty claims. Based on historical return percentages, which have not been material to date, and other relevant factors, the Company estimates its potential future exposure on recorded product sales which reduces product revenues in the consolidated statements of operations and reduces accounts receivable in the consolidated balance sheets. The Company also provides standard product warranties on its products, which generally range from three months to two years. Management estimates the Company's warranty obligations as a percentage of revenues, based on historical knowledge of warranty costs and other relevant factors. To date, the related estimated warranty provisions have been insignificant.

**Accounts Receivable** Accounts receivable are recorded at invoiced amounts, net of allowances for doubtful accounts, and do not bear interest. The allowance for doubtful accounts is based on management's assessment of the collectibility of customer accounts. Management regularly reviews the allowance by considering certain factors such as historical experience, industry data, credit quality, age of accounts receivable balances and current economic conditions that may affect a customer's ability to pay.

**Net Income (Loss) Per Share of SemiLEDs Common Stock** Basic net income (loss) per share is computed by dividing net income (loss) attributable to SemiLEDs stockholders by the weighted average number of shares of common stock outstanding during the period. Net income (loss) attributable to SemiLEDs stockholders is determined by allocating undistributed earnings as if all of the earnings for the period had been distributed. Diluted net income (loss) per share is computed by using the weighted-average shares of common stock outstanding, including potential dilutive shares of common stock assuming the dilutive effect of outstanding stock options and unvested restricted stock units using the treasury stock method.

**Noncontrolling Interests** Noncontrolling interests are classified in the consolidated statements of operations as part of consolidated net income (loss) and the accumulated amount of noncontrolling interests in the consolidated balance sheets as part of equity. Changes in ownership interest in a consolidated subsidiary that do not result in a loss of control are accounted for as an equity transaction. If a change in ownership of a consolidated subsidiary results in loss of control and deconsolidation, any retained ownership interests are remeasured with the gain or loss reported in net earnings.

Table of Contents**SEMILEDs CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Years Ended August 31, 2014 and 2013****2. Summary of Significant Accounting Policies (Continued)**

In April 2013, SemiLEDs acquired an additional 15% of the outstanding shares of Ning Xiang for cash consideration of \$202 thousand, increasing its ownership interest from 51% to 66%. In November 2013, SemiLEDs acquired an additional 21% of the outstanding shares of Ning Xiang, increasing its ownership interest from 66% to 87%. As a result, the difference between the consideration paid and the adjustment to the carrying amount of the noncontrolling interests to reflect SemiLEDs' increased ownership interest in Ning Xiang was recorded as a reduction in additional paid-in capital. Transactions with noncontrolling interests had the following effect on equity attributable to SemiLEDs stockholders (in thousands):

	<b>Year Ended August 31, 2014</b>
Net loss attributable to SemiLEDs stockholders	\$ (24,475)
Transfers to noncontrolling interests:	
Decrease in SemiLEDs additional paid in capital for purchase of common shares in Ning Xiang	(142)
Change from net loss attributable to SemiLEDs stockholders and transfer to noncontrolling interests	\$ (24,617)

**Commitments and Contingencies** Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

**Fair Value Measurements** The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

See Note 13 for further details.



Table of Contents**SEMILEDs CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Years Ended August 31, 2014 and 2013****3. Balance Sheet Components****Inventories**

Inventories as of August 31, 2014 and 2013 consist of the following (in thousands):

	August 31,	
	2014	2013
Raw materials	\$ 2,792	\$ 2,193
Work in process	1,420	3,865
Finished goods	5,000	4,442
<b>Total</b>	<b>\$ 9,212</b>	<b>\$ 10,500</b>

Inventory write-downs to estimated net realizable values for the years ended August 31, 2014 and 2013 were \$2,286 thousand and \$3,226 thousand, respectively.

**Property, Plant and Equipment**

Property, plant and equipment as of August 31, 2014 and 2013 consist of the following (in thousands):

	August 31,	
	2014	2013
Buildings and improvements	\$ 14,518	\$ 14,510
Machinery and equipment	68,038	67,109
Leasehold improvements	2,914	3,144
Other equipment	2,652	2,686
Construction in progress	2,395	1,028
<b>Total property, plant and equipment</b>	<b>90,517</b>	<b>88,477</b>
<b>Less: Accumulated depreciation, amortization and impairment</b>	<b>(63,454)</b>	<b>(58,004)</b>
<b>Property, plant and equipment, net</b>	<b>\$ 27,063</b>	<b>\$ 30,473</b>

In connection with the termination of the lease for the Company's manufacturing operations at Sinwu, Taiwan (the "Sinwu Facility"), the useful lives of certain leasehold improvements were shortened because the Company would cease using the Sinwu Facility on July 15, 2014.

Depreciation expense was \$6,351 thousand and \$7,984 thousand for the years ended August 31, 2014 and 2013, respectively. Impairment charge was \$10,072 thousand for the year ended August 31, 2013.

Due to a continued slowdown in demand for the Company's LED products and competitive pricing pressure, the Company experienced a significant decline in revenues and negative gross margins during the year ended August 31, 2013, primarily due to continuously slowdown in demand for the Company's LED products and pricing pressure from intense competition within the LED industry, which caused the Company to underutilize a significant portion of its manufacturing facilities. The decrease in customer demand was primarily due to delays in the adoption of

its new LED products launched. The Company's market capitalization had also fallen below its consolidated net book value

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## SEMILEDS CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Years Ended August 31, 2014 and 2013

## 3. Balance Sheet Components (Continued)

based on the quoted market price of common stock for a sustained period of time. Based on these potential impairment indicators, management evaluated the recoverability of the Company's long-lived assets for impairment in fiscal 2013. The carrying amount of the Company's asset group associated with the manufacture and sale of LED chips and LED components exceeded the expected future net undiscounted cash flows to be generated from this asset group. Consequently, the Company recognized impairment charge of \$10,072 thousand on its property, plant and equipment for the year ended August 31, 2013, based on the present value of expected future net cash flows discounted at the weighted average cost of capital of 12.5%, taking into consideration a third-party independent valuation for the fair values of individual machinery and equipment for the fiscal year. The impairment charge was primarily related to machinery and equipment used in the manufacturing of LED epitaxial wafers and chips.

Property, plant and equipment pledged as collateral for the Company's notes payable were \$8.9 million and \$13.9 million as of August 31, 2014 and 2013, respectively.

**Intangible Assets**

Intangible assets as of August 31, 2014 and 2013 consist of the following (in thousands):

	Weighted Average Amortization Period (Years)	August 31, 2014		
		Gross Carrying Amount	Accumulated Amortization and Impairment	Net Carrying Amount
Patents and trademarks	14	\$ 1,411	\$ 257	\$ 1,154
Acquired technology	5	719	287	432
Total		\$ 2,130	\$ 544	\$ 1,586

	Weighted Average Amortization Period (Years)	August 31, 2013		
		Gross Carrying Amount	Accumulated Amortization(1)	Net Carrying Amount
Patents and trademarks	15	\$ 973	\$ 161	\$ 812
Acquired technology	5	719	152	567
Customer relationships	5	1,337	1,337	
Total		\$ 3,029	\$ 1,650	\$ 1,379

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(1) Includes an impairment charge of \$851 thousand on customer relationships for the year ended August 31, 2013.

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Amortization expense was \$263 thousand and \$333 thousand for the years ended August 31, 2014 and 2013, respectively.

No impairment charge was recognized in the year ended August 31, 2014. In the third quarter of fiscal 2013, in conjunction with the interim goodwill impairment test discussed further below,

Table of Contents**SEMILEDs CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Years Ended August 31, 2014 and 2013****3. Balance Sheet Components (Continued)**

management evaluated the recoverability of the long-lived assets of the Company's Ning Xiang asset group, which consists primarily of customer relationships intangible asset. The Company concluded this intangible asset no longer had any value and consequently recognized an impairment charge of \$851 thousand, which represented the net carrying amount of this intangible asset at that time, during the year ended August 31, 2013.

The estimated future amortization expense for the Company's intangible assets as of August 31, 2014 is as follows (in thousands):

<b>Years Ending August 31,</b>	<b>Total</b>
2015	\$ 207
2016	207
2017	207
2018	197
2019	96
Thereafter	672
<b>Total</b>	<b>\$ 1,586</b>

**Goodwill**

No impairment charge was recognized in the year ended August 31, 2014. In the third quarter of fiscal 2013, due to a lower than expected revenue, profitability and cash flows reported by the Company's Ning Xiang reporting unit, management determined that there were indicators of potential goodwill impairment. After writing down the customer relationships intangible asset described above, management determined the fair values of the underlying assets and liabilities within this reporting unit. Consequently, the implied fair value of goodwill was zero and, as a result, a goodwill impairment charge of \$1,077 thousand was recognized during the year ended August 31, 2013. The fair value of the Ning Xiang reporting unit was determined based on the present value of expected future net cash flows discounted at the weighted average cost of capital of Ning Xiang of 10%. The primary circumstance leading to the impairment of customer relationships, as discussed above, and goodwill was due to management's updated long-term financial forecasts, which reflected lower estimated near-term and longer-term revenues and profitability compared to estimates developed at the time of the acquisition in August 2011.

In July 2013, the Company recognized goodwill on the acquisition of an LED production business discussed in Note 4 below in the amount of \$59 thousand. All of the goodwill was assigned to the Company's reporting unit associated with the manufacture and sale of LED chips and LED components.

Table of Contents**SEMILEDs CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Years Ended August 31, 2014 and 2013****3. Balance Sheet Components (Continued)****Accrued Expenses and Other Current Liabilities**

Accrued expenses and other current liabilities as of August 31, 2014 and 2013 consist of the following (in thousands):

	August 31,	
	2014	2013
Accrued compensation and benefits	\$ 1,963	\$ 2,080
Customer deposits	1,125	229
Accrued business expenses	618	640
Taxes payable	286	288
Accrued professional service fees	278	279
Deferred rent	23	481
Payable related to acquisition of business		2,049
Other (individually less than 5% of total accrued expenses and other current liabilities)	567	779
<b>Total</b>	<b>\$ 4,860</b>	<b>\$ 6,825</b>

**4. Acquisition of Business**

In July 2013, the Company, through a wholly owned subsidiary, entered into an agreement with several third parties to acquire an LED production business, which included certain contractual rights, intellectual property, equipment and assets related to the production of LED components, and assumed certain trade and business-related payables. Pursuant to such agreement, the Company entered into an assignment and assumption agreement dated July 31, 2013 to acquire certain equipment and patents used in the manufacturing of LED components, originally executed by one of the foregoing third parties.

Total cash consideration for the acquisition amounted to \$2,921 thousand. The Company paid \$888 thousand in fiscal 2013 and the remaining balance in the amount of \$2,069 thousand during the year ended August 31, 2014. Payments were translated into U.S. dollar at the exchange rates in effect at the time of payment.

The acquisition was accounted for as a business combination using the acquisition method of accounting. Goodwill in the amount of \$59 thousand was recognized and consists largely of expected synergies and assembled workforce acquired. All of the goodwill was assigned to the Company's reporting unit associated with the manufacture and sale of LED chips and LED components. None of the goodwill recognized is expected to be deductible for income tax purposes.

Table of Contents**SEMILEDS CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Years Ended August 31, 2014 and 2013****4. Acquisition of Business (Continued)**

The following table summarizes the consideration paid for the acquisition and the amounts of estimated fair value of assets acquired and liabilities assumed at the date of acquisition (in thousands):

	<b>July 31, 2013</b>
Current assets	\$ 141
Equipment	2,223
Patents and acquired technology	551
Trademark	88
Current liabilities	(141)
Total identifiable net assets acquired	2,862
Goodwill	59
Total cash purchase price	\$ 2,921

The fair value of the current assets acquired included trade receivable with a fair value of \$35 thousand, all of which was expected to be collectible. The acquired intangible assets included patents and acquired technology of \$551 thousand (5-year useful life) and trademark of \$88 thousand (10-year useful life).

The Company recognized revenues of \$33 thousand and net loss of approximately \$71 thousand from the acquired business in the consolidated statement of operation for the year ended August 31, 2013. Management believes the preparation of pro forma financial information would be impractical because the Company did not acquire all of the assets and liabilities from the third parties, and the equipment and patents assumed by the Company were originally part of a larger entity, which was not operated as a separate, distinct business. These third parties did not maintain distinct and separate books, records and accounts for the portion of business and/or assets disposed of. Consequently, historical financial information for the acquired business was not available.

**5. Investments in Unconsolidated Entities**

The Company's ownership interest and carrying amounts of investments in unconsolidated entities as of August 31, 2014 and 2013 consist of the following (in thousands, except percentages):

	<b>August 31, 2014</b>		<b>August 31, 2013</b>	
	<b>Percentage Ownership</b>	<b>Amount</b>	<b>Percentage Ownership</b>	<b>Amount</b>
Equity method investments:				
SILQ (Malaysia) Sdn. Bhd. ("SILQ")	33%	\$ 217	50%	\$ 289
Xurui Guangdian Co., Ltd. ("China SemiLEDs")	49%		49%	
Cost method investments	Various	1,987	Various	1,986
Total investments in unconsolidated entities		\$ 2,204		\$ 2,275

There were no dividends received from unconsolidated entities through August 31, 2014.





Table of Contents**SEMILEDS CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Years Ended August 31, 2014 and 2013****5. Investments in Unconsolidated Entities (Continued)****Equity Method Investments**

As of August 31, 2013, the Company and the other investor in SILQ, a joint venture in Malaysia which is engaged in the design, manufacture and sale of lighting fixtures and systems, each owned a 50% equity interest in SILQ. In January 2014, the Company participated in SILQ's capital increase and contributed \$76 thousand. Following the capital increase, the Company's equity interest in SILQ was diluted from 50% to 49%, and consequently, the Company recognized a gain on dilution of its investment of \$26 thousand. The dilution gain was recognized as additional paid in capital in the consolidated statement of changes in equity. In April 2014, the Company sold part of its equity interest in SILQ to the other investor for a cash consideration of \$114 thousand and recognized a gain on sale of investment of \$37 thousand. The gain was reported in the consolidated statements of operations in equity in losses from unconsolidated entities. Upon consummation of the sale, the Company's equity interest in SILQ was reduced from 49% to 33%. The Company subsequently invested \$130 thousand in SILQ's capital increase and its equity interest remains unchanged.

In June 2014, Co-Polymer applied for dissolution. As of August 31, 2014, Co-Polymer is in the process of being dissolved. In September 2012, SS Optoelectronics was dissolved in accordance with its joint venture agreement and the Company received return of investment of \$250 thousand.

The fair value of the Company's investments in the non-marketable stock of its equity method investees is not readily available. These investments, except for China SemiLEDs which had a zero carrying amount as of both August 31, 2014 and 2013, are assessed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable.

**Cost Method Investments**

No other-than-temporary impairment charge was recognized in the year ended August 31, 2014. In October 2012, the Company acquired a 9.9% equity interest in HPO for total cash consideration of \$2.9 million and had an option to increase its equity interest to more than 50% within one year of the acquisition. The fair values of the Company's cost method investments are not readily available. All cost method investments are assessed for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable. In the third quarter of fiscal 2013, management reviewed the operating performance and financial condition of HPO based on the latest available financial statements of the investee and other publicly available information. Management considered the extent and duration of time to which the fair value of the investment has been less than its carrying amount, the financial condition of the investee and the prospect for recovery in the near term, and recognized an other-than-temporary impairment loss of \$1,885 thousand on its investment in HPO for the year ended August 31, 2013.

**6. Indebtedness****Notes Payable to Banks**

Notes payable to banks as of August 31, 2014 and 2013 consists of the following (in thousands):

	August 31,	
	2014	2013
Outstanding lines of credit	\$	\$
Unused lines of credit	\$ 1,003	\$ 3,003



Table of Contents**SEMILEDs CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Years Ended August 31, 2014 and 2013****6. Indebtedness (Continued)****Long-term Debt**

Long-term debt as of August 31, 2014 and 2013 consists of the following loans with a bank (in thousands):

	August 31,	
	2014	2013
First note payable	\$ 1,448	\$ 1,581
Second note payable		344
Third note payable	276	600
Fourth note payable	2,283	2,460
Fifth note payable	2,183	3,478
Total long-term debt	6,190	8,463
Less: Current installments	(1,934)	(2,294)
Total long-term debt, excluding current installments	\$ 4,256	\$ 6,169

In January 2013, the Company entered into the fifth note payable agreement providing for approximately \$4.1 million of borrowing capacity. The loan had been fully drawn down as of August 31, 2013.

The long-term notes in the table above carry variable interest rates, which ranged from 1.9% to 2.0% per annum as of August 31, 2014, and August 31, 2013, are payable in monthly installments, and are secured by the Company's property, plant and equipment. The interest rates are based on the annual time deposit rate plus a certain spread. The first note payable requires monthly payments of principal and interest in the amount of \$14 thousand over the 15-year term of the note with final payment to occur in May 2024. The second note payable requires monthly payments of principal and interest in the amount of \$29 thousand over the five-year term of the note with final payment to occur in August 2014. The third note payable requires monthly payments of principal and interest in the amount of \$28 thousand over the five-year term of the note with final payment to occur in May 2015. The fourth note payable requires monthly payments of principal and interest in the amount of \$19 thousand over the 15-year term of the note with final payment to occur in December 2025. The fifth note payable requires monthly payments of principal and interest in the amount of \$114 thousand over the three-year term of the note with final payment to occur in July 2016. The notes do not have prepayment penalties or balloon payments upon maturity of the notes.

The scheduled principal payments for the Company's long-term debt as of August 31, 2014 consist of the following (in thousands):

Years Ending August 31,	Scheduled Principal Payments
2015	\$ 1,935
2016	1,174
2017	333
2018	339
2019	344
Thereafter	2,065
Total	\$ 6,190



Table of Contents**SEMILEDS CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Years Ended August 31, 2014 and 2013****7. 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 were including cancellable and noncancellable and which expire at various dates between January 2015 and December 2020. As of August 31, 2014 and 2013, the Company maintained outstanding deposits for these leases in the amount of \$102 thousand and \$165 thousand, respectively, which were recorded as other long-term assets in the accompanying consolidated balance sheets. Lease expense related to these operating leases was \$935 thousand and \$848 thousand for the years ended August 31, 2014 and 2013, respectively. Lease expense is recognized on a straight-line basis over the term of the lease.

In January 2014, the Company announced the relocation and consolidation of its manufacturing operations at the Sinwu Facility to other of its existing facilities. The lease term for the Sinwu Facility is 10 years, expiring on November 30, 2016. In accordance with the lease agreement, the Company provided a six-month written notice to terminate the lease effective from July 15, 2014.

The aggregate future noncancellable minimum rental payments for the Company's operating leases as of August 31, 2014 consist of the following (in thousands):

<b>Years Ending August 31,</b>	<b>Operating Leases</b>	
2015	\$	522
2016		438
2017		442
2018		273
2019		94
Thereafter		125
<b>Total</b>	<b>\$</b>	<b>1,894</b>

**Purchase Obligations** The Company had purchase commitments for inventory, property, plant and equipment in the amount of \$3.9 million and \$3.2 million as of August 31, 2014 and 2013, respectively.

**Litigation** The Company is directly or indirectly involved from time to time in various claims or legal proceedings arising in the ordinary course of business. The Company recognizes a liability when it is probable that a loss has been incurred and the amount is reasonably estimable. There is significant judgment required in assessing both the likelihood of an unfavorable outcome and whether the amount of loss, if any, can be reasonably estimated. As of August 31, 2014, there was no pending or threatened litigation that could have a material impact on the Company's financial position, results of operations or cash flows.

**8. Stock-based Compensation**

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

Table of Contents**SEMILEDs CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Years Ended August 31, 2014 and 2013****8. Stock-based Compensation (Continued)**

Plan after the initial public offering. Options outstanding under the 2005 Plan continue to be governed by its existing terms.

A total of 6,349 thousand and 3,849 thousand shares of common stock was reserved for issuance under the 2005 Plan and 2010 Plan as of August 31, 2014 and 2013, respectively. As of August 31, 2014 and 2013, there were 4,492 thousand and 2,654 thousand shares of common stock available for future issuance under the equity incentive plans.

During fiscal 2013, SemiLEDs granted options for 100 thousand shares of SemiLEDs' common stock and 1,195 thousand restricted stock units to the Company's executives and employees. These options and stock units vest over four years at a rate of 25% on each anniversary of the vesting start date and the options have a contractual term of ten years, subject to earlier expiration in the event of the holder's termination. The exercise price of stock options and the grant-date fair value of stock units were equal to the closing price of the common stock on the date of grant. In addition, in February 2013, SemiLEDs granted 211 thousand restricted stock units to its directors that vested 100% on February 6, 2014. The grant-date fair value of the restricted stock units was \$0.71 per unit. Each restricted stock unit represents the contingent right to one share of SemiLEDs' common stock.

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

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

**Stock-based Compensation Expense**

The total stock-based compensation expense consists of stock-based compensation expense for stock options and restricted stock units granted to employees, directors, nonemployees and also includes stock options to purchase SemiLEDs' common stock as part of an employment agreement related to the Company's acquisition of SBDI. A summary of the stock-based compensation expense for the years ended August 31, 2014 and 2013 are as follows (in thousands):

	<b>Years Ended August 31,</b>	
	<b>2014</b>	<b>2013</b>
Cost of revenues	\$ 699	\$ 838
Research and development	336	429
Selling, general and administrative	910	753
	\$ 1,945	\$ 2,020

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



Table of Contents**SEMILEDs CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Years Ended August 31, 2014 and 2013****8. Stock-based Compensation (Continued)**

estimates. A forfeiture rate of zero is estimated for stock-based awards with vesting term that is less than or equal to one year from the date of grant.

There was no recognized stock-based compensation tax benefit for the years ended August 31, 2014 and 2013, as the Company recorded a full valuation allowance on net deferred tax assets as of August 31, 2014 and 2013.

**Stock Options Awards**

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

The weighted-average assumptions for grants of options are summarized below:

	<b>Years Ended August 31,</b>	
	<b>2014</b>	<b>2013</b>
Dividend rate		0%
Risk-free interest rate		0.9%
Expected term (in years)		6.3
Expected volatility		54.5%



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## SEMILEDS CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Years Ended August 31, 2014 and 2013

## 8. Stock-based Compensation (Continued)

A summary of the option activity and changes for the years ended August 31, 2014 and 2013 is presented below:

	Number of Stock Options Outstanding (In thousands)	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (In thousands)
Outstanding September 1, 2012	576	\$ 8.54	7.6	\$ 263
Granted	100	1.72		
Forfeited	(150)	7.69		
Exercised	(85)	0.87		
Outstanding August 31, 2013	441	\$ 8.76	7.2	\$ 9
Granted				
Forfeited	(105)	7.43		
Exercised	(10)	0.89		
Outstanding August 31, 2014	326	\$ 9.44	4.5	\$ 8
Vested and expected to vest August 31, 2014	323	\$ 9.42	4.5	\$ 8
Exercisable August 31, 2014	285	\$ 8.58	4.2	\$ 8

The aggregate intrinsic value of options exercised were immaterial for the years ended August 31, 2014 and 2013, determined as of the date of option exercise.

As of August 31, 2014 and 2013, unrecognized compensation cost related to unvested stock options of \$0.1 million and \$0.7 million, respectively, is expected to be amortized on a straight-line basis over a weighted-average remaining period of 0.5 years and 1.5 years, respectively, and will be adjusted for subsequent changes in estimated forfeitures.

**Restricted Stock Units Awards**

The grant date fair value of stock units is based upon the market price of SemiLEDs' common stock on the date of the grant. This fair value is amortized to compensation expense over the vesting term.

Table of Contents**SEMILEDs CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Years Ended August 31, 2014 and 2013****8. Stock-based Compensation (Continued)**

A summary of the restricted stock unit awards outstanding and changes for the years ended August 31, 2014 and 2013 is presented below:

	<b>Number of Stock Units Outstanding (In thousands)</b>	<b>Weighted- Average Grant Date Fair Value</b>
Outstanding September 1, 2012	930	\$ 5.15
Granted	1,406	1.24
Vested	(303)	5.99
Forfeited	(206)	3.55
Outstanding August 31, 2013	1,827	\$ 2.31
Granted	972	1.01
Vested	(652)	2.38
Forfeited	(385)	1.83
Outstanding August 31, 2014	1,762	\$ 1.67

As of August 31, 2014 and 2013, unrecognized compensation cost related to unvested restricted stock unit awards of \$2.2 million and \$3.4 million, respectively, is expected to be recognized over a weighted average period of 2.2 years and 2.5 years, respectively, and will be adjusted for subsequent changes in estimated forfeitures.

**9. Net Loss Per Share of Common Stock**

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

	<b>Years Ended August 31,</b>	
	<b>2014</b>	<b>2013</b>
Stock units and stock options to purchase common stock	909	958

**10. Income Taxes**

The Company's loss from continuing operations before income taxes is primarily derived from the operations in Taiwan and, therefore, income tax expense (benefit) attributable to income from continuing operations is primarily incurred in Taiwan.

The statutory income tax rate in Taiwan is 17%. An additional 10% corporate income tax is assessed on undistributed income for the entities in Taiwan, but only to the extent such income is not distributed or set aside as legal reserve before the end of the following year. The 10% surtax is recorded in the period the income is earned, and the reduction in the surtax liability is recognized in



Table of Contents**SEMILEDs CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Years Ended August 31, 2014 and 2013****10. Income Taxes (Continued)**

the period the distribution to stockholders or the setting aside of legal reserve is finalized in the following year.

The Company's loss before income taxes for the years ended August 31, 2014 and 2013 consist of the following (in thousands):

	<b>Years Ended August 31,</b>	
	<b>2014</b>	<b>2013</b>
U.S. operations	\$ (1,757)	\$ (2,152)
Foreign operations	(22,853)	(42,483)
Loss before income taxes	\$ (24,610)	\$ (44,635)

All the income tax expense is foreign current tax expense for the year ended August 31, 2013.

Income tax expense differed from the amounts computed by applying the statutory U.S. federal income tax rate of 34% to loss before income taxes for the years ended August 31, 2014 and 2013 as a result of the following (in thousands):

	<b>Years Ended August 31,</b>	
	<b>2014</b>	<b>2013</b>
Computed "expected" income tax benefit	\$ (8,367)	\$ (15,176)
Foreign tax rate differential	2,285	3,683
Valuation allowance	6,109	11,534
Other	(27)	(38)
Income tax expense	\$	\$ 3

Table of Contents**SEMILEDs CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Years Ended August 31, 2014 and 2013****10. Income Taxes (Continued)**

Net deferred tax assets (liabilities) as of August 31, 2014 and 2013 consist of the following (in thousands):

	<b>August 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Deferred tax assets:</b>		
Inventories, primarily due to inventory obsolescence and lower of cost or market provisions	\$ 1,884	\$ 1,747
Foreign income tax credit carryforwards		1,618
Allowance for doubtful accounts	542	527
Accruals and other	202	
Property, plant and equipment	2,667	3,113
Stock-based compensation	746	706
Investments in unconsolidated entities	5,568	5,506
Net operating loss carryforwards	27,481	21,305
Total gross deferred tax assets	39,090	34,522
Less: Valuation allowance	(38,499)	(34,008)
Deferred tax assets, net of valuation allowance	\$ 591	\$ 514
<b>Deferred tax liabilities:</b>		
Intangible assets	\$	\$ (178)
Accruals and other	(591)	(336)
Total gross deferred tax liabilities	(591)	(514)
Net deferred tax assets	\$	\$

A valuation allowance is provided when it is more likely than not that the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and operating loss carryforwards utilizable. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The Company established full valuation allowances to offset the deferred tax assets not supported by reversing taxable temporary differences due to the uncertainty of realizing future tax benefits from its net operating loss carryforwards and other deferred tax assets.

Table of Contents**SEMILEDs CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Years Ended August 31, 2014 and 2013****10. Income Taxes (Continued)**

As of August 31, 2014, unused net operating loss carryforwards and income tax credits were as follows (in thousands):

	August 31, 2014	Expiration Year
U.S. federal net operating loss carryforwards	\$ 9,979	2025-2033
U.S. state net operating loss carryforwards	509	2017-2025
Foreign net operating loss carryforwards (expiring over the next 5 years)	4,388	2015-2019
Foreign net operating loss carryforwards (expiring in more than 5 years)	75,074	2020-2024
<b>Total unused net operating loss carryforwards</b>	<b>\$ 89,950</b>	

**Unrecognized Tax Benefits**

A reconciliation of the beginning and ending balances of the unrecognized tax benefits during the years ended August 31, 2014 and 2013 consist of the following (in thousands):

	Years Ended August 31,	
	2014	2013
Unrecognized benefit beginning of year	\$ 145	\$ 145
Decrease in tax positions taken in prior years	(145)	
<b>Unrecognized benefit end of year</b>	<b>\$</b>	<b>\$ 145</b>

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 2013 remain open in most jurisdictions. Below is a summary of open tax years by major tax jurisdiction:

	Open Tax Year
U.S. federal	2005-2013
U.S. state	2005-2013
Foreign Taiwan	2013

The Company is not currently under examination by income tax authorities in federal, state or foreign jurisdictions. The Company does not expect that the total amount of unrecognized tax benefits will change significantly within the next 12 months.

**11. Related-Party Transactions**

In April 2013, a majority owned subsidiary entered into a one-year unsecured NT dollar denominated loan in the amount of \$0.2 million with one of its shareholders to fulfill short-term financing needs. The loan bears a fixed interest rate of 3% per annum. Management believes that the



Table of Contents**SEMILEDS CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Years Ended August 31, 2014 and 2013****11. Related-Party Transactions (Continued)**

terms of this transaction were at market rates and would not have been any different had it been negotiated with an independent third party. The subsidiary made a partial payment on the principal loan amount in January 2014 and the final payment in April 2014.

**12. Product and Geographic Information**

Revenues by products for the years ended August 31, 2014 and 2013 are as follows (in thousands):

	<b>Years Ended August 31,</b>	
	<b>2014</b>	<b>2013</b>
LED chips	\$ 4,799	\$ 5,466
LED components	5,360	6,924
Lighting products	3,432	4,170
Other(1)	890	1,407
<b>Total</b>	<b>\$ 14,481</b>	<b>\$ 17,967</b>

(1)

Other includes primarily revenues attributable to the sale of epitaxial wafers, scraps and raw materials, third party ancillary equipment that the Company sold along with its LED products, and the provision of services.

Revenues by geography are based on the billing address of the customer. The following table sets forth revenues by geographic area for the years ended August 31, 2014 and 2013 (in thousands):

	<b>Years Ended August 31,</b>	
	<b>2014</b>	<b>2013</b>
Taiwan	\$ 4,910	\$ 5,332
United States	2,492	2,552
Japan	1,926	181
China	1,024	1,411
Germany	854	605
Republic of Turkey	468	910
Russia	298	1,639
Other (individually less than 5% of total net revenues)	2,509	5,337
<b>Total</b>	<b>\$ 14,481</b>	<b>\$ 17,967</b>

**Tangible Long-Lived Assets**



Substantially all of the Company's tangible long-lived assets are located in Taiwan.

Table of Contents**SEMILEDs CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Years Ended August 31, 2014 and 2013****13. Fair Value Measurements**

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments as of August 31, 2014 and 2013 (in thousands):

	August 31, 2014		August 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 12,649	\$ 12,649	\$ 36,272	\$ 36,272
Receivables (including related parties)	2,171	2,171	2,272	2,272
Other assets (non-derivatives)	1,737	1,737	968	968
<b>Financial liabilities:</b>				
Payables (including related parties)	7,498	7,498	9,842	9,842
Long-term debt (including current installments)	\$ 6,190	\$ 6,162	\$ 8,463	\$ 8,425

The fair values of the financial instruments shown in the above table as of August 31, 2014 and 2013 represent the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the fair value measurement reflects management's own judgments about the assumptions that market participants would use in pricing the asset or liability. Those judgments are developed by management based on the best information available in the circumstances, including expected cash flows and appropriately risk-adjusted discount rates, available observable and unobservable inputs.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash, cash equivalents, short-term investments, receivables and payables (including related parties) and notes payable to banks: The carrying amounts, at face value or cost plus accrued interest, approximate fair value because of the short maturity of these instruments.

Other assets (non-derivatives) include primarily value-added tax ("VAT") refund receivables, refundable deposits, and restricted time deposits. The fair value of VAT refund receivables approximates the carrying amount because of the short maturity. The fair value of refundable deposits and restricted time deposits with no fixed maturity is based on the carrying amount.

Long-term debt: The fair value of the Company's variable rate long-term debt is estimated based on the prevailing market rate adjusted by the Company's credit spread.

Table of Contents**SEMILEDs CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Years Ended August 31, 2014 and 2013****13. Fair Value Measurements (Continued)**

The following table presents assets that were measured at fair value on a nonrecurring basis as of August 31, 2013 (in thousands):

	Fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total losses
Long-lived assets	\$ 35,045	\$	\$	\$ 35,045	\$ 10,072
Customer relationships					851
<b>Total long-lived assets</b>	<b>35,045</b>			<b>35,045</b>	<b>10,923</b>
Goodwill Ning Xiang					1,077
Investment in non-marketable equity security HPO	938		938		1,885
<b>Total</b>	<b>\$ 35,983</b>	<b>\$</b>	<b>\$ 938</b>	<b>\$ 35,045</b>	<b>\$ 13,885</b>

Long-lived assets associated with the manufacture and sale of LED chips and LED components with a carrying amount of \$45.1 million at August 31, 2013 were written down to their fair value of \$35.0 million, resulting in an impairment charge of \$10,072 thousand on property, plant and equipment for the year ended August 31, 2013. Management determined the fair value of the long-lived assets based on the present value of expected future net cash flows discounted at the weighted average cost of capital of 12.5%. Management developed the expected future net cash flows based on company-specific assumptions established using historical data and internally developed estimates as part of the Company's long-term planning process, and adjusted them as appropriate to take into account the highest and best use of the long-lived assets from the perspective of market participants in measuring fair value. Other significant estimates and assumptions used in developing the future net cash flows expected to be generated by the market participants included an assumed sales price decline ranging from 12% to 16% and an average utilization rate of 71% for the principal long-lived tangible assets, which were revised to reflect the additional perceived risks from increased competition and pricing pressure, and evolving technological changes, within the LED industry.

The intangible asset for customer relationships arising from the acquisition of a 51% equity interest in Ning Xiang with a carrying amount of \$0.8 million at May 31, 2013 was written down to its fair value of zero, resulting in an impairment charge of \$851 thousand for the year ended August 31, 2013. Management determined the fair value of customer relationships using the multi-period excess earnings method under the income approach. Under this approach, management estimated the future net cash flows expected to be generated from the customer relationships intangible asset, taking into consideration a customer attrition rate to future revenues expected to be generated from the Ning Xiang asset group to reflect the potential loss of some existing customers over time and the costs and expenses required to generate such revenues. Management estimated a customer attrition rate of 50% per year based on historical sales and customer data. Consequently, management concluded that this intangible asset no longer had any value because the future net cash flows attributable to this intangible asset were negative.

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**SEMILEDs CORPORATION AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

**Years Ended August 31, 2014 and 2013**

**13. Fair Value Measurements (Continued)**

Goodwill assigned to the Ning Xiang reporting unit with a carrying amount of \$1.1 million at May 31, 2013 was written down to its implied fair value of zero, resulting in an impairment charge of \$1,077 thousand the year ended August 31, 2013. The fair value of the Ning Xiang reporting unit was determined based on the present value of estimated future net cash flows discounted at the weighted average cost of capital of 10%. Management estimated future net cash flows using the reporting unit's internally developed estimates and included a terminal value calculated using a long-term future growth rate of 3% based on analysis of current and expected future economic conditions. Other estimates and assumptions included sales, and costs and expenses.

An impairment loss on the Company's investment in HPO was recognized based on the excess of the carrying amount over the estimated fair value. The fair value of the investment was determined based on management's best estimate of the amount that could be realized from the investment, which considered the latest audited net asset value reported by the investee and events that have occurred after the investee's balance sheet date, including the issuance price for new common shares in a private placement. Management believes the estimated fair value reflected the exit price from a market participant's perspective at August 31, 2013.

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## SEMILEDs CORPORATION AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

## Years Ended August 31, 2014 and 2013

## 14. Quarterly Results of Operations (Unaudited)

The following tables set forth selected quarterly statement of operations data for each of the years ended August 31, 2014 and 2013 (in thousands, except per share data):

	Three Months Ended				
	November 30, 2013	February 28, 2014	May 31, 2014	August 31, 2014(1)	Fiscal 2014
Revenues, net	\$ 3,417	\$ 4,171	\$ 4,615	\$ 2,278	\$ 14,481
Cost of revenues	5,754	7,308	7,408	5,322	25,792
Gross loss	(2,337)	(3,137)	(2,793)	(3,044)	(11,311)
Operating expenses	3,770	3,482	3,555	2,671	13,478
Loss from operations	(6,107)	(6,619)	(6,348)	(5,715)	(24,789)
Net loss attributable to SemiLEDs stockholders	\$ (6,292)	\$ (6,409)	\$ (6,405)	\$ (5,369)	\$ (24,475)
Net loss per share attributable to SemiLEDs stockholders, basic and diluted	\$ (0.23)	\$ (0.23)	\$ (0.23)	\$ (0.19)	\$ (0.87)

	Three Months Ended				
	November 30, 2012	February 28, 2013	May 31, 2013(2)	August 31, 2013(3)	Fiscal 2013
Revenues, net	\$ 6,227	\$ 4,830	\$ 3,526	\$ 3,384	\$ 17,967
Cost of revenues	9,515	8,183	8,083	6,884	32,665
Gross loss	(3,288)	(3,353)	(4,557)	(3,500)	(14,698)
Operating expenses	4,886	3,654	5,245	14,184	27,969
Loss from operations	(8,174)	(7,007)	(9,802)	(17,684)	(42,667)
Impairment loss on investment			(1,885)		(1,885)
Net loss attributable to SemiLEDs stockholders	\$ (8,923)	\$ (5,991)	\$ (10,953)	\$ (17,857)	\$ (43,724)
Net loss per share attributable to SemiLEDs stockholders, basic and diluted	\$ (0.32)	\$ (0.22)	\$ (0.40)	\$ (0.64)	\$ (1.58)

- (1) Results for the fourth quarter of fiscal 2014 include an excess capacity charge of \$2.2 million as a result of a decrease in customer demand. In addition, the Company experienced a reduction in production capacity as it consolidated manufacturing facilities and relocated production equipment.
- (2) Results for the third quarter of fiscal 2013 include an excess capacity charge of \$2.2 million as a result of a decrease in customer demand, an inventory write-down of \$1.1 million as a result of a decline in average selling prices, and impairment charges of \$1.1 million on goodwill, \$0.8 million on intangible asset for customer relationships and \$1.9 million on investment in HPO.
- (3) Results for the fourth quarter of fiscal 2013 include an excess capacity charge of \$2.0 million as a result of a decrease in customer demand, an inventory write-down of \$1.0 million as a result of a decline in average selling prices, and an impairment charge on property, plant and equipment of \$10.1 million.



Table of Contents**SEMILEDs CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Years Ended August 31, 2014 and 2013****15. Condensed Parent Company Only Financial Statements**

As a holding company, dividends received from SemiLEDs' subsidiaries in Taiwan, if any, will be subject to withholding tax under Taiwan law, as well as statutory and other legal restrictions. The condensed parent company only financial information for SemiLEDs is presented below (in thousands):

Condensed Balance Sheets	August 31,	
	2014	2013
<b>ASSETS</b>		
Cash and cash equivalents	\$ 7,838	\$ 18,631
Prepaid expenses and other current assets	2,077	1,030
Intangible assets, net	62	68
Investments in subsidiaries	33,457	46,264
Investments in unconsolidated entities	714	714
<b>TOTAL ASSETS</b>	<b>\$ 44,148</b>	<b>\$ 66,707</b>

**LIABILITIES AND EQUITY**

Accrued expenses and other current liabilities	\$ 242	\$ 191
Total equity	43,906	66,516
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 44,148</b>	<b>\$ 66,707</b>

SemiLEDs had no other contingencies, long-term obligations and guarantees as of August 31, 2014 or August 31, 2013.

Condensed Statements of Operations	Years Ended August 31,	
	2014	2013
Operating expenses:		
Selling, general and administrative	\$ 1,766	\$ 2,177
Loss from operations	(1,766)	(2,177)
Other income (expenses):		
Equity in losses from subsidiaries, net	(22,718)	(41,572)
Interest income	9	25
Total other expenses, net	(22,709)	(41,547)
Net loss	\$ (24,475)	\$ (43,724)

Table of Contents**SEMILEDs CORPORATION AND SUBSIDIARIES****Notes to Consolidated Financial Statements (Continued)****Years Ended August 31, 2014 and 2013****15. Condensed Parent Company Only Financial Statements (Continued)**

Condensed Statements of Cash Flows	Years Ended August 31,	
	2014	2013
Net cash provided by (used in):		
Operating activities	\$ (802)	\$ (187)
Investing activities	(10,000)	
Financing activities	9	74
Net decrease in cash and cash equivalents	(10,793)	(113)
Cash and cash equivalents at beginning of year	18,631	18,744
Cash and cash equivalents at end of year	\$ 7,838	\$ 18,631

**16. Subsequent Event**

On December 3, 2014, SemiLEDs Corporation accepted an Offer dated November 25, 2014 from Xiaoqing Han to purchase 5,016,087 shares of the Company's common stock at \$1.00 per share. This represents approximately 15% of the outstanding shares of the Company. The sale of the shares is subject to the negotiation and execution of a purchase agreement. Upon the closing of the sale, the Board of Directors expects to nominate Mr. Han to the Company's Board of Directors. Mr. Han is the Chairman and CEO of Beijing Xiaoqing Environmental Protection Group.

The Offer provides that if the Company's Board decides not to sell the shares to Xiaoqing Han then the Company is required to pay Mr. Han \$3 million plus the legal fees incurred by him relating to the sale. Similarly, if Mr. Han decides not to execute the purchase agreement or does not purchase the shares within 8 to 12 weeks from December 3, 2014, then he is required to pay the Company \$3 million plus the legal fees incurred by the Company relating to the sale.



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**Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

Not applicable.

**Item 9A. *Controls and Procedures***

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our chief executive officer, or CEO, and our chief financial officer, or CFO, has evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act as of August 31, 2014. 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 August 31, 2014, 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 SEC rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

**Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision and with the participation of our management, including our CEO and CFO, we assessed the effectiveness of our internal control over financial reporting as of the end of the period covered by this report based on the framework in "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, our CEO and CFO concluded that our internal control over financial reporting is effective to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of the financial statements for external purposes in accordance with GAAP, as of August 31, 2014.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the quarter ended August 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. *Other Information***

Not applicable.

Table of Contents**PART III****Item 10. Directors, Executive Officers and Corporate Governance****Our Board of Directors**

**Trung T. Doan**, 56, has served as a director, Chairman of our Board and as our CEO since January 2005, and as our President since August 2012. Prior to joining us, Mr. Doan served as Corporate Vice President of Applied Global Services (AGS) Product Group at Applied Materials, Inc. and also served as President and Chief Executive Officer of Jusung Engineering, Inc., a semiconductor/LCD equipment company in Korea. In addition, Mr. Doan served as Vice President of Process Development at Micron Technology Inc. Mr. Doan previously served as a director of Advanced Energy Industries, a publicly traded manufacturer of power conversion and control systems, and as a director of Dolsoft Corporation, a privately held software company, both within the past five years. Mr. Doan also previously served as a director of Nu Tool Inc., a semiconductor technology company, and as a director of EMCO, a publicly traded manufacturer of advanced flow control devices and systems. Mr. Doan holds a bachelor of science degree in nuclear engineering from the University of California, Santa Barbara, where he graduated with honors, and a master of science degree in chemical engineering from the University of California, Santa Barbara. Our Board has determined that Mr. Doan should serve on our Board and as our Chairman based on his in-depth knowledge of our business and industry and his experience serving on the boards of directors of several major technology companies, as well as in management roles in the technology industry.

**Arthur H. del Prado**, 83, has served as a director since February 2013. He is Chairman of the Board of ASM Pacific Technology, Ltd., a company which he co-founded in 1975. In 1984, he co-founded ASM Lithography N.V. through a joint-venture with Phillips Electronics N.V. Mr. del Prado served as President, Chief Executive Officer and Chairman of the Management Board of ASM International from the time he founded that company in 1968 until his retirement from those capacities in 2008. He was appointed Honorary Chairman by the General Meeting of Shareholders in May 2008 and continues to serve ASM International as an advisor. For many years, Mr. del Prado served as a director of JESSI, the Joint European Submicron Silicon Initiative and currently serves as a director of its successor, MEDEA, the Micro Electronics Development for European Applications, a non-profit project. He has been appointed a member of the board of directors of various European companies and serves on the board of Dujat, the Netherlands-Japanese Trade Federation. Mr. del Prado is a past board member of: Oce van der Grinten Nederland B.V., a manufacturer of copiers and printers; G.T.I. Holding N.V., and electronic equipment and installation company; Delft Instruments N.V., a manufacturer of high-technology industrial and defense products; and Breevast N.V., a project development and management company. He was also on the advisory council of ABN-AMRO Bank. Our Board has determined that Mr. del Prado should serve on our Board based on his experience as a Chairman and as a director of several companies, and his management role at a semiconductor equipment company.

**Dr. Edward Kuan Hsiung Hsieh**, 62, has served as a director since February 2012. Dr. Hsieh has been Chairman, Chief Executive Officer and a director of Eton Intelligent Technologies, a media and publications company, since April 2000 and Chairman, Chief Executive Officer and a director of VR Networks, a VoIP and Internet networks company, since January 2000. He has also served as an Adjunct Professor at National Taiwan University since February 2009. From February 2007 to February 2010, Dr. Hsieh was Chief Executive Officer of Asia Pacific Telecom, a 3G mobile and fixed line telecommunications company, as well as Executive Director of APOL, an Internet service provider. He also served as Chairman of International Christian Goodwill within the past five years. Dr. Hsieh holds a bachelor of science degree in electrical engineering from National Taiwan University, a master of science degree in electrical engineering from the University of California, Santa Barbara and a doctor of philosophy degree in electrical engineering from Cornell University. He also studied accounting at the University of California, Los Angeles. Our Board has determined that Dr. Hsieh

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should serve as a director based on his experience teaching master of business administration classes at National Taiwan University, his service as an International Financial Adviser with Merrill Lynch, Pierce, Fenner & Smith and his management roles at several start-up companies.

**Dr. Jack Lau**, 47, has served as a director since October 2010. Dr. Lau is currently an Adjunct Professor at the Hong Kong University of Science and Technology. He was Chairman, Chief Executive Officer and director of Perception Digital Holdings Limited, a company that provides multimedia technology solutions which he co-founded from January 1999 to June 2013. Prior to co-founding Perception, Dr. Lau was a Visiting Scholar at the Center for Integrated Systems at Stanford University from 1995 to 1996. From 1996 to 1998, he was an Assistant Professor at the Hong Kong University of Science and Technology in the Department of Electronic and Computer Engineering. Between 1988 and 1991, Dr. Lau worked at Hewlett-Packard Development Company L.P., Schlumberger Limited and Integrated Information Technology, Inc. Between 1997 and 2000, Dr. Lau served on the board of directors of Orient Power Holding Limited and Yue Fung Development Co., Ltd. in Hong Kong. Dr. Lau holds bachelor's and master's degrees in Electrical Engineering from the University of California at Berkeley. He holds a doctor of philosophy degree and executive master of business administration degree from the Hong Kong University of Science and Technology. Our Board has determined that Dr. Lau should serve as a director based on his engineering background and his experience serving on the boards of directors of various private and public companies.

**Scott R. Simplot**, 68, has served as a director since March 2005. Mr. Simplot has been Chairman of the board of directors and a director of J.R. Simplot Company since May 2001 and August 1970, respectively. Mr. Simplot holds a bachelor of science degree in business from the University of Idaho and a master of business administration degree from the University of Pennsylvania. Mr. Simplot became a director on our Board as part of his duties as the Chairman of the board of J.R. Simplot Company, the 100% owner of Simplot Taiwan, Inc., which was entitled to designate two members of our board of directors in connection with J.R. Simplot Company's investment in our Series A convertible preferred stock. Our Board has determined that Mr. Simplot should serve as a director based on the extensive knowledge and insight he brings to our Board from his experience serving as Chairman and holding a variety of management positions at a large private company and serving on the boards of directors of companies in a variety of industries.

**Executive Officers**

In addition to Mr. Doan, our CEO, who also serves as a director, our executive officers as of November 30, 2014 consisted of the following:

**Mark E. Tuttle**, 62, has served as Executive Vice President of Operations since April 2013. Mr. Tuttle joined SemiLEDs as our Vice President in June 2010. Prior to joining us, Mr. Tuttle served as CEO of Cove Technology, Inc. from 2007 until March 2010. He holds over 200 patents in diverse technical areas, and has over 30 years of research and development and manufacturing experience in the semiconductor industry, including serving as vice president, director, manager, and engineer in Micron Technology, Inc. and in Micron Communications, Inc. Mr. Tuttle is a former chairman of the Boise State University Engineering Advisory Board, and holds a bachelor's degree in Chemistry from Boise State University.

**Christopher Lee**, 43, has served as our Interim Chief Financial Officer since November 2014. Mr. Lee joined SemiLEDs in September 2014. Mr. Lee has over 20 years of experience in accounting and finance, including US GAAP, PCAOB standards and SEC rules and regulations. Prior to joining us, Mr. Lee was a partner of KEDP CPA Group from August 2009 to June 2011 and a self-employed accountant from July 2011 to August 2014. Mr. Lee holds a BS degree in accounting and a MS degree in business taxation and is licensed as a Certified Public Accountant (CPA) in the United States.

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**CORPORATE GOVERNANCE**

**Board Composition**

Our Nominating and Corporate Governance Committee is charged with identifying and evaluating individuals qualified to serve as members of the Board and recommending to the full Board nominees for election as directors. We seek directors with experience in areas relevant to the strategy and operations of the Company. We seek a Board that collectively has a range and diversity of skills, experience, age, industry knowledge and other factors in the context of the needs of the Board. The biographies of each of the directors above contains information regarding the person's service as a director, business experience, director positions held currently or at any time during the last five years and the experiences, qualifications, attributes or skills that caused the Nominating and Corporate Governance Committee to determine that the person should serve as a director of our Company. In addition to the information presented above regarding each director's specific experience, qualifications, attributes and skills that led our Nominating and Corporate Governance Committee and Board to the conclusion that he should serve as a director, we also believe that each of our directors has a reputation for integrity, honesty and adherence to high ethical standards. Each of our directors has demonstrated business acumen and an ability to exercise sound judgment, as well as a commitment of service to our Company and our Board. Each of our director nominees is currently serving on the Board.

**Board Responsibilities and Structure**

The Board oversees, counsels, and directs management in the long-term interests of the Company and our stockholders. The Board's responsibilities include:

selecting, evaluating the performance of, and determining the compensation of the CEO and other executive officers;

overseeing the risks that the Company faces;

reviewing and approving our major financial objectives and strategic and operating plans, and other significant actions;

overseeing the conduct of our business and the assessment of our business and other enterprise risks to evaluate whether the business is being properly managed; and

overseeing the processes for maintaining our integrity with regard to our financial statements and other public disclosures, and compliance with law and ethics.

The Board and its committees met throughout the year on a set schedule, held special meetings, and acted by written consent from time to time as appropriate. During fiscal year 2014, the Board held executive sessions for the independent directors to meet without Mr. Doan present at the end of every Board meeting.

Our Bylaws do not dictate a particular Board structure and the Board is free to determine whether or not to have a Chairman and, if so, to select that Chairman and our CEO in the manner it considers our best interest. Currently, the Board has selected Mr. Doan to hold the position of both Chairman of the Board and CEO. Mr. Doan's experience at the Company has afforded him intimate knowledge of the issues, challenges and opportunities facing each of the Company's businesses. Accordingly, he is well positioned to focus the Board's attention on the most pressing issues facing the Company. The Board has not appointed a lead independent director. The Board believes its administration of its risk oversight function has not affected the Board's leadership structure.

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#### **Board Committees and Charters**

The Board delegates various responsibilities and authority to different Board committees. Committees regularly report on their activities and actions to the full Board. The Board currently has, and appoints the members of, a standing Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee. Each of the Board committees has a written charter approved by the Board, and we post each charter on our web site at <http://investors.semileds.com/governance.cfm>. Each committee can engage outside experts, advisors and counsel to assist the committee in its work. The following table identifies the current committee members.

<b>Name</b>	<b>Audit</b>	<b>Compensation</b>	<b>Nominating and Corporate Governance</b>
Arthur H. del Prado	ü		
Dr. Edward Kuan Hsiung Hsieh	Chair	ü	
Dr. Jack Lau	ü		ü
Scott R. Simplot		Chair	Chair
<b>Number of Committee Meetings Held in Fiscal Year 2014</b>	5	5	4

#### ***Audit Committee***

Our Audit Committee is responsible for, among other things:

reviewing and approving the selection of our independent auditors, and approving the audit and non-audit services to be performed by our independent auditors;

monitoring the integrity of our financial statements and our compliance with legal and regulatory requirements as they relate to financial statements or accounting matters;

reviewing the adequacy and effectiveness of our internal control policies and procedures;

discussing the scope and results of the audit with the independent auditors and reviewing with management and the independent auditors our interim and year-end operating results; and

preparing the Audit Committee Report that the SEC requires in our annual proxy statement.

The Board believes that each current member of our Audit Committee is an independent director under the NASDAQ rules and meets the additional SEC independence requirements for audit committee members. It has also determined that Dr. Hsieh meets the requirements of an "audit committee financial expert," as defined in Regulation S-K.

#### ***Compensation Committee***

Our Compensation Committee is responsible for, among other things:

overseeing our compensation policies, plans and benefit programs;

reviewing and approving for our executive officers: the annual base salary, the annual incentive bonus, including the specific goals and amount, equity compensation, employment agreements, severance arrangements and change in control arrangements, and any other benefits, compensation or arrangements;

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reviewing and determining our equity-based compensation plans; and

administering our equity-based compensation plans.

Although the Compensation Committee has the authority to determine the compensation paid to executive officers, other officers, employees, consultants and advisors, it can delegate its responsibility

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for setting compensation for individuals other than the CEO to a subcommittee, in the case of other officers, or to officers, in the case of employees and consultants. It may also delegate to officers the authority to grant options or other equity or equity-based awards to employees who are not executive officers or members of the Board. It may also generally take into account the recommendations of the CEO, other than with respect to his own compensation. As further described under "Compensation of the Named Executive Officers and Directors" below, the Compensation Committee has engaged Radford, an independent compensation consultant, to assist it in various respects. The Compensation Committee has assessed Radford's independence pursuant to SEC rules and concluded that no conflict of interest exists that would prevent Radford from independently representing the Compensation Committee.

***Nominating and Corporate Governance Committee***

Our Nominating and Corporate Governance Committee is responsible for, among other things:

identifying prospective director nominees and recommending nominees for each annual meeting of stockholders to the Board;

reviewing developments in corporate governance practices and developing and recommending governance principles applicable to our Board;

overseeing the evaluation of our Board and management; and

recommending members for each Board committee to our Board.

Our Nominating and Corporate Governance Committee has not established any minimum qualifications for directors, although in assessing the skills and characteristics of individual members, it must give due regard for independence and financial literacy considerations dictated by the NASDAQ rules. The Nominating and Corporate Governance Committee does not at this time have a policy regarding its consideration of director candidates recommended by stockholders, as it has not yet received any such recommendations. It may adopt a policy if such recommendations are received.

***Attendance at Board, Committee and Annual Stockholders' Meetings***

The Board held eight meetings in fiscal year 2014. We expect each director to attend every meeting of the Board and the committees on which he or she serves, and encourage them to attend the annual stockholders' meeting. All directors attended at least 75% of the aggregate meetings of the Board and the committees on which they served in fiscal year 2014 and all continuing directors attended the 2014 annual meeting of stockholders.

**Risk Management**

The Board is involved in the oversight of risks that could affect the Company. This oversight is conducted primarily through the Audit Committee which, on behalf of the Board, is charged with overseeing the principal risk exposures we face and our mitigation efforts in respect of these risks. The Audit Committee is responsible for interfacing with management and discussing with management the Company's principal risk exposures and the steps management has taken to monitor and control risk exposures, including risk assessment and risk management policies. The Compensation Committee also plays a role in that it is charged, in overseeing the Company's overall compensation structure, with assessing whether that compensation structure creates risks that are reasonably likely to have a material adverse effect on us.

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**Code of Business Conduct and Ethics**

We have adopted a Code of Business Conduct and Ethics that applies to all of our employees, officers and directors, including those officers responsible for financial reporting. These standards are designed to deter wrongdoing and to promote honest and ethical conduct. The Code of Business Conduct and Ethics is available at our website at <http://investors.semileds.com/governance.cfm>. Any amendments to the Code, or any waivers of its requirements required to be disclosed pursuant to SEC or NASDAQ requirements, will be disclosed on the website.

**Communications from Stockholders and Other Interested Parties to Directors**

The Board recommends that stockholders and other interested parties initiate communications with the Board, any committee of the Board or any individual director in writing to the attention of our Corporate Secretary at our principal executive office at 3F, No. 11 Ke Jung Rd., Chu-Nan Site, Hsinchu Science Park, Chu-Nan 350, Miao-Li County, Taiwan, R.O.C. This process will assist the Board in reviewing and responding to stockholder communications in an appropriate manner. The Board has instructed our Corporate Secretary to review such correspondence and, at his discretion, not to forward items if he deems them to be of a commercial or frivolous nature or otherwise inappropriate for the Board's consideration.

*Section 16(a) Beneficial Ownership Reporting Compliance.* Section 16(a) of the Exchange Act requires our directors and executive officers, among others, to file with the SEC an initial report of ownership of our stock on Form 3 and reports of changes in ownership on Form 4 or Form 5. Persons subject to Section 16 are required by SEC regulations to furnish us with copies of all Section 16(a) forms that they file. As a matter of practice, our administrative staff assists our executive officers and directors in preparing initial ownership reports and reporting ownership changes, and typically files those reports on their behalf. Based solely on a review of the copies of such forms in our possession and on written representations from reporting persons, we believe that during fiscal year 2014 all of our executive officers and directors filed the required reports on a timely basis under Section 16(a).

**Item 11. Executive Compensation**

**COMPENSATION OF THE NAMED EXECUTIVE OFFICERS AND DIRECTORS**

**Executive Compensation**

This executive compensation section discloses the compensation awarded to or earned by our "named executive officers" during fiscal year 2014. They are:

Trung T. Doan, our CEO;

Ilkan Cokgor, our former Executive Vice President of Sales and Marketing

Mark E. Tuttle, our Executive Vice President of Operations

We held our first non-binding advisory vote regarding compensation of our named executive officers at our 2012 Annual Meeting of Stockholders and expect to hold our next vote at our 2015 Annual Meeting of Stockholders.



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### Summary Compensation Table

The following table sets forth all of the compensation earned by named executive officers during the relevant fiscal years.

Name and Principal Position	Fiscal Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)(1)	Option Awards (\$)(2)	All Other Compensation (\$)	Total (\$)
Trung T. Doan	2014	405,000		196,950		2,271(3)	604,221
Chief Executive Officer	2013	405,000		266,000		8,424	679,424
Ilkan Cokgor(4)	2014	200,417				23,567(5)	223,984
Former Executive Vice President	2013	220,000		266,000	89,130	25,126	600,256
Mark E. Tuttle	2014	220,000		196,950		22,387(6)	439,337
Executive Vice President	2013	196,221		266,000		27,067	489,288

- (1) The amounts reported in the Stock Awards column represent the aggregate grant date fair value of the RSUs granted to the named executive officers in the applicable fiscal year calculated in accordance with ASC 718. For RSUs, the grant date fair value is calculated by multiplying (x) the closing price of our common stock on the grant date by (y) the number of RSUs awarded. Note that the amounts reported in this column reflect the accounting cost for these stock awards, and do not correspond to the actual economic value that may be received by the named executive officers.
- (2) The amounts reported in the Option Awards column represent the aggregate grant date fair value of the stock options granted to the named executive officers in the applicable fiscal year calculated in accordance with ASC 718. The assumptions used in calculating the grant date fair value of the stock options reported in the Option Awards column are set forth for each year in Note 8, Stock-based Compensation, of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended August 31, 2014. Note that the amounts reported in this column reflect the accounting cost for these stock options, and do not correspond to the actual economic values that may be received by the named executive officers from the options.
- (3) Includes payments of \$2,271 for airfare for family members to fly from Taiwan to the United States.
- (4) Dr. Cokgor resigned from SemiLEDs on August 15, 2014.
- (5) Includes payment of \$16,031 for housing and \$7,536 for the depreciation cost for Dr. Cokgor's use of one of our automobiles, registration, auto insurance and other related automobile expenses.
- (6) Includes payments of \$16,031 for housing, \$1,121 for airfare for his spouse home trip to the United States, and \$5,235 for the cost for his use of one of our automobiles and other related automobile expenses.

### Outstanding Equity Awards at Fiscal Year-End

The following table presents certain information regarding outstanding equity awards held by each of our named executive officers as of the fiscal year ended August 31, 2014. Values in this table are

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calculated based on the closing price per share of our common stock on August 29, 2014 (the last trading day in the fiscal year ended August 31, 2014), which was \$0.81.

Name	Option Awards Equity Incentive Plan Awards: Number					Stock Awards	
	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$/Sh)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)
Trung T. Doan						82,500	66,825
						150,000	121,500
						48,750	39,488
						146,250	118,463
Ilkan Cokgor	50,000	50,000		1.72	11/15/14		
Mark E. Tuttle	14,285			9.10	4/24/20		
	9,375	3,125		19.00	1/20/21		
						2,000	1,620
						25,000	20,250
						150,000	121,500
						48,750	39,488
						146,250	118,463

### **Pension Benefits**

We do not maintain any defined benefit pension plans.

### **Nonqualified Deferred Compensation**

We do not maintain any nonqualified deferred compensation plans.

### **Severance and Change in Control Benefits**

Mr. Doan entered into an employment agreement in 2005, which provides that if he is terminated by us without cause or resigns due to a constructive termination, he will receive as severance an amount equal to six months of his then-current salary plus his current medical insurance for six months following his termination date. We offered such severance to motivate Mr. Doan to continue as our executive officer by providing severance protection in the event that he is terminated by us without having committed any egregious act constituting cause or if we adversely change his position such that he resigns. Cause is defined as (a) the conviction of a felony or of any criminal offense involving moral turpitude; (b) the repeated failure to satisfactorily perform duties reasonably required by us; (c) material breach of the proprietary information and invention agreement, our written policies established by our Board or any term of his employment agreement; or (d) misappropriation of our property or unlawful appropriation of our corporate opportunity or our business. If we determine cause exists, we will provide Mr. Doan with written notice alleging cause and his failure to remedy the alleged cause within 30 days may result in a termination for cause. Constructive termination is defined as one of the following events when we have not received Mr. Doan's written consent for such event: (a) a significant reduction of his duties, position or responsibilities relative to his duties, position or responsibilities in effect immediately prior to such reduction or his removal from such position, duties and responsibilities, provided that a reduction in duties, position or responsibilities solely by virtue of us being acquired and made part of a larger entity will not constitute a constructive termination; (b) a substantial reduction, without good business reasons, of the facilities and perquisites available to him

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immediately prior to such reduction; (c) a reduction of his base salary unless such reduction is a part of a Company-wide reduction for similarly situated persons; or (d) a material reduction in the kind or level of employee benefits to which he is entitled immediately prior to such reduction, with the result that his overall benefits package is significantly reduced, unless such reductions are part of a Company-wide reduction for similarly situated persons.

Certain of the equity granted to our named executive officers will fully vest upon a change in control. In addition, the RSUs granted to our named executive officers in fiscal years 2013 and 2014 will fully vest if we are subject to a change in control while they remain employed.

**Employment Agreements**

We entered into employment agreements with each of our named executive officers which set forth the terms of their employment, including base salary and, to the extent applicable, bonus opportunities, stock options and severance benefits. The payments made in fiscal years 2013 and 2014 are set forth in the "Summary Compensation Table" above.

Mr. Doan entered into an employment agreement in 2005, which provides for the severance payments and benefits described under "Severance and Change in Control Benefits" above.

**Director Compensation**

Based on recommendations from Radford, our Board has adopted a director compensation policy pursuant to which non-employee members of the Board will receive the following compensation for their board and committee services:

an annual cash retainer for general Board service of \$50,000 paid in quarterly installments;

no cash payments for attendance at general Board meetings;

an annual cash retainer of \$15,000 for serving as chairman of the Audit Committee, \$15,000 for serving as the chairman of the Compensation Committee and \$7,500 for serving as the chairman of the Nominating and Governance Committee, with each retainer paid in quarterly installments;

an annual cash retainer of \$7,500 per non-chairman member serving on the Audit Committee, \$7,500 per non-chairman member serving on the Compensation Committee and \$4,000 per non-chairman member serving on the Nominating and Corporate Governance Committee; and

each year shortly following the annual stockholder meeting an annual grant of 25,000 shares of RSUs, which fully vests on the earlier of the next annual meeting or the one-year anniversary of the grant date, subject to continued service through the vesting date, provided that the RSUs will fully vest if we are subject to a change in control during their service.

The director compensation policy requires directors to attend at least 75% of the meetings each year in order to be renominated. The policy also includes an equity ownership guideline whereby our directors will be expected to own and hold shares of our common stock until retirement from their Board service. We also reimburse non-employee directors for travel, lodging and other expenses incurred in connection with their attendance at Board or committee meetings.

Table of Contents**Director Compensation Table**

The following table sets forth the total compensation for our non-employee directors for the year ended August 31, 2014:

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)(1)	All Other Compensation (\$)	Total (\$)
Arthur H. del Prado(2)	61,500	26,250		87,750
Dr. Edward Kuan Hsiung Hsieh(2)	72,500	26,250		98,750
Dr. Jack Lau(2)	57,500	26,250		83,750
Scott R. Simplot				

(1) Amounts shown do not reflect compensation actually received by directors. Instead, the value reported above in the "Stock Awards" column represents the dollar amounts of the aggregate grant date fair value of RSUs granted to directors in fiscal year 2014, computed in accordance with ASC 718.

(2) Each of Mr. del Prado, Dr. Hsieh and Dr. Lau owned 25,000 RSUs at August 31, 2014. The RSUs will fully vest at the earlier of April 21, 2015 or the date of the 2015 annual meeting.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters****PRINCIPAL STOCKHOLDERS**

The following table sets forth information regarding the beneficial ownership of our common stock as of November 30, 2014 with respect to:

each person, or group of affiliated persons, who is known by us to own beneficially 5% or more of our common stock;

each of our directors;

each of our named executive officers; and

all directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC. All shares of our common stock subject to options currently exercisable or exercisable within 60 days of November 30, 2014 and RSUs that will vest within 60 days of November 30, 2014, are deemed to be outstanding for the purpose of computing the percentage ownership of the person or group holding options and RSUs, but are not deemed to be outstanding for computing the percentage of ownership of any other person.

Unless otherwise indicated by the footnotes below, we believe, based on the information furnished to us, that each stockholder named in the table has sole voting and investment power with respect to all shares beneficially owned, subject to applicable community property laws.

Percentage of ownership is based on 28,424,493 shares of common stock outstanding as of November 30, 2014.

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Unless otherwise indicated in the footnotes to the table, the address of each individual listed in the table is c/o SemiLEDs Corporation, 3F, No.11 Ke Jung Rd., Chu-Nan Site, Hsinchu Science Park, Chu-Nan 350, Miao-Li County, Taiwan, R.O.C.

Name and Address of Beneficial Owner	Shares Beneficially Owned	
	Number	Percent
<b>5% Stockholders:</b>		
Simplot Taiwan, Inc.	9,899,344(1)	34.8%
J.R. Simplot Company 999 Main Street, Suite 1300 Boise, ID 83702		
Trung Tri Doan	3,418,483(2)	12.0%
Royce & Associates, LLC 745 Fifth Avenue, New York, NY 10151	2,008,540(3)	7.1%
<b>Executive Officers and Directors:</b>		
Trung Tri Doan	3,418,483(2)	12.0%
Arthur H. del Prado	70,422	*
Dr. Edward Kuan Hsiung Hsieh	85,712	*
Dr. Jack Lau	85,712	*
Scott R. Simplot	10,209,713(1)(4)	35.9%
Mark E. Tuttle	119,785(5)	*
Ilkan Cokgor	50,000	*
All executive officers and directors as a group (7 persons)	14,039,827(5)	49.4%

\*

Indicates beneficial ownership of less than 1%.

- (1) Based on a Schedule 13G filed February 10, 2011, Simplot Taiwan, Inc., a wholly owned subsidiary of J.R. Simplot Company, and J.R. Simplot Company share voting and investment power over all such shares. Scott Simplot is the Chairman of J.R. Simplot Company. Mr. Simplot may be deemed to have shared voting and investment power over the shares held by Simplot Taiwan, Inc. Mr. Simplot disclaims beneficial ownership of such shares, except to the extent of his pecuniary interest therein.
- (2) Includes 1,571,428 shares held by The Trung Tri Doan 2010 GRAT, of which Trung Tri Doan is the sole trustee.
- (3) Based on a Schedule 13G filed on January 14, 2014, Royce & Associates, LLC has sole voting power over 2,008,540 shares.
- (4) Includes 310,369 shares held by JRS Properties III L.P. JRS Management L.L.C. is the sole general partner of JRS Properties III L.P. Scott Simplot and Stephen A. Beebe are the managers of JRS Management L.L.C. As managers of JRS Management L.L.C., Mr. Simplot and Mr. Beebe share voting and investment power over the securities held by JRS Properties III L.P. Mr. Simplot may be deemed to have shared voting and investment power over the shares held by JRS Properties III L.P. Mr. Simplot disclaims beneficial ownership of such shares, except to the extent of his pecuniary interest therein.
- (5) Includes options that are currently exercisable for 23,660 shares, options for 3,125 shares that will become exercisable within 60 days and 2,000 RSUs that will vest within 60 days.

Table of Contents**Equity Compensation Plan Information**

The following table summarizes information about our equity compensation plans as of August 31, 2014. All outstanding awards relate to our common stock.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) (in thousands)	Weighted-average exercise price of outstanding options, warrants and rights(2) (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) (in thousands)
Equity compensation plans approved by security holders	2,088(1)\$	9.44	2,404
Equity compensation plans not approved by security holders			
<b>Total</b>	<b>2,088</b>		<b>2,404</b>

- (1) Consists of stock options granted under the 2005 Equity Incentive Plan and the 2010 Equity Incentive Plan, and restricted stock units granted under the 2010 Equity Incentive Plan. No additional grants could be made under the 2005 Equity Incentive Plan after December 8, 2010. In April 2014, SemiLEDs' stockholders approved an amendment to the 2010 Plan that increased the number of shares authorized for issuance under the plan by an additional 2,500 thousand shares.
- (2) The weighted average exercise price does not take into account the shares issuable upon vesting of outstanding restricted stock unit awards, which have no exercise price.

The information required by this Item with respect to the securities ownership of directors, officers and certain beneficial owners is set forth under the heading "Principal Stockholders" above.

**Item 13. Certain Relationships and Related Transactions, and Director Independence****CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

Since September 1, 2013, there has not been any transaction or series of similar transactions to which we were or are a party in which the amount involved exceeded or exceeds and in which any of our directors or executive officers, any holder of more than 5% of any class of our voting securities or any member of the immediate family of any of the foregoing persons had or will have a direct or indirect material interest, other than the transactions described below, some of which represent continuing transactions from prior periods.

**Investors' Rights Agreement**

We have entered into an investors' rights agreement with certain holders of our common stock, including Trung T. Doan, The Trung Doan 2010 GRAT, Dr. Anh Chuong Tran, The Anh Chuong Tran 2010 GRAT, Simplot Taiwan, Inc. and JRS Properties III L.P., as well as certain other investors, which were more than 5% stockholders at the time. This agreement provides for certain rights relating to the registration of their shares of common stock.

***Demand Registration Rights***

The holders of at least 40% of the shares of our common stock subject to this agreement (originally 13,718,852 shares) can, on not more than three occasions, request that we register all or a portion of their shares if the aggregate price to the public of the shares offered would exceed \$7,500,000. Under these demand registration rights, we are required to cause the shares requested to



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be included in the registration statement as soon as practicable, subject to customary conditions and limitations.

***Piggyback Registration Rights***

In the event that we propose to register any of our securities under the Securities Act of 1933, as amended (the "Securities Act"), either for our own account or for the account of other security holders, the parties to this agreement will be entitled to certain "piggyback" registration rights allowing the holder to include their shares in such registration, subject to certain marketing and other limitations. As a result, whenever we propose to file a registration statement under the Securities Act, other than with respect to a registration related to employee benefit plans, debt securities or corporate reorganizations, the holders of these shares are entitled to notice of the registration and have the right, subject to limitations that the underwriters may impose on the number of shares included in the registration, to include their shares in the registration.

***Form S-3 Registration Rights***

The parties are also entitled to certain Form S-3 registration rights. Holders of at least 30% of the shares subject to the agreement can make a written request that we register their shares on Form S-3 if we are eligible to file a registration statement on Form S-3 and if the aggregate price to the public of the shares offered is at least \$3,000,000. These stockholders may make an unlimited number of requests for registration on Form S-3. However, we will not be required to effect a registration on Form S-3 if we have effected two such registrations in a given 12-month period.

***Registration Expenses***

We will pay the registration expenses of the holders of the shares registered pursuant to the demand, piggyback and Form S-3 registrations described above. In an underwritten offering, the managing underwriter, if any, has the right, subject to specified conditions, to limit the number of shares such holders may include.

***Expiration of Registration Rights***

The demand, piggyback and Form S-3 registration rights described above will expire, with respect to any particular stockholder, when that stockholder can sell all of the shares that the stockholder proposes to sell under Rule 144 of the Securities Act or a similar exemption during any three-month period. In any event, all such registration rights shall expire in December 2015.

**Employment Agreements**

See "Compensation of the Named Executive Officers and Directors Employment Agreements."

**Policies and Procedures for Related Party Transactions**

Our Board has adopted a formal, written related party transactions policy pursuant to which, our executive officers, directors, beneficial owners of more than 5% of our common stock, and any member of the immediate family of and any firm, corporation or other entity at which any of the foregoing persons is employed or is a general partner or principal or in a similar position or in which such person has a 5% or greater beneficial interest, are not permitted to enter into a related party transaction with us without prior consent and approval of our Audit Committee. This policy covers any transaction, arrangement or relationship, or any series of similar transactions, arrangements or relationships in which we are a participant, the aggregate amount involved will or may be expected to exceed \$120,000 in any year and a related person has or will have a direct or indirect material interest (other than solely as a result of being a director or a less than 10% beneficial owner of another entity), including, without



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limitation, purchases of goods or services by or from the related person or entities in which the related person has a material interest, indebtedness, guarantees of indebtedness or employment by us of a related person.

The Audit Committee has determined that a related person does not have a direct or indirect material interest in the following categories of transactions and that each will be deemed to be preapproved:

any transaction with another company at which a related person's only relationship is as an employee (other than an executive officer), director, or beneficial owner of less than 10% of that company's shares, if the aggregate amount involved does not exceed the greater of \$1 million or 2% of that company's total annual revenue.

In fiscal years 2013 and 2014, all the related person transactions represented the continuation of transactions entered into prior to our initial public offering and adoption of the policy.

**Director Independence**

The published listing requirements of NASDAQ dictate that a majority of the Board be comprised of independent directors whom our Board has determined have no material relationship with our Company and who are otherwise "independent" directors under those listing requirements. Our current Board consists of the five persons as set forth under the heading "Our Board of Directors" above. The Board has determined that each of our current directors, other than Mr. Doan, our CEO, qualifies as an independent director, such that more than a majority of our directors are independent directors under the NASDAQ rules.

The NASDAQ rules have objective tests and a subjective test for determining who is an "independent director." Under the objective tests, a director cannot be considered independent if:

the director is, or at any time during the past three years was, an employee of the company;

the director or a family member of the director accepted any compensation from the company in excess of \$120,000 during any period of 12 consecutive months within the three years preceding the independence determination (subject to certain exclusions, including, among other things, compensation for board or board committee service);

a family member of the director is, or at any time during the past three years was, an executive officer of the company;

the director or a family member of the director is a partner in, controlling stockholder of, or an executive officer of an entity to which the company made, or from which the company received, payments in the current or any of the past three fiscal years that exceeded 5% of the recipient's consolidated gross revenue for that year or \$200,000, whichever was greater (subject to certain exclusions);

the director or a family member of the director is employed as an executive officer of an entity where, at any time during the past three years, any of the executive officers of the company served on the compensation committee of such other entity; or

the director or a family member of the director is a current partner of the company's outside auditor, or at any time during the past three years was a partner or employee of the company's outside auditor, and who worked on the company's audit.

The subjective test states that an independent director must be a person who lacks a relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The Board has not established categorical standards or guidelines to make these subjective determinations but considers all relevant facts and circumstances.

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In addition to the Board-level standards for director independence, the NASDAQ rules provide that directors, of whom there must be three, who serve on the Audit Committee must each satisfy standards established by the SEC that require that members of audit committees must not be affiliated persons of the issuer and may not accept directly or indirectly any consulting, advisory, or other compensatory fee from the issuer other than their director compensation.

***Transactions Considered in Independence Determinations***

In making its independence determinations, the Board considered transactions that occurred since the beginning of fiscal year 2012 between the Company and entities associated with the independent directors or members of their immediate family. All identified transactions that appeared to relate to the Company and a family member of, or entity with a known connection to, a director were presented to the Board for consideration.

None of the non-employee directors was disqualified from "independent" status under the objective tests. In making its subjective determination that each of our Company's non-employee director is independent, the Board reviewed and discussed additional information provided by the directors and the Company with regard to each director's business and personal activities as they may relate to the Company and the Company's management. The Board considered the transactions in the context of the NASDAQ objective standards, the special standards established by the SEC for members of audit committees, and the SEC and U.S. Internal Revenue Service ("IRS") standards for compensation committee members. Based on all of the foregoing, as required by the NASDAQ rules, the Board made a subjective determination that, because of the nature of the director's relationship with the entity and/or the amount involved, no relationships exist that, in the opinion of the Board, would impair the director's independence.

**Item 14. *Principal Accountant Fees and Services*****Fees Billed by Independent Registered Public Accounting Firm**

The following table shows the fees and related expenses for audit and other services provided by KPMG (Taiwan) billed for fiscal years 2014 and 2013. The services described in the following fee table were approved in conformity with the Audit Committee's pre-approval process.

	<b>KPMG (Taiwan)</b>	<b>KPMG (Taiwan)</b>
	<b>2014 Fees</b>	<b>2013 Fees</b>
Audit Services	\$ 403,685	\$ 421,525
Audit-Related Services		
Tax Services	2,000	
All Other Services		
<b>Total</b>	<b>\$ 405,685</b>	<b>\$ 421,525</b>

*Audit Services.* This category includes the audit of our annual consolidated financial statements, review of our quarterly condensed consolidated financial statements and services that are normally provided by our independent auditors in connection with statutory and regulatory filings or engagements. This category also includes statutory audits required by the Tax Bureau of Taiwan for certain of our subsidiaries in Taiwan.

*Tax Service.* This category includes the tax ruling application services.

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**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

(a) The following documents are filed as part of this report:

(1) Consolidated Financial Statements of SemiLEDs Corporation:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statements of Comprehensive Loss

Consolidated Statements of Changes in Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

(2) Consolidated Financial Statement Schedule:

The following financial statement schedule of SemiLEDs Corporation and its subsidiaries for fiscal years 2014 and 2013 is filed as part of this report and should be read in conjunction with the Consolidated Financial Statements of SemiLEDs Corporation and its subsidiaries.

**Schedules**

II Valuation and Qualifying Accounts

All other schedules are omitted because of the absence of conditions under which they are required or because the required information is given in the financial statements or the notes thereto.

(3) Exhibits:

The exhibits listed on the Exhibit Index are included or incorporated by reference as part of this Annual Report on Form 10-K.



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**SEMILEDs CORPORATION**  
**SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS**

	Years Ended August 31,	
	2014	2013
	(In thousands)	
<b>Allowance for Doubtful Accounts (Including Related Parties):</b>		
Beginning balance	\$ 3,011	\$ 1,982
Charged to bad debt expense	89	1,071
Recovery of bad debt	(337)	(13)
Write-downs charged against the allowance		
Effect of exchange rate changes	3	(29)
<b>Ending balance</b>	<b>\$ 2,766</b>	<b>\$ 3,011</b>

	Years Ended August 31,	
	2014	2013
	(In thousands)	
<b>Valuation Allowance for Deferred Tax Assets:</b>		
Beginning balance	\$ 34,008	\$ 22,474
Charged to income tax expense	6,109	11,534
Foreign income tax credit carryforward expired	(1,618)	
<b>Ending balance</b>	<b>\$ 38,499</b>	<b>\$ 34,008</b>

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#### EXHIBIT INDEX

Exhibit No	Exhibit Title	Form	File No.	Exhibit	Filing Date	Filed Herewith
3.1	Amended and Restated Certificate of Incorporation of Registrant, and amendments thereto	S-1/A	333-168624	3.1 (c)	November 22, 2010	
3.2	Amended and Restated Articles of Association of Xurui Guangdian Co., Ltd. dated March 26, 2010 (translation)	S-1/A	333-168624	99.1	September 14, 2010	
3.3	Amended and Restated Bylaws of Registrant	S-1/A	333-168624	3.2 (b)	November 22, 2010	
4.1	Form of Common Stock Certificate	S-1/A	333-168624	4.1	November 22, 2010	
4.2	Amended and Restated Investor Rights Agreement by and among SemiLEDs Corporation and certain investors and stockholders, dated April 1, 2010	S-1	333-168624	4.2	August 6, 2010	
10.1	2005 Equity Incentive Plan (amended March 1, 2010)	S-1	333-168624	10.1	August 6, 2010	
10.2	2010 Equity Incentive Plan, as amended January 9, 2014	10-Q	001-34992	10.1	July 15, 2014	
10.3	Amended and Restated Employment Agreement with Trung T. Doan, dated March 15, 2005	S-1	333-168624	10.3	August 6, 2010	
10.4	SemiLEDs Corporation 2010 Equity Incentive Plan, Stock Unit Grant Agreement (Director Form)	8-K	001-34992	99.1	February 9, 2012	
10.5	SemiLEDs Corporation 2010 Equity Incentive Plan, Form of Stock Unit Agreement (Officer Form)	8-K	001-34992	99.1	February 24, 2012	
10.6	Form of Proprietary Information and Inventions Agreement	S-1/A	333-168624	10.8	September 14, 2010	
10.7	Form of Non-competition Agreement	S-1/A	333-168624	10.9	September 14, 2010	
10.8	Form of Option Agreement for the 2010 Equity Incentive Plan	S-1/A	333-168624	10.10	November 16, 2010	
10.9	Form of Indemnification Agreement with directors and officers	S-1/A	333-168624	10.11	October 26, 2010	
10.10	Promoters Agreement of Xurui Guangdian Co., Ltd. dated December 25, 2009 (translation)	S-1/A	333-168624	10.12	September 14, 2010	
10.11	Capital Increase Agreement of Xurui Guangdian Co., Ltd. dated March 26, 2010 (translation)	S-1/A	333-168624	10.13	September 14, 2010	
10.12	Amended and Restated Patent Assignment and License Agreement between SemiLEDs Corporation and Xurui Guangdian Co., Ltd. dated July 19, 2010, amended on September 20, 2010 (translation)	S-1/A	333-168624	10.14	October 6, 2010	

## Edgar Filing: SemiLEDs Corp - Form 10-K

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Exhibit No	Exhibit Title	Form	File No.	Exhibit	Filing Date	Filed Herewith
10.13	Patent Cross-license Agreement between SemiLEDs Corporation and Xurui Guangdian Co., Ltd. dated May 7, 2010 (translation)	S-1/A	333-168624	10.15	September 14, 2010	
10.14	Trademark Cross-license Agreement between SemiLEDs Corporation and Xurui Guangdian Co., Ltd. dated May 7, 2010 (translation)	S-1/A	333-168624	10.16	September 14, 2010	
10.15	Loan Agreement between E. SUN Commercial Bank and SemiLEDs Optoelectronics Co., Ltd. dated May 12, 2009 (translation)	S-1/A	333-168624	10.22	October 6, 2010	
10.16	Loan Agreement between E. SUN Commercial Bank and SemiLEDs Optoelectronics Co., Ltd. dated July 22, 2009 (translation)	S-1/A	333-168624	10.23	October 6, 2010	
10.17	Loan Agreement between E. SUN Commercial Bank and SemiLEDs Optoelectronics Co., Ltd. dated November 10, 2010 (translation)	10-Q	001-34992	10.1	April 12, 2011	
10.18	Offer Letter of Ilkan Cokgor	10-K	001-34992	10.30	December 13, 2012	
21.1	List of Subsidiaries					X
23.1	Consent of KPMG, Independent Registered Public Accounting Firm					X
31.1	Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a)					X
31.2	Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a)/15d-14(a)					X
32.1	Certification Pursuant to 18 U.S.C. Section 1350					X
32.2	Certification Pursuant to 18 U.S.C. Section 1350					X
101.INS*	XBRL Instance Document					X
101.SCH*	XBRL Taxonomy Extension Schema Document					X
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document					X

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Management contract or compensatory arrangement

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