

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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended February 28, 2017

or

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

For the transition period from _____ to _____

Commission File Number: 001-34992

SemiLEDs Corporation

(Exact name of registrant as specified in its charter)

Delaware 20-2735523
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification Number)

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

+886-37-586788

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer

Accelerated filer

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 3,519,665 shares of common stock, par value \$0.0000056 per share, outstanding as of April 7, 2017.

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SEMILEDS CORPORATION

FORM 10-Q for the Quarter Ended February 28, 2017

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

SEMILEDS CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

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

	February 28, 2017 (Unaudited)	August 31, 2016 (Audited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 4,068	\$ 6,030
Accounts receivable (including related parties), net of allowance for doubtful accounts of \$754 and \$746 as of February 28, 2017 and August 31, 2016, respectively	1,075	900
Inventories	3,782	4,067
Prepaid expenses and other current assets	589	640
Total current assets	9,514	11,637
Property, plant and equipment, net	8,588	8,813
Intangible assets, net	63	44
Investments in unconsolidated entities	1,330	1,368
Other assets	368	373
TOTAL ASSETS	\$ 19,863	\$ 22,235
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current installments of long-term debt	\$ 327	\$ 314
Accounts payable	1,079	1,326
Advance receipt toward the convertible note	500	500
Accrued expenses and other current liabilities	5,242	2,761
Total current liabilities	7,148	4,901
Long-term debt, excluding current installments	2,521	2,595
Other liability	—	3,097
Total liabilities	9,669	10,593
Commitments and contingencies (Note 5)		
EQUITY:		
SemiLEDs stockholders' equity		
Common stock, \$0.0000056 par value—75,000 shares authorized; 3,520 shares and 3,517 shares issued and outstanding as of February 28, 2017 and August 31, 2016, respectively	—	—
Additional paid-in capital	175,548	175,384
Accumulated other comprehensive income	3,634	3,398
Accumulated deficit	(169,011)	(167,179)

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Total SemiLEDs stockholders' equity	10,171	11,603
Noncontrolling interests	23	39
Total equity	10,194	11,642
TOTAL LIABILITIES AND EQUITY	\$ 19,863	\$ 22,235

See notes to unaudited condensed consolidated financial statements.

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SEMILEDS CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Operations

(In thousands of U.S. dollars and shares, except per share data)

	Three Months		Six Months Ended	
	Ended February 28, 2017	February 29, 2016	28, 2017	February 29, 2016
Revenues, net	\$1,830	\$2,916	\$4,532	\$5,879
Cost of revenues	1,823	3,711	4,409	8,118
Gross profit (loss)	7	(795)	123	(2,239)
Operating expenses:				
Research and development	195	622	394	1,223
Selling, general and administrative	941	1,203	2,041	2,290
Employee termination benefits	—	148	—	148
Loss (gain) on disposals of long-lived assets, net	—	2	(80)	2
Total operating expenses	1,136	1,975	2,355	3,663
Loss from operations	(1,129)	(2,770)	(2,232)	(5,902)
Other income (expenses):				
Equity in gain (loss) from unconsolidated entities	(2)	8	(11)	—
Interest expenses, net	(8)	(13)	(17)	(29)
Other income, net	20	27	496	53
Foreign currency transaction gain (loss), net	(30)	203	(81)	18
Total other income (expenses), net	(20)	225	387	42
Loss before income taxes	(1,149)	(2,545)	(1,845)	(5,860)
Income tax expense	—	—	—	—
Net loss	(1,149)	(2,545)	(1,845)	(5,860)
Less: Net loss attributable to noncontrolling interests	(7)	(6)	(13)	(9)
Net loss attributable to SemiLEDs stockholders	\$(1,142)	\$(2,539)	\$(1,832)	\$(5,851)
Net loss per share attributable to SemiLEDs stockholders:				
Basic and diluted	\$(0.32)	\$(0.87)	\$(0.52)	\$(2.01)
Shares used in computing net loss per share attributable to SemiLEDs stockholders:				
Basic and diluted	3,532	2,908	3,532	2,907

See notes to unaudited condensed consolidated financial statements.

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SEMILEDS CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Comprehensive Loss

(In thousands of U.S. dollars)

	Three Months Ended		Six Months Ended February	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
Net loss	\$ (1,149)	\$ (2,545)	\$ (1,845)	\$ (5,860)
Other comprehensive loss, net of tax:				
Foreign currency translation adjustments, net of tax of \$0 for all periods presented	245	(421)	233	(485)
Comprehensive loss	\$ (904)	\$ (2,966)	\$ (1,612)	\$ (6,345)
Comprehensive loss attributable to noncontrolling interests	\$ (11)	\$ (4)	\$ (16)	\$ (7)
Comprehensive loss attributable to SemiLEDs stockholders	\$ (893)	\$ (2,962)	\$ (1,596)	\$ (6,338)

See notes to unaudited condensed consolidated financial statements.

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SEMILEDS CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidated Statement of Changes in Equity

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

	Common Shares	Stock Amount	Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total SemiLEDs Stockholder Equity	Non- Controlling Interests	Total Equity
BALANCE—September 1, 2016	3,517	\$ —	\$ 175,384	\$ 3,398	\$ (167,179)	\$ 11,603	\$ 39	\$ 11,642
Issuance of common stock under equity								
incentive plans	3	—	—	—	—	—	—	—
Stock-based compensation	—	—	164	—	—	164	—	164
Comprehensive loss:								
Other comprehensive income (loss)	—	—	—	236	—	236	(3)	233
Net loss	—	—	—	—	(1,832)	(1,832)	(13)	(1,845)
BALANCE—February 28, 2017	3,520	\$ —	\$ 175,548	\$ 3,634	\$ (169,011)	\$ 10,171	\$ 23	\$ 10,194

See notes to unaudited condensed consolidated financial statements.

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SEMILEDS CORPORATION AND SUBSIDIARIES

Unaudited Condensed Consolidated Statements of Cash Flows

(In thousands of U.S. dollars)

	Six Months Ended February	
	28, 2017	February 29, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(1,845)	\$(5,860)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	587	2,601
Stock-based compensation expense	164	200
Provisions for inventory write-downs	530	565
Equity in loss from unconsolidated entities	11	—
Loss (gain) on disposals of long-lived assets, net	(80)	2
Changes in :		
Accounts receivable, net	(139)	827
Inventories	(128)	(48)
Prepaid expenses and other	115	(148)
Accounts payable	(249)	251
Accrued expenses and other current liabilities	(725)	34
Net cash used in operating activities	(1,759)	(1,576)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(88)	(483)
Payments for development of intangible assets	(9)	(30)
Proceeds from sale of investment	59	—
Net cash used in investing activities	(38)	(513)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of long-term debt	(158)	(691)
Cash received for potential sale of building	—	3,000
Net cash provided by (used in) financing activities	(158)	2,309
Effect of exchange rate changes on cash and cash equivalents	(7)	278
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,962)	498
CASH AND CASH EQUIVALENTS—Beginning of period	6,030	4,808
CASH AND CASH EQUIVALENTS—End of period	\$4,068	\$5,306
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Accrual related to property, plant and equipment	\$228	\$176

See notes to unaudited condensed consolidated financial statements.

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SEMILEDS CORPORATION AND SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

1. Business

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

As of February 28, 2017, SemiLEDs had six wholly owned subsidiaries and a 93% equity interest in Ning Xiang Technology Co., Ltd. (“Ning Xiang”). SemiLEDs Optoelectronics Co., Ltd., or Taiwan SemiLEDs, is the Company’s wholly owned operating subsidiary, where a substantial portion of the assets is held and located, and where a portion of research, development, manufacturing and sales activities take place. Taiwan SemiLEDs owns a 100% equity interest in Taiwan Bandaoti Zhaoming Co., Ltd., formerly known as Silicon Base Development, Inc., which is engaged in the research, development, manufacturing and a substantial portion of marketing and sale of LED components, and where most of the Company’s employees are based.

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

2. Summary of Significant Accounting Policies

Basis of Presentation —The Company’s unaudited interim condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and applicable provisions of the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”) regarding interim financial reporting. Certain information and disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted as permitted by the rules and regulations of the SEC. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K filed with the SEC on November 21, 2016. The unaudited condensed consolidated balance sheet as of August 31, 2016 included herein was derived from the audited consolidated financial statements as of that date.

The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the Company’s consolidated balance sheet as of February 28, 2017, the statements of operations and comprehensive loss for the three and six months ended February 28, 2017 and February 29, 2016, the statement of changes in equity for the six months ended February 28, 2017, and the statements of cash flows for the six months ended February 28, 2017 and February 29, 2016. The results for the three or six months ended February 28, 2017 are not necessarily indicative of the results to be expected for the year ending August 31, 2017.

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

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The Company suffered losses from operations of \$20.6 million and \$13.3 million, gross losses on product sales of \$4.9 million and \$4.1 million, and net cash used in operating activities of \$3.4 million and \$4.5 million for the years ended August 31, 2016 and 2015, respectively. Loss from operations for the three and six months ended February 28, 2017 were \$1.1 million and \$2.2 million, respectively. Net cash used in operating activities for the six months ended February 28, 2017 was \$1.8 million. Further, at February 28, 2017, the Company's cash and cash equivalents was down to \$4.1 million. These facts and conditions raise substantial doubt about the Company's ability to continue as a going concern. However, management believes that it has developed a liquidity plan, as summarized below, that, if executed successfully, should provide sufficient liquidity to meet the Company's obligations as they become due for a reasonable period of time, and allow the development of its core business.

• The Company entered into an agreement in December 2015 with a strategic partner for the potential sale of the headquarters building located at Miao-Li, Taiwan. The total cash consideration for the sale is \$5.2 million, of which the initial installment of \$3 million was received on December 14, 2015, \$1 million was due on December 31, 2016 and the balance of \$1.2 million is due on December 31, 2017. However, as of February 28, 2017, the Company hasn't received the \$1 million due on December 31, 2016 and is in discussion with the strategic partner. Please see Note 11. Subsequent Events for more information.

• Suppressing gross loss from chip sales by moving toward a fabless business model through an agreement with an ODM partner entered into on December 31, 2015. The Company is restructuring its chips manufacturing operation. The Company expects to purchase chips from the strategic partner and follow the best process to combine the Company's technology in the strategic partner's production process. Currently, both parties are waiting for the qualification for the chip products manufactured by the strategic partner using their facilities. The Company is exploring opportunities to sell certain equipment to the ODM partner or other third parties. Part of its employees related to the Company's chips manufacturing has transferred to the ODM partner. The Company also implemented certain workforce reductions with respect to its chips manufacturing operation. Following the restructuring, the Company has reduced payroll and minimized research and development activities associated with chips manufacturing operation. The Company expects the effects to be continued and further reduce idle capacity charges. This partnership should help the Company obtain a steady source of LED chips with competitive and favorable price for its packaging business, expand the production capacity for LED components, and strengthen its product portfolio and technology.

• Increasing sales of Automotive Projects in both China and India by cultivating relationships with automotive lighting developers that are outside the Company's historical distribution channels; maintaining a number of display models at automotive lighting facilities in order to provide dealers, communities and consumers with examples of newly designed product.

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

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

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

While the Company's management believes that the measures described in the above liquidity plan should be adequate to satisfy its liquidity requirements for the twelve months ending February 28, 2018, there is no assurance that the liquidity plan will be successfully implemented. Failure to successfully implement the liquidity plan may have a material adverse effect on its business, results of operations and financial position, and may adversely affect its ability

to continue as a going concern. These unaudited interim condensed consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded assets or the amounts and classification of liabilities or any other adjustments that might be necessary should the Company be unable to continue as a going concern.

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

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Use of Estimates —The preparation of unaudited interim condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited interim condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the preparation of the Company's consolidated financial statements on the basis that the Company will continue as a going concern, the collectibility of accounts receivable, inventory net realizable values, realization of deferred tax assets, valuation of stock-based compensation expense, the useful lives of property, plant and equipment and intangible assets, the recoverability of the carrying amount of property, plant and equipment, intangible assets and investments in unconsolidated entities, the fair value of acquired tangible and intangible assets, income tax uncertainties, provision for potential litigation costs and other contingencies. Management bases its estimates on historical experience and also on assumptions that it believes are reasonable. Management assesses these estimates on a regular basis; however, actual results could differ materially from those estimates.

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

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

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

The Company keeps its cash and cash equivalents in demand deposits with prominent banks of high credit quality and invests only in money market funds. Deposits held with banks may exceed the amount of insurance provided on such deposits. As of February 28, 2017 and August 31, 2016, cash and cash equivalents of the Company consisted of the following (in thousands):

	February 28, 2017	August 31, 2016
Cash and Cash Equivalents by Location		
United States;		

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Denominated in U.S. dollars	\$ 379	\$945
Taiwan;		
Denominated in U.S. dollars	2,633	3,580
Denominated in New Taiwan dollars	261	738
Denominated in other currencies	505	481
China (including Hong Kong);		
Denominated in U.S. dollars	7	8
Denominated in Renminbi	283	277
Denominated in H.K. dollars	—	1
Total cash and cash equivalents	\$ 4,068	\$6,030

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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Net revenues generated from sales to the top ten customers represented 68% and 63% of the Company's total net revenues for the three and six months ended February 28, 2017, respectively, and 69% and 64% of the Company's net revenues for the three and six months ended February 29, 2016, respectively.

The Company's revenues have been concentrated in a few select markets, including Taiwan, the United States, and China (including Hong Kong). Net revenues generated from sales to customers in these markets, in the aggregate, accounted for 71% and 74% of the Company's net revenues for the three and six months ended February 28, 2017, respectively, and 83% and 80% of the Company's net revenues for the three and six months ended February 29, 2016, respectively.

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

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments. This standard requires a financial asset (or group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. This standard will be effective for the Company on September 1, 2020. The Company is currently evaluating the impact the adoption of this ASU will have on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting which modifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This standard will be effective for the Company on September 1, 2017. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial position, results of operations or cash flows.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which is intended to improve financial reporting on leasing transactions. This standard requires a lessee to record on the balance sheet the assets and liabilities for the rights and obligations created by lease terms of more than 12 months. This standard will be effective for the Company on September 1, 2019. The Company is currently evaluating the impact the adoption of this ASU will have on its consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-11, "Inventory - Simplifying the Measurement of Inventory". This standard provides additional guidance regarding the subsequent measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value. This standard will be effective for the Company on September 1, 2017. Early adoption is permitted. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial position, results of operations or cash flows.

In August 2014, the FASB issued ASU No. 2014-15, “Presentation of Financial Statements— Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern”. The standard 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 standard 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 standard is effective for the Company on September 1, 2017 and management has elected not to early adopt it. When the standard is effective, it could have a material effect on management’s assessment of the Company’s ability to continue as a going concern.

In May 2014, the FASB issued 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 FASB has subsequently issued multiple ASUs which amend and clarify the guidance. This standard will be effective for the Company on September 1, 2018. The standard permits the use of either the retrospective or cumulative effect transition method. Management has been evaluating the effect that ASU 2014-09 will have on the Company’s consolidated financial statements and related disclosures and expects to have a preliminary conclusion by August 2017. Management has not yet selected a transition method nor has it determined the effect of the standard on the Company’s ongoing financial reporting.

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3. Balance Sheet Components

Inventories

Inventories as of February 28, 2017 and August 31, 2016 consisted of the following (in thousands):

	February 28, 2017	August 31, 2016
Raw materials	\$ 1,306	\$1,400
Work in process	688	700
Finished goods	1,788	1,967
Total	\$ 3,782	\$4,067

Inventory write-downs to estimated net realizable values were \$334 thousand and \$530 thousand for the three and six months ended February 28, 2017, respectively, and \$113 thousand and \$565 thousand for the three and six months ended February 29, 2016, respectively.

Property, Plant and Equipment

Property, plant and equipment as of February 28, 2017 and August 31, 2016 consisted of the following (in thousands):

	February 28, 2017	August 31, 2016
Buildings and improvements	\$ 13,327	\$12,822
Machinery and equipment	42,453	41,065
Leasehold improvements	234	213
Other equipment	2,275	2,198
Construction in progress	791	812
Total property, plant and equipment	59,080	57,110
Less: Accumulated depreciation and amortization	(50,492)	(48,297)
Property, plant and equipment, net	\$8,588	\$8,813

Intangible Assets

Intangible assets as of February 28, 2017 and August 31, 2016 consisted of the following (in thousands):

February 28, 2017

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	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents and trademarks	15	\$ 523	\$ 460	\$ 63
Acquired technology	5	495	495	—
Total		\$ 1,018	\$ 955	\$ 63

August 31, 2016

	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents and trademarks	15	\$ 487	\$ 443	\$ 44
Acquired technology	5	479	479	—
Total		\$ 966	\$ 922	\$ 44

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4. Investments in Unconsolidated Entities

The Company's ownership interest and carrying amounts of investments in unconsolidated entities as of February 28, 2017 and August 31, 2016 consisted of the following (in thousands, except percentages):

	February 28, 2017	August 31, 2016
	Percentage Ownership	Percentage Ownership
	Amount	Amount
Equity method investments:		