REFINITIV

DELTA REPORT

10-K

AEHR - AEHR TEST SYSTEMS

10-K - MAY 31, 2024 COMPARED TO 10-K - MAY 31, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	2163
CHANGES	174
DELETIONS	937
ADDITIONS	1052

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. D.C. 20549

FORM 10-K

(Mark One)

☒ Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended May 31, 2023 May 31, 2024

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: 000-22893. 000-22893

AEHR TEST SYSTEMS

(Exact name of registrant as specified in its charter)

California	**94-2424084**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
400 KATO TERRACE, FREMONT, CA	**94539**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(510) 623-9400**

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	AEHR	The NASDAQ Capital Market

Securities registered pursuant to Section 12(g) of the Act: None

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 Securities Act. ☐ Yes ☒ No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). ☒ Yes ☐ No

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐ Yes ☒ No

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐ Yes ☒ No

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 the registrant's common stock, par value $0.01 per share, held by non-affiliates of the registrant, based upon the closing price of $26.07 $22.96 on November 30, 2022 November 30, 2023, as reported on the NASDAQ Capital Market, was $663,547,666. $630,123,470. For purposes of this disclosure, shares of common stock held by persons who hold more than 5% of the outstanding shares of common stock (other than such persons of whom the Registrant became aware only through the filing of a Schedule 13G filed with the Securities and Exchange Commission) and shares held by officers and directors of the Registrant have been excluded because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily conclusive for other purposes.

The number of shares of registrant's common stock, par value $0.01 per share, outstanding at July 31, 2023 July 15, 2024 was 28,755,426. 29,007,409.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of registrant's Definitive Proxy Statement relating to the Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. Such Definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year ended May 31, 2023 May 31, 2024.

AEHR TEST SYSTEMS

FORM 10-K
FISCAL YEAR ENDED MAY 31, 2023

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This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). All statements contained in this Annual Report on Form 10-K other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans, and our objectives for future operations, are forward-looking statements. The words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “plan,” “intend,” “expect,” “could,” “target,” “project,” “should,” “predict,” “potential,” “would,” “seek” and similar expressions and the negative of those expressions are intended to identify forward-looking statements. These forward-looking statements are subject to a number of risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. These risks include but are not limited to those factors identified in “Risk Factors” beginning on page 10 [12] of this Annual Report on Form 10-K, those factors that we may from time to time identify in our periodic filings with the Securities and Exchange Commission, as well as other factors beyond our control. We undertake no obligation to revise or update publicly any forward-looking statements for any reason. Unless the context requires otherwise, references in this Form 10-K to “Aehr Test,” the “Company,” “we,” “us” and “our” refer to Aehr Test Systems.

Investors and others should note that we announce material financial information to our investors using our investor relations website (https://www.aehr.com/investor-relations/), SEC filings, press releases, public conference calls and webcasts. We use these channels to communicate with our investors and the public about our company, our products and services and other issues. It is possible that the information we post on our investor relations website could be deemed to be material information. Therefore, we encourage investors, the media, and others interested in our company to review the information we post on our investor relations website.

PART I

Item 1. Business

THE COMPANY**OVERVIEW**

Aehr Test Systems, Inc. (“Aehr Test,” “Aehr,” or “we”) was incorporated in the state of California on May 25, 1977 and is headquartered in Fremont, California. We are a leading provider of test solutions for testing, burning-in, and stabilizing semiconductor devices in wafer level, singulated die, and package part form, and have installed thousands of systems worldwide. Increasing Mission critical applications are driving increased quality, reliability, safety, and security needs of semiconductors used across multiple semiconductors. The applications including include electric vehicles, electric vehicle charging infrastructure, solar and wind power, computing, data and telecommunications infrastructure, and solid-state memory storage, are storage. The trend is driving additional test requirements, incremental capacity needs, and new opportunities for Aehr Test products and solutions. We have developed and introduced several innovative products including the FOX-P™ family of test and burn-in systems and FOX WaferPak™ Aligner, FOX WaferPak Contactor, FOX DiePak® Carrier and FOX

DiePak Loader. The FOX-XP and FOX-NP systems are full wafer contact and singulated die/module test and burn-in systems that can test, burn-in, and stabilize a wide range of devices such as leading-edge silicon carbide-based and other gallium nitride power semiconductors, 2D and 3D sensors used in mobile phones, tablets, and other computing devices, memory semiconductors, processors, microcontrollers, systems-on-a-chip, and photonics and integrated optical devices. devices used in artificial intelligence. The FOX-CP system is a low-cost single-wafer compact test solution for logic, memory and photonic devices and the newest addition to the FOX-P product family. The FOX WaferPak Contactor contains a unique full wafer contactor capable of testing wafers up to 300mm that enables IC manufacturers to perform test, burn-in, and stabilization of full wafers on the FOX-P systems. The FOX DiePak Carrier allows testing, burn-in, and stabilization of singulated bare die and modules up to 1,024 devices in parallel per DiePak on the FOX-NP and FOX-XP systems up to nine DiePaks at a time.

INDUSTRY BACKGROUND

Semiconductor manufacturing is a complex, multi-step process, and defects or weaknesses that may result in the failure of a semiconductor device may be introduced at any process step. Failures may occur immediately or at any time during the operating life of the device, sometimes after several months of normal use. Semiconductor manufacturers rely on testing and reliability screening to identify and eliminate defects that occur during the manufacturing process.

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Testing and reliability screening involve multiple steps. The first set of tests is typically performed by semiconductor device manufacturers before the processed semiconductor wafer is cut into individual die, in order to avoid the cost of packaging defective die into their packages. die. This “wafer probe” testing can be performed on one or many die at a time, including testing the entire wafer at once. Most leading-edge microprocessors, microcontrollers, digital signal processors, memory ICs, sensors, power and optical devices (such as vertical-cavity surface-emitting lasers, or VCSELs) then undergo an extensive reliability screening and stress testing procedure known as burn-in or cycling, depending on the application. This can either be done at the wafer level, before the die are packaged, or at the package level, after the die are packaged. The burn-in process screens for early failures by operating the device at elevated voltages and

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temperatures, at up to 150 degrees Celsius (302 degrees Fahrenheit) or higher. Depending upon the application, the burn-in times can range anywhere from minutes to hours or even days. A typical burn-in system can process thousands of devices simultaneously. After burn-in, the devices undergo a final test process using automatic test equipment, or testers. For example, this cycling process screens silicon carbide semiconductor devices used in electric vehicle engine controller inverters and their corresponding on-board battery chargers for failure to meet current carrying, power loss and leakage specifications, as well as endurance requirements.

MARKETS

The Company's semiconductor test and reliability qualification solutions address multiple test and burn-in markets including Silicon Carbide (SiC) and Gallium Nitride (GaN) devices for power semiconductors, electric vehicles, electric vehicle charging infrastructure, solar and wind power, silicon photonics for data center infrastructure and worldwide 5G infrastructure, 2D/3D sensors for consumer electronics and automotive applications, and the data storage and memory and artificial intelligence markets.

Power Semiconductors (Silicon Carbide and Gallium Nitride)

Silicon carbide power semiconductors have emerged as the preferred technology for battery electric vehicle power conversion in on-board and off-board electric vehicle battery chargers, and the electric power conversion and control of the electric engines. These devices reduce power loss by as much as greater than 75% over power silicon alternatives like IGBT (Insulated-Gate Bipolar Transistor) devices, which has essentially changed the entire market dynamic. With this development, the power efficiency advantages of SiC, the Company sees most, if not every electric vehicle automotive company that is working on electric vehicles, moving to silicon carbide-based powertrain and charging systems in the near future.

The gallium nitride market appears to be a potentially significant growth driver for our systems and WaferPak full wafer Contactors, contactors, particularly for automotive, photovoltaic and photovoltaic other industrial applications where burn-in appears to be critical for meeting the initial quality and reliability needs of those markets.

The Company's FOX-P family of products are very cost-effective solutions for ensuring to help ensure the critical quality and reliability of devices in this market, where performance quality and reliability can not only mean increased battery life, but also provide assurance against failure of a vehicle whose power semiconductor fails in the power drive train.

Silicon Photonics

The silicon photonics market is seeing increasing deployment of devices used in the expansion of bandwidth and infrastructure to meet the explosive growth of data center and 5G infrastructure.

The rapid growth of integrated optical devices in data centers and data center interconnect infrastructure, mobile devices, automotive applications, and wearable biosensor markets is driving substantially higher requirements for initial quality and long-term reliability, and they are increasing with every new product generation. The upcoming application of silicon photonics integrated circuits for use in optical chip-to-chip communication in addition to the current photonics as multiple companies have made announcements regarding their product roadmaps for co-packaged photonics integrated circuits with microprocessors, graphics processors, chip sets for computing as well as artificial intelligence applications.

Silicon photonics devices are highly integrated silicon-based semiconductors that have embedded or integrated the non-silicon-based laser transmitters and receivers to enable a smaller, lower cost, higher reliable alternative to traditional fiber optic transceivers currently used in data center and telecommunication infrastructure. These require a process step in manufacturing called stabilization where the devices are subjected to high temperatures and power to stabilize their output power. The Company's solution makes it feasible to burn-in integrated silicon photonics devices while still in wafer form without adding the cost to the transceiver printed circuit board and other mechanical infrastructure of the final transceiver module, and that has both yield and significant cost savings. In the case of silicon photonics, the laser devices are bonded directly to a silicon-based device that has all the logic multiplexing and de-multiplexing, and other high-speed communication subsystems, all integrated into a silicon-based integrated circuit.

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Data Storage and Memory

The Company also sees new developments in the data storage and memory markets as new opportunities for its systems where these end markets and customers require devices to have extremely high levels of quality and long-term reliability. One of the market opportunities for wafer level burn-in is semiconductors used in Hard Disk drives for data storage. The NAND Flash market implements 100% test and burn-in of devices to be used in mission critical applications such as enterprise storage. The Company sees NAND Flash market as an opportunity for our fully automated systems and WaferPaks with long term potential to also move into DRAM wafer level test and burn-in.

Artificial intelligence

The artificial intelligence (AI) processor market is experiencing a significant surge, driven by the increasing demand for machine learning and AI applications. Semiconductor companies are continuously innovating and releasing new AI chips to meet this demand. The production of AI processor wafers has seen substantial growth, with companies shipping millions of devices.

As the AI processor market grows, the Company sees the need for burn-in becoming increasingly important. AI Processors distinct architecture of die-to-die interdependency and increased memory size and use create a unique opportunity for the Company to apply enabling wafer level test and burn-in technology for its customers and potential future customers. Subjecting the AI processors under stress to eliminate potential failures before they are deployed is crucial as they are often used in critical applications where failure can have significant consequences. Therefore, as the AI chip market continues to expand, the importance of robust and efficient burn-in processes cannot be overstated. These processes work to ensure the reliability and longevity of AI chips, thereby helping to contribute to the overall growth and success of the AI industry.

Mobile 2D and 3D Sensors

Sensors used in mobile devices such as smartphones, tablets, wearables such as watches and fitness bands, and audio devices have become pervasive. Initially, sensors on smartphones allowed basic functions we have all come to expect such as touchscreens, rotational sensors, and fingerprint sensors, but have gotten more complex with added capabilities such as 3D facial recognition and time of flight distance measurements. We will see the addition of health monitoring sensors, 3D measurement capability, and other advanced sensors in the future. As sensors become more pervasive and add critical new functionality to devices, it becomes more and more increasingly important that the data collected be accurate and

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reliable, which we believe will drive more and more requirements for our solutions for production test and burn-in of these sensors.

Automotive Semiconductors

In addition, the rapid growth and increasing demand for reliability in automotive sensor technologies is a key market driver for the Company. These technologies include ADAS (Advanced Driver Assistance Systems) capabilities such as collision avoidance systems using laser, LIDAR (Light Detection and Ranging), and RADAR (Radio Detection and Ranging) or other sensing technologies. More and more new vehicles now include as standard capabilities collision avoidance systems that detect obstacles and monitor the vehicle's surroundings to notify the driver of dangerous conditions and take evasive action. In addition to autonomous vehicles that require extremely high reliability of the devices in these systems, more and more vehicles around the world are embedding these systems and sensors into their everyday driving features. The Company sees the rising tide of the increasing number of embedded sensors and electrical and optical systems in vehicles as a key driver of the increasing market need for more and more reliable semiconductors. This, in turn, is increasing the need for 100% production test and burn-in of devices in order to lower the infant mortality rate of devices and ensure that these devices and systems operate over the life of the vehicles.

Data Storage and Memory

The Company also sees the data storage and memory markets as critical new opportunities for its systems where these end markets and customers require devices to have extremely high levels of quality and long-term reliability.

PRODUCTS

The Company manufactures and markets full wafer contact test systems, test during burn-in systems, test fixtures and related accessories.

All of the Company's systems are platform-based systems with a portfolio of current, voltage, digital and thermal capabilities, allowing them to be configured with optional features to meet customer requirements. Systems can be configured for use in production applications, where capacity, throughput and price are most important, or for reliability engineering and quality assurance applications, where performance and flexibility, such as extended temperature ranges, are essential.

The Company's product portfolio is platform-based systems with a modular configurable approach to enable a broad market approach while leveraging refined high-quality modules as building blocks. The platform-based system enables the optimized configuration for the market, application or specific customer requirement. Modules and configurability provide a range of current and voltage selections over a range of power and thermal capacities while enabling digital control for each unique device requirement. Implementing this approach along with our proprietary full wafer contactors and device interface carriers provides our customers with the ability to configure a system for engineering characterization and reliability qualification and high-volume production applications.

*FULL WAFER CONTACT SYSTEMS**Full Wafer Contact Systems***

Aehr's FOX-XP test and burn-in platform allows for one of the key reliability screening tests to be completed on an entire wafer full of devices, testing all of them at one time, once or multiple touchdowns, while also testing and monitoring every device for failures during the burn-in process to provide critical information on those devices. This is an enormously valuable capability, as it allows its customers to screen screens out devices that would otherwise fail after they are packaged into multi-die modules where the yield impact is could be 10 times or even 100 times as costly.

The FOX-XP test and burn-in system, introduced in July 2016, is designed for devices in wafer, singulated die, and module form that require test and burn-in times typically measured in hours to days. The FOX-XP system can test and burn-in up to 18 wafers at a time. For high reliability applications, such as automotive, mobile devices, networking, telecommunications, sensors, power and solid-state devices, the FOX-XP system is a cost-effective solution for producing tested and burned-in die for use in multi-chip packages. Using Known-Good Die, or KGD, which are fully burned-in and tested die, in multi-chip/heterogeneous packages helps assure assures the reliability of the final product and lowers costs by increasing the yield of high-cost multi-chip packages. Wafer-level burn-in and test enables lower cost production of KGD for multi-chip modules, 3-D stacked packages and systems-in-a-package. The FOX-XP platform has been extended for burn-in and test of small multi-die modules by using DiePak Carriers. The DiePak Carrier with its multi-module sockets and high wattage dissipation capabilities has a capacity of hundreds of die or modules, much higher than the capacity of a traditional burn-in system with traditional single-device sockets and heat sinks. This capability was introduced in March 2017.

The FOX-NP was introduced in January 2019 and is a low-cost entry-level system to provide a configuration and price point for companies to initiate a new product introduction and production qualification, enabling an easier transition to the FOX-XP system for high volume production test. The FOX-NP system is 100% compatible with the FOX-XP system and is configurable with up to two slot assemblies per system compared to up to 18 slot assemblies in the FOX-XP system.

The FOX-CP was introduced in February 2019 and is a low-cost single-wafer compact test and reliability verification solution for logic, memory, power and photonic devices. The FOX-CP reduces test cost by functionally testing wafers during reliability screening to identify failing logic, memory, power or photonic die before the die are integrated into

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their final package, and is optimal for test times ranging from minutes to a few hours or where multiple touchdowns are required to test the entire wafer. The FOX-CP includes an integrated prober which is equipped with optics for automatic pattern recognition so that the wafer is aligned properly for the testing process. It complements the capabilities of the FOX-XP and FOX-NP systems, which are optimal when the test time is measured in hours or days and the full wafer can be tested in a single touchdown.

One of the key components of the FOX systems is the patented WaferPak Contactor. The WaferPak Contactor contains a full-wafer single-touchdown probe card which is easily removable from the system. Traditional probe cards often are only able to contact a portion of the wafer, requiring multiple touchdowns to test the entire wafer. Traditional probe cards also require the use of a dedicated wafer prober handler for each wafer in order to press the wafer up to make contact with the probe card. The need for a wafer prober per wafer is a significant cost adder to the cost of testing a wafer, and also creates the need for significant clean room space to facilitate the footprint of a wafer prober per wafer. The unique design of the WaferPak as well as the FOX-XP and FOX-NP systems remove the need for a dedicated wafer prober per wafer, allowing for better utilization of clean room space. A single FOX-XP system with a set of WaferPak Contactors can test up to 18 wafers at a time in the same footprint as a single-wafer wafer prober and test system offered by Aehr's competitors. The WaferPak Contactor is intended to accommodate a wide range of contactor technologies so that the contactor technology can evolve along with the changing requirements of the customer's wafers. The WaferPak Contactors are custom designed for each device type, each of which has a typical lifetime of two to seven years, depending on the device life cycle. Therefore, multiple sets of WaferPak Contactors could be purchased over the life of a FOX system.

Another key component of the FOX-XP and FOX-NP systems is the patented DiePak Carrier. The DiePak Carrier, which is easily removable from the system, contains many multi-module or die sockets with very fine-pitch probes. Traditional sockets contact only a single device, requiring multiple large numbers of sockets and burn-in boards to test a production lot of devices. The unique design accommodates a wide range of socket sizes and densities so that the DiePak Carrier technology can evolve along with the changing requirements of the customer's devices. The DiePak Carriers are custom designed for each device type, each of which has a typical lifetime of two to seven years, depending on the device life cycle. Therefore, multiple sets of DiePak Carriers could be purchased over the life of a FOX-XP or FOX-NP system.

Another key component of our FOX-XP and FOX-NP and test solution is the WaferPak Aligner. The WaferPak Aligner performs alignment of the customer's wafer to the WaferPak Contactor so that the wafer can be tested and burned-in by the FOX-XP and FOX-NP systems. The Company offers an automated aligner for high volume production applications, which can support several FOX-XP or FOX-NP systems or can be connected to a FOX-XP resulting in a fully integrated automated test cell, and a manual aligner for low volume production or engineering applications. The latest generation Automated WaferPak Aligner supports industry standard Automated Material Handling System (AMHS), Automated Guided Vehicle (AGV), Overhead Hoist Transfer (OHT) and SEMI Equipment Communication Standard (SECS) and Generic Equipment Mode (GEM) Semi E84 factory integration enabling "Lights-out" fully automated wafer handling. Supporting a wide range of wafer sizes (e.g. 100/200/300mm) allows a broad range of customers to implement fully automated wafer level test and burn-in factories.

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Similar to the WaferPak Aligner for WaferPak Contactors, the Company offers the DiePak Loader for DiePak Carriers. The DiePak Loader performs automatic loading of the customer's modules to the DiePak Carrier so that the modules can be tested and burned-in by the FOX-XP and FOX-NP system. Typically, one DiePak Loader can support several FOX-XP or FOX-NP systems.

Net sales revenues of full wafer contact product lines, systems, WaferPak Contactors, DiePaks DiePak Carriers and services for fiscal 2024, 2023, and 2022 and 2021 were $64.6 million, $63.5 million, $48.9 million, and $15.0 million $48.9 million, respectively, and accounted for approximately 98%, 96% 98%, and 90% 96% of the Company's net sales revenues in fiscal 2024, 2023, 2022 and 2021, 2022, respectively.

SYSTEMS FOR PACKAGED PARTS ***Systems For Packaged Parts***

Test during burn-in, or TDBI, systems consist of several subsystems: pattern generation and test electronics, control software, network interface and environmental chamber. The test pattern generator allows duplication of most of the functional tests performed by a traditional tester. Pin electronics at each burn-in board or BIB, (BIB), position are designed to provide accurate signals to the ICs being tested and detect whether a device is failing the test.

Devices being tested are placed on BIBs and loaded into environmental chambers which typically operate at temperatures from 25 degrees Celsius (77 degrees Fahrenheit) up to 150 degrees Celsius (302 degrees Fahrenheit). Using our optional chambers, our systems can produce temperatures as low as -55 degrees Celsius (-67 degrees Fahrenheit). A single BIB can hold up to several hundred ICs, integrated circuits ("ICs"), and a production chamber holds up to 72 BIBs, resulting in thousands of memory or logic devices being tested in a single system.

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The Advanced Burn-in and Test System, or ABTS, was introduced in fiscal 2008. Several updates to the ABTS system have been made since its introduction, including the ABTS-P system released in 2012. The ABTS family of products is based on a hardware and software architecture that is intended to address not only today's devices, but also future devices for many years to come. The ABTS system can test and burn-in both high-power logic and low-power ICs. It can be configured to provide individual device temperature control for devices up to 70W or more and with up to 320 I/O channels. The ABTS system is nearing the end of its lifecycle and limited shipments are expected in the future.

Net sales revenues of packaged part product lines, systems and services for fiscal 2024, 2023, and 2022 and 2021 were $1.6 million, $1.4 million, $1.9 million, and $1.6 million $1.9 million, respectively, and accounted for approximately 2%, 4% 2%, and 10% 4% of the Company's net sales revenues in fiscal 2024, 2023, 2022 and 2021, 2022, respectively.

CUSTOMERS

The Company markets and sells its products throughout the world to semiconductor manufacturers, semiconductor contract assemblers, electronics manufacturers and burn-in and test service companies.

Sales to Revenues from the Company's five largest customers accounted for approximately 97% 93%, 98% 97%, and 84% 98% of its net sales revenues in fiscal 2024, 2023, and 2022, respectively. During fiscal 2024, two customers accounted for approximately 67% and 2021, respectively. 17% of the Company's net revenues. During fiscal 2023, two customers accounted for approximately 79% and 10% of the Company's net sales. revenues. During fiscal 2022, one customer accounted for approximately 82% of the Company's net sales. During fiscal 2021, four customers accounted for approximately 24%, 23%, 20% and 10%, respectively, of the Company's net sales. revenues. No other customers accounted for more than 10% of the Company's net sales revenues for any of these periods. The Company expects that sales of its products to a limited number of customers will continue to account for a high percentage of net sales revenues for the foreseeable future. In addition, sales to particular revenues from significant customers may fluctuate significantly from quarter to quarter. Such fluctuations may result in changes in the utilization of the Company's facilities and resources. The loss of or reduction or delay in orders from a significant customer or a delay in collecting or failure to collect accounts receivable from a significant customer could materially and adversely affect the Company's business, financial condition and operating results.

MARKETING, SALES AND CUSTOMER SUPPORT

The Company has sales and service operations in the United States, Germany, the Philippines and Taiwan, dedicated sales and service resources in China and South Korea, and has established a network of distributors and sales representatives in certain key parts of the world. See "REVENUE RECOGNITION" "Revenue Recognition" in Item 7 under "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a further discussion of the Company's relationship with distributors, and its effects on revenue recognition.

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The Company's customer service and support program includes system installation, system repair, applications engineering support, spare parts inventories, customer training and documentation. The Company has applications engineering and field service personnel located near and sometimes co-located at our customers and includes resources at the corporate headquarters in Fremont, California, at customer locations in Texas, at the Company's subsidiaries in Germany and the Philippines, at its branch office in Taiwan, and also through third-party agreements in China and South Korea. China. The Company's distributors provide applications and field service support in other parts of the world. The Company customarily provides a warranty on its products. The Company offers service contracts on its systems directly and through its subsidiaries, distributors and representatives. The Company believes that maintaining a close relationship with customers and providing them with ongoing engineering support improves customer satisfaction and will provide the Company with a competitive advantage in selling its products to the Company's customers.

BACKLOG

At May 31, 2023 May 31, 2024, the Company's backlog was $24.5 million $7.3 million compared with $11.1 million $24.5 million at May 31, 2022 May 31, 2023. The Company's backlog consists of product orders for which confirmed purchase orders have been received and which are scheduled for shipment within 12 months. Due to the possibility of customer changes in delivery schedules or cancellations and potential delays in product shipments or development projects, the Company's backlog as of a particular date may not be indicative of net sales revenues for any succeeding period.

RESEARCH AND PRODUCT DEVELOPMENT

The Company historically has devoted a significant portion of its financial resources to research and development programs and expects to continue to allocate significant resources to these efforts. Certain research and development expenditures related to non-recurring engineering milestones have been transferred to cost of goods sold, reducing research and development expenses. The Company's research and development expenses during fiscal 2023, 2022 and 2021 were $8.7 million, $7.1 million, $5.8 million during fiscal 2024, 2023, and $3.7 million, 2022, respectively.

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The Company conducts ongoing research and development to design new products and to support and enhance existing product lines. Building upon the expertise gained in the development of its existing products, the Company has developed the FOX family of systems for performing test and burn-in of entire processed wafers, and burn-in of devices in singulated die and module form, including the FOX-NP and FOX-CP systems released during fiscal 2019, and the Automated WaferPak Aligner released during fiscal 2023. The Company is developing enhancements to our packaged parts and wafer level burn-in products and our packaged parts, intended to improve the capability and performance for testing and burn-in of future generation devices and provide the flexibility in a wide variety of applications.

MANUFACTURING

The Company assembles its products from components and parts manufactured by others, including environmental chambers, power supplies, metal fabrications, printed circuit assemblies, ICs, burn-in sockets, high-density interconnects, wafer contactors and interconnect substrates. The Company's strategy is to use in-house manufacturing only when necessary to protect a proprietary process or when a significant improvement in quality, cost or lead time can be achieved and relies on subcontractors to manufacture many of the components and subassemblies used in its products. Final assembly and testing are performed at the Company's principal manufacturing facility located in Fremont, California.

COMPETITION

The semiconductor equipment industry is intensely competitive. Significant competitive factors in the semiconductor equipment market include price, technical capabilities, quality, flexibility, automation, cost of ownership, reliability, throughput, product availability and customer service. In each of the markets it serves, the Company faces competition from established competitors and potential new entrants, many of which have greater financial, engineering, manufacturing and marketing resources than the Company.

The Company expects its competitors to continue to improve the performance of their current products and to introduce new products with improved price and performance characteristics. New product introductions by the Company's competitors or by new market entrants could cause a decline in sales or loss of market acceptance of the Company's products. The Company has observed price competition in the systems market, particularly with respect to its less advanced products. Increased competitive pressure could also lead to intensified price-based competition, resulting in lower prices which could adversely affect the Company's operating margins and results. The Company believes that to remain competitive it must invest significant financial resources in new product development and expand its customer service and support worldwide. There can be no assurance that the Company will be able to compete successfully in the future.

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PROPRIETARY RIGHTS

The Company relies primarily on the technical and creative ability of its personnel, its proprietary software, and trade secrets and copyright protection, rather than on patents, to maintain its competitive position. The Company's proprietary software is copyrighted and licensed to the Company's customers. At May 31, 2023 As of May 31, 2024, the Company held 46 issued more than 110 active patents in the United States, patents Singapore, China, Japan, Korea, and other countries, with expiration date ranges from 2023 2024 to 2038 2041, and had several additional United States patent applications and foreign patent applications pending.

The Company's ability to compete successfully is dependent in part upon its ability to protect its proprietary technology and information. Although the Company attempts to protect its proprietary technology through patents, copyrights, trade secrets and other measures, there can be no assurance that these measures will be adequate or that competitors will not be able to develop similar technology independently. Further, there can be no assurance that claims allowed on any patent issued to the Company will be sufficiently broad to protect the Company's technology, that any patent will be issued to the Company from any pending application or that foreign intellectual property laws will protect the Company's intellectual property. Litigation may be necessary to enforce or determine the validity and scope of the Company's proprietary rights, and there can be no assurance that the Company's intellectual property rights, if challenged, will be upheld as valid. Any such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on the Company's business, financial condition and operating results, regardless of the outcome of the litigation. In addition, there can be no assurance that any of the patents issued to the Company will not be challenged, invalidated or circumvented or that the rights granted thereunder will provide competitive advantages to the Company. Also, there can be no assurance that the Company will have the financial resources to defend its patents from infringement or claims of invalidity.

There are currently As of May 31, 2024, there were no pending claims against the Company regarding infringement of any patents or other intellectual property rights of others. However, the Company may, from time to time, receive communications from third parties asserting intellectual property claims against the Company. Such claims could include assertions that the Company's products infringe, or may infringe, the proprietary rights of third parties, requests for indemnification against

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such infringement or suggest the Company may be interested in acquiring a license from such third parties. There can be no assurance that any such claim made in the future will not result in litigation, which could involve significant expense to the Company, and, if the Company is required or deems it appropriate to obtain a license relating to one or more products or technologies, there can be no assurance that the Company would be able to do so on commercially reasonable terms, or at all.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

*ENVIRONMENTAL**Environmental***

The Company focuses on clean technology such as the electrical vehicle ("EV") and power semiconductors market. EV and power semiconductor revenues accounted for 85% 92%, 82% 85%, and 23% 82% of total revenues in fiscal 2024, 2023, 2022 and 2021, 2022, respectively. We engineer our products to be more energy efficient by using more efficient electrical designs and thermally efficient cooling architectures using conductive heat transfer versus convection air cooled methods. Our technology and architectural design allow our products to take up only 5% of the test floor space compared to competitor's products.

The Company improved our facility its facilities by replacing existing air conditioners and heat exchanger: exchanger with higher efficiency units that draw less power and produce less wasted energy. Our new headquarters facility upgrades include moving to high efficiency lighting, modernizing our electrical power and cooling infrastructure, and adding Electric Vehicle charging stations for employees, vendors, and customers.

*SOCIAL**Social***

The Company reviews hiring and turnover quarterly and performs annual salary reviews, using independent third-party data, to ensure competitive compensation practices. The Company performs conducts annual employee surveys to evaluate employee satisfaction. Glassdoor shows the Company at a 4.1 4.2 out of 5 rating as a great place to work.

The Company provides variable compensation on top of base salary for all employees including an employee profit sharing plan. The Company also provides equity awards including stock options, restricted stock units ("RSUs"), and participation in an employee stock purchase plan for regular full-time ("RFT") employees, located in the U.S. The Company is restricted from issuing stock options or RSUs to non-U.S. employees in certain countries due to local regulations. For those employees who are unable to participate in the Company's equity incentive plan, the Company maintains a stock appreciation bonus program to provide compensation linked to the Company's stock price during a predetermined period. The Company also provides a 401k 401(k) plan, and a non-contributory Employee Stock Ownership plan, for U.S. employees.

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The Company provides recurring training in compliance with State of California ragulations regulations including sexual harassment, prevention of violence in the workplace, and Diversity, Equality, and Inclusion ("DEI") training. The Company promotes employee engagement through corporate events or activities and maintains on a "First Years" group to encourage new hires to build comradery, and assist in recruiting efforts. regular basis.

The Company provides health care coverage for all RFT employees, life insurance, continuing education assistance, and reimbursement of U.S. employee health club membership. The Company ensures compliance with International Organization for Standardization (ISO” (“ISO”) certification and maintains safety training.

GOVERNANCE Governance

The Company’s Board satisfies the diversity objectives of Nasdaq Rule 5605(1)(2) for Smaller Reporting Companies with two directors who identify as female, representing 33% of the total six Board members. The Board members also include individuals with Native American origin and multi-ethnicity. As the Company pursues future Board recruitment efforts, the Nominating Committee will continue to seek candidates who can contribute to the diversity of views and perspectives of the Board. This includes seeking out individuals of diverse ethnicities, a balance in terms of gender, and individuals with diverse perspectives informed by other personal and professional experiences.

All employees and Board members sign a Code of Conduct and Ethics policy, Policy, and Insider Trading Policy upon hire. All employees are provided with the employee handbook which addresses sexual harassment, confidentiality, Sexual Harassment, Confidentiality, and Electronic Use Policy among others. Each of the Company’s directors and officers completes a Director and Officer Questionnaire to identify conflicts of interest or areas of concern. The Company also maintains Audit, Compensation and Nominating and Governance Committees to provide corporate oversight.

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HUMAN CAPITAL RESOURCES

As of May 31, 2023 May 31, 2024, the Company, including its foreign subsidiaries and one branch office, employed 104 115 persons collectively, on a regular full-time basis, of whom 23 28 were engaged in research, development and related engineering, 31 39 were engaged in manufacturing, 39 33 were engaged in marketing, sales and customer support and 11 15 were engaged in general administration, finance and IT functions. In addition, the Company from time to time employs a number of few contractors, temporary, and part-time employees, particularly to perform customer support and manufacturing.

The Company’s employees are dispersed across principal offices in the United States, Germany, Taiwan, and the Philippines. In addition, our service and support organization has employees located worldwide, at or near customer facilities, to provide timely customer response. As of May 31, 2023 May 31, 2024 regular full-time employees were located in the following geographic areas: 80 83 in United States, 1 Germany, 5 25 in the Philippines, five in Taiwan and 18 two in the Philippines. Germany.

The Company’s success is in part dependent on its ability to attract and retain highly skilled workers, who are in high demand. None of the Company’s employees are represented by a union and the Company has never experienced a work stoppage. stoppage due to strike. The Company’s management considers its relations with its employees to be good. The

Company regularly evaluates its ability to attract and retain its employees. The Company has had relatively low turnover rates within its workforce, with 58% 51% of its regular full-time workforce being with the Company for 5 years or more.

The Company believes that the investments we make in driving a strong, values-based culture and supporting its employees through programs, development, and competitive pay enhances its organizational capability. Company The Company's management quarterly reviews retention and turnover data, employee communications, performance review status, and compensation and benefits to identify potential issues or opportunities. opportunities for improvement on a quarterly basis. The Company periodically performs employee surveys to monitor employee satisfaction and the Company follows-up follows up with an action planning process to actively respond to employee feedback.

BUSINESS SEGMENT DATA AND GEOGRAPHIC AREAS

The Company operates in one business segment, the designing, manufacturing, marketing and selling of advanced test and burn-in products to the semiconductor manufacturing industry in several geographic areas. Selected financial information, including net sales revenues and property and equipment, net for each of the last three fiscal years, by geographic area is included in Part II, Item 8, Note 2, 12, "Revenue" and Note 17, 15, "Segment Information" and certain risks related to such operations are discussed in Part I, Item 1A, Risk Factors, under the heading "We sell our products and services worldwide, and our business is subject to risks inherent in conducting business activities in geographic regions outside of the United States."

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AVAILABLE INFORMATION

The Company's common stock trades on the NASDAQ Capital Market under the symbol "AEHR." The Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports that are filed with the United States Securities and Exchange Commission, or SEC, pursuant to Section 13(a) or 15(d) of the Exchange Act, are available free of charge through the Company's website at www.aehr.com as soon as reasonably practicable after we electronically file them with, or furnish them to the SEC.

The public may read and copy any materials filed by the Company with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operations of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site, www.sec.gov, that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

In addition, information regarding the Company's code of conduct and ethics and the charters of its Audit, Compensation and Nominating and Governance Committees, are available free of charge on the Company's website listed above.

Item 1A. Risk Factors

You should carefully consider the risks described below. These risks are not the only risks that we may face. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us. If any of the following risks occur, our business, financial condition or results of operations could be materially and adversely affected which could cause our actual operating results to differ materially from those indicated or suggested by forward-looking statements made in this Annual Report on Form 10-K or presented elsewhere by management from time to time.

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Risks Related to our Business and Industry

We generate a large portion of our sales from a small number of customers. If we were to lose one or more of our large customers, operating results could suffer dramatically.

The semiconductor manufacturing industry is highly concentrated, with a relatively small number of large semiconductor manufacturers and contract assemblers test and assembly companies accounting for a substantial portion of the purchases of semiconductor equipment. Sales to our five largest customers accounted for approximately 97% 93%, 98% 97%, and 84% 98%, of our net sales in fiscal 2024, 2023, and 2022, respectively. During fiscal 2024, two customers accounted for approximately 67% and 2021, respectively. 17% of the Company's net sales. During fiscal 2023, two customers accounted for approximately 79% and 10% of our net sales. During fiscal 2022, one customer accounted for approximately 82% of our net sales. During fiscal 2021, four customers accounted for approximately 24%, 23%, 20% and 10%, respectively, of our net sales. No other customers accounted for more than 10% of our net sales for any of these periods.

We expect that sales of our products to a limited number of customers will continue to account for a high percentage of our net sales for the foreseeable future. In addition, sales to particular customers may fluctuate significantly from quarter to quarter. The loss concentration of or reduction or delay our customer base increases risks related to the financial condition of an order or orders from our customers, and the deterioration in financial condition of a significant single customer or the failure of a single customer to perform its obligations could have a material adverse effect on our results of operations and cash flow. If any such customers change their business requirements or a focus, vendor selection, project prioritization, or purchasing behavior, or are parties to consolidation transactions, they may delay, in collecting suspend, reduce or failure to collect accounts receivable from a significant customer cancel their purchases of our products or customers, could adversely affect services and our business, financial condition, and results of operations may be adversely affected.

A substantial portion of our net sales is generated by relatively small volume, high value transactions.

We derive a substantial portion of our net sales from the sale of a relatively small number of systems with high dollar value. As a result, the loss or deferral of a limited number of system sales could have a material adverse effect on our net sales and operating results in a particular period. Most customer purchase orders are subject to cancellation or rescheduling by the customer with limited penalties, and, therefore, backlog at any particular date is not necessarily indicative of actual sales for any succeeding period. From time to time, cancellations and rescheduling of customer orders have occurred, and delays by our suppliers in providing components or subassemblies to us have caused delays in our shipments of our own products. For *example, in the second and third quarters of 2024, we experienced significant delays in expected customer orders and an increased frequency of customers rescheduling. There can be no assurance that we will not be materially adversely affected by future cancellations or rescheduling by our customers or other delays in our shipments. For non-standard products where we have not effectively demonstrated the ability to meet specifications in the customer environment, we defer revenue until we have met such customer specifications. Any delay in meeting customer specifications could have a material adverse effect on our operating results. A substantial portion of net sales typically are realized near the end of each quarter. A delay or reduction in shipments near the end of a particular quarter, due, for example, to unanticipated shipment rescheduling, cancellations or deferrals by customers, customer credit issues, unexpected manufacturing difficulties experienced by us or delays in deliveries by suppliers, could cause net sales in a particular quarter to fall significantly.*

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The semiconductor equipment industry is intensely competitive. In each of the markets we serve, we face competition from established competitors and potential new entrants, many of which have greater financial, engineering, manufacturing and marketing resources than us.

Our FOX wafer-level and singulated die/module test and burn in systems face competition from larger systems manufacturers that have significant technological know-how and manufacturing capability. Some users of our systems, such as independent test labs, build their own burn-in systems, while others, particularly large IC manufacturers in Asia, acquire burn-in systems from captive or affiliated suppliers. Our WaferPak products are facing and are expected to face increasing competition. Several companies have developed or are developing full-wafer and single-touchdown probe cards. The Company expects that its DiePak products for burning-in and testing multiple singulated die and small modules face significant competition. The Company believes that several companies have developed or are developing products which are intended to enable test and burn-in of multiple bare die, and small modules.

We expect our competitors to continue to improve the performance of their current products and to introduce new products with improved price and performance characteristics. New product introductions by our competitors or by new market entrants could cause a decline in sales or loss of market acceptance of our products. We have observed price competition in the systems market, particularly with respect to its less advanced products. Increased competitive pressure could also lead to intensified price-based competition, resulting in lower prices which could adversely affect our operating margins and results. We believe that to remain competitive we must invest significant financial resources in new product development and expand our customer service and support worldwide. There can be no assurance that we will be able to compete successfully in the future.

We rely on increasing market acceptance for our FOX system, and we may not be successful in attracting new customers or maintaining our existing customers.

A principal element of our business strategy is to increase our presence in the test equipment market through system sales in our FOX wafer-level and singulated die/module test and burn-in product family. Market acceptance of the FOX system is subject to a number of risks. Before a customer will incorporate incorporates the FOX system into a production line, lengthy *qualification and correlation tests must be performed. We anticipate that potential customers may be reluctant to change their procedures in order to transfer burn-in and test functions to the FOX system. Initial purchases are expected to be limited to systems used for these qualifications and for engineering studies. Market acceptance of the FOX system also may be affected by a reluctance of IC manufacturers to rely on relatively small suppliers such as us. As is common with new complex products incorporating leading-edge technologies, we may encounter reliability, design and manufacturing issues as we begin volume production and initial installations of FOX systems at customer sites. The failure of the FOX system to achieve increased market acceptance would have a material adverse effect on our future operating results, long-term prospects and our stock price.*

A substantial portion of our net sales is generated by relatively small volume, high value transactions.

We derive a substantial portion of our net sales from the sale of a relatively small number of systems with high dollar value. As a result, the loss or deferral of a limited number of system sales could have a material adverse effect on our net sales and operating results in a particular period. Most customer purchase orders are subject to cancellation or rescheduling by the customer with limited penalties, and, therefore, backlog at any particular date is not necessarily indicative of actual sales for any succeeding period. From time to time, cancellations and rescheduling of customer

orders have occurred, and delays by our suppliers in providing components or subassemblies to us have caused delays in our shipments of our own products. There can be no assurance that we will not be materially adversely affected by future cancellations or rescheduling by our customers or other delays in our shipments. For non-standard products where we have not effectively demonstrated the ability to meet specifications in the customer environment, we defer revenue until we have met such customer specifications. Any delay in meeting customer specifications could have a material adverse effect on our operating results. A substantial portion of net sales typically are realized near the end of each quarter. A delay or reduction in shipments near the end of a particular quarter, due, for example, to unanticipated shipment rescheduling, cancellations or deferrals by customers, customer credit issues, unexpected manufacturing difficulties experienced by us or delays in deliveries by suppliers, could cause net sales in a particular quarter to fall significantly.

We may experience increased costs associated with new product introductions.

As is common with new complex products incorporating leading-edge technologies, we have encountered reliability, design and manufacturing issues as we begin volume production and initial installations of certain products at customer sites. Some of these issues in the past have been related to components and subsystems supplied to us by third parties who have in some cases limited the ability of us to address such issues promptly. This process in the past required and in the future is likely to require us to incur un-reimbursed engineering expenses and to experience larger than anticipated warranty claims which could result in product returns. In the early stages of product development there can be no assurance that we will discover any reliability, design and manufacturing issues or, that if such issues arise, that they can be resolved to the customers' satisfaction or that the resolution of such problems will not cause us to incur significant development costs or warranty expenses or to lose significant sales opportunities.

Our industry is subject to rapid technological change and our ability to remain competitive depends on our ability to introduce new products in a timely manner.

The Company semiconductor equipment industry is subject to rapid technological change and new product introductions and enhancements. Our ability to remain competitive depends in part upon our ability to develop new products and to introduce them at competitive prices and on a timely and cost-effective basis. Our success in developing new and enhanced products depends upon a variety of factors, including product selection, timely and efficient completion of product design, timely and efficient implementation of manufacturing and assembly processes, product performance in the field and effective sales and marketing. Because new product development commitments must be made well in advance of sales, new product decisions must anticipate both future demand and the technology that will be available to satisfy that demand. Furthermore, introductions of new and complex products typically involve a period in which design, engineering and reliability issues are identified and addressed by our suppliers and by us. There can be no assurance that we will be successful in selecting, developing, manufacturing and marketing new products that satisfy market demand. Any such failure would materially and adversely affect our business, financial condition and results of operations.

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Because of the complexity of our products, significant delays can occur between a product's introduction and the commencement of the volume production of such product. We have experienced, from time to time, significant delays in the introduction of, and technical and manufacturing difficulties with, certain of our products and may experience delays and technical and manufacturing difficulties in future introductions or volume production of our new products. Our inability to complete new product development, or to manufacture and ship products in time to meet customer requirements would materially adversely affect our business, financial condition and results of operations.

We are exposed to cybersecurity threats or incidents.

We collect, maintain, and transmit data on information systems. These systems include those owned and maintained by the Company or by third parties. In addition, we use cloud-based enterprise resource planning, ERP, software to manage the business integrating all facets of operations, including manufacturing, finance, and sales and marketing. The data maintained on these systems includes confidential and proprietary information belonging to us, our customers, suppliers, and others. While the Company devotes significant resources to protect its systems and data from unauthorized access or misuse, we are exposed to cybersecurity risks. Our systems are subject to computer viruses, data breach, phishing schemes, and other malicious software programs or attacks. We have experienced cyber threats and incidents in the past. Although past threats and incidents have not resulted in a material adverse effect, cybersecurity incidents may result in business disruption, loss of data, or unauthorized access to intellectual property which could adversely affect our business.

Our industry is subject to rapid technological change and our ability to remain competitive depends on our ability to introduce new products in a timely manner.

The semiconductor equipment industry is subject to rapid technological change and new product introductions and enhancements. Our ability to remain competitive depends in part upon our ability to develop new products and to introduce them at competitive prices and on a timely and cost-effective basis. Our success in developing new and enhanced products depends upon a variety of factors, including product selection, timely and efficient completion of product design, timely and *efficient implementation of manufacturing and assembly processes, product performance in the field and effective sales and marketing. Because new product development commitments must be made well in advance of sales, new product decisions must anticipate both future demand and the technology that will be available to supply that demand. Furthermore, introductions of new and complex products typically involve a period in which design, engineering and reliability issues are identified and addressed by our suppliers and by us. There can be no assurance that we will be successful in selecting, developing, manufacturing and marketing new products that satisfy market demand. Any such failure would materially and adversely affect our business, financial condition and results of operations.*

Because of the complexity of our products, significant delays can occur between a product's introduction and the commencement of the volume production of such product. We have experienced, from time to time, significant delays in the introduction of, and technical and manufacturing difficulties with, certain of our products and may experience delays and technical and manufacturing difficulties in future introductions or volume production of our new products. Our inability to complete new product development, or to manufacture and ship products in time to meet customer requirements would materially adversely affect our business, financial condition and results of operations.

A decrease in customer device failure rates and future changes in semiconductor technologies may result in a decrease in demand for our products.

Customer tool utilization is driven by many factors including failure rates of customer devices. Improvements in yield may result in customers decreasing test and burn-in times, or electing to perform sampling rather than 100% burn-in

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of their devices. Based upon data obtained from our systems customers may revise internal manufacturing processes to decrease failure rates. A decrease in customer quality targets or tool utilization may result in a decrease in demand for our products impacting our business and results of operations.

Future changes in semiconductor technologies may make our products obsolete.

Future improvements in semiconductor design and manufacturing technology may also reduce or eliminate the need for our products. For example, improvements in semiconductor process technology and improvements in conventional test systems, such as reduced cost or increased throughput, may significantly reduce or eliminate the market for one or more of our products. If we are not able to improve our products or develop new products or technologies quickly enough to maintain a competitive position in our markets, it could cause us to lose customers, substantially decrease or delay market acceptance and sales of our products and services, and significantly harm our business, may decline. financial condition, and results of operations.

If we fail to operate our business in accordance with our business plan, our operating results, business and stock price may be significantly and adversely impacted.

We attempt to operate our business in accordance with a business plan that is established annually, revised as appropriate, and reviewed by management even more frequently. Our business plan is developed based on a number of factors, many of which require estimates and assumptions, such as our expectations of the economic environment, future business levels, our customers' willingness and ability to place orders, lead-times, and future revenue and cash flow. Our budgeted operating *expenses, for example, are based in part on our future revenue expectations. However, our ability to achieve our anticipated revenue levels is a function of numerous factors, including the volatile and historically cyclical nature of our primary industry, customer order cancellations, macroeconomic changes, operational matters regarding particular agreements, our ability to manage customer deliveries, the availability of resources for the installation of our products, delays or accelerations by customers in taking deliveries and the acceptance of our products (for products where customer acceptance is required before we can recognize revenue from such sales), our ability to operate our business and sales processes effectively, and a number of the other risk factors as described in this Item 1A.*

Because our expenses are in most cases relatively fixed in the short term, any revenue shortfall below expectations could have an immediate and material adverse effect on our operating results. Similarly, if we fail to manage our expenses effectively or otherwise fail to maintain rigorous cost controls, we could experience greater than anticipated expenses during an operating period, which would also negatively affect our results of operations. If we fail to operate our business consistent with our business plan, our operating results in any period may be materially and adversely impacted. Such an outcome could cause customers, suppliers or investors to view us as less stable, or could cause us to fail to meet financial analysts' revenue or earnings estimates, any of which could have an adverse impact on our stock price.

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In addition, our management is constantly striving to balance the requirements and demands of our customers with the availability of resources, the need to manage our operating model and other factors. In furtherance of those efforts, we often must exercise discretion and judgment as to the timing and prioritization of manufacturing, deliveries, installations and payment scheduling. Any such decisions may impact our ability to recognize revenue, including the fiscal period during which such revenue may be recognized, with respect to such products, which could have a material adverse effect on our business, results of operations or stock price. Over the past year, the Company has increased inventory levels significantly. This decision was driven by previously experienced long lead time in obtaining critical parts and in producing the systems and by higher projected revenues. As a result, if actual revenues do not meet these projections, the Company may face challenges related to excess inventory, including potential write-downs or obsolescence, which could adversely affect our financial results.

We are exposed to risks related to our commercial terms and conditions, including our indemnification of third parties, as well as the performance of our products.

Although our standard commercial documentation sets forth the terms and conditions that we intend to apply to commercial transactions with our business partners, counterparties to such transactions may not explicitly agree to our terms and conditions. In situations where we engage in business with a third party without an explicit master agreement regarding the applicable terms and conditions, or where the commercial documentation applicable to the transaction is subject to varying interpretations, we may have disputes with those third parties regarding the applicable terms and conditions of our business relationship with them. Such disputes could lead to a deterioration of our commercial relationship with those parties, costly and time-consuming litigation, or additional concessions or obligations being offered by us to resolve such disputes, or could impact our revenue or cost recognition. Any of these outcomes could materially and adversely affect our business, financial condition and results of operations.

In addition, in our commercial agreements, from time to time in the normal course of business, we indemnify third parties with whom we enter into contractual relationships, including customers, suppliers and lessors, with respect to certain matters.

We have agreed, under certain conditions, to hold these third parties harmless against specified losses, such as those arising from a breach of representations or covenants, third party claims that our products, when used for their intended purposes, infringe the IP rights of such third parties, or other claims made against certain parties. We may be compelled to enter into or accrue for probable settlements of alleged indemnification obligations, or we may be subject to potential liability arising from our customers' involvements in legal disputes. In addition, notwithstanding the provisions related to limitations on our liability that we seek to include in our business agreements, the counterparties to such agreements may dispute our interpretation or application of such provisions, and a court of law may not interpret or apply such provisions in our favor, any of which could result in an obligation for us to pay material damages to third parties and engage in costly legal proceedings. It is difficult to determine the maximum potential amount of liability under any indemnification obligations, whether or not asserted, due to our limited history of prior indemnification claims and the unique facts and circumstances that are likely to be involved in any particular claim. Our business, financial condition and results of operations in a reported fiscal period could be materially and adversely affected if we expend significant amounts in defending or settling any purported claims, regardless of their merit or outcomes.

We are also exposed to potential costs associated with unexpected product performance issues. Our products and production processes are extremely complex and, thus, could contain unexpected product defects, especially when products are first introduced. Unexpected product performance issues could result in significant costs being incurred by us, including increased service or warranty costs, providing product replacements for (or modifications to) defective products, litigation related to defective products, reimbursement for damages caused by our products, product recalls, or product write-offs or disposal costs. These costs could be substantial and could have an adverse impact upon our business, financial condition and operating results. In addition, our reputation with our customers could be damaged as a result of such product defects, which could reduce demand for our products and negatively impact our business.

We may not be able to successfully integrate and manage the acquired business.

Our success depends on our ability to continually enhance and broaden our product offerings in response to customer-anticipated process changes, strategic opportunities for growth, and industry technology trends. We may choose to acquire new and complementary businesses, products, technologies and/or services instead of developing them ourselves. If we are unable to successfully integrate and manage acquired businesses, if the costs associated with integrating the acquired business exceeds our expectations, or if acquired businesses perform poorly, then our business and financial results may suffer. It is possible that the businesses we have acquired may perform worse than expected or prove to be more difficult to integrate and manage than anticipated.

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Operational and Other Risks

Supply chain issues, including a shortage of critical components or contract manufacturing capacity, could result in a delay in fulfillment of customer orders, or an increase in costs, resulting in an adverse impact on our business and operating results.

Our sales growth depends on our ability to obtain timely deliveries of parts from our suppliers and contract manufacturers. There is currently a A market shortage of semiconductor and other component supply which has affected, and could further *affect lead times, the cost of supply, and our ability to meet customer demand for our products. While we have taken steps to obtain an assurance of supply from our key suppliers, the market shortage of semiconductor supply may impact our ability to meet customer order fulfillments, or result in a significant increase in costs of our inventories. Manufacturing issues or capacity problems experienced by our suppliers or contract manufacturers could impact our ability to secure sufficient supply of critical components. Due to the If there is a market shortage of semiconductor supply, suppliers and contract manufacturers may commit their capacity to others, limiting our supplies or increasing costs. The failure to obtain timely delivery of supplies, or a significant increase in costs, could result in a material impact in our business and results from operations.*

We purchase materials from suppliers worldwide, which subjects the Company to increased risk.

We purchase components, sub-assemblies, and chambers from suppliers outside the United States. Increases in tariffs, additional taxes, or trade barriers may result in an increase in our manufacturing costs. A decrease in the value of the U.S. Dollar relative to foreign currencies would increase the cost of our materials. Should the Company increase its sales prices to recover the increase in costs, this could result in a decrease in the competitiveness of our products. In addition, we are subject to other risks associated with purchasing materials from suppliers worldwide. Government authorities may also implement protectionist policies or impose limitations on the transfer of intellectual property. This may limit our ability to obtain products from certain geographic regions and require us to identify and qualify new suppliers. The process of qualifying suppliers could be lengthy, and no assurance can be given that any additional sources would be available to us on a timely basis. Changes in trade relations, currency fluctuations, or protectionist policies could have a material adverse effect on our business, financial condition or results of operations.

We sell our products and services worldwide, and our business is subject to risks inherent in conducting business activities in geographic regions outside of the United States.

Approximately 86% 95%, 90% 86%, and 68% 90% of our net sales in fiscal 2024, 2023, 2022 and 2021, 2022, respectively, were attributable to sales to customers for delivery outside of the United States. We provide sales and service globally with resources in North America, and Taiwan, operate a sales organization in Germany, South Korea, and a service organization in the Philippines, as well as direct support through third party agreements in China and South Korea. China. We expect that sales of products for delivery outside of the United States will continue to represent a substantial portion of our future sales. Our future performance will depend, in significant part, upon our ability to continue to compete in foreign markets which in turn will depend, in part, upon a continuation of current trade relations between the United States and foreign countries in which semiconductor manufacturers or assemblers have operations. A change toward more protectionist trade legislation in either the United States or such foreign countries, such as a change in the current tariff structures, export compliance or other trade policies, could adversely affect our ability to sell our products in foreign markets. In addition, we are subject to other risks associated with doing business internationally, including longer receivable collection periods and greater difficulty in accounts receivable collection, the burden of complying with a variety of foreign laws, difficulty in staffing and managing global operations, risks of civil disturbance or other events which may limit or disrupt markets, international exchange restrictions, changing political conditions and monetary policies of foreign governments.

Our net sales for fiscal 2023 2024 were primarily denominated in U.S. Dollars. However, because a substantial portion of our net sales is from sales of products for delivery outside the United States, an increase in the value of the U.S. Dollar relative to *foreign currencies would increase the cost of our products compared to products sold by local companies in such markets. In addition, since the price is determined at the time a purchase order is accepted, we are exposed to the risks of fluctuations in the U.S. Dollar exchange rate during the lengthy period from the date a purchase order is received until payment is made. This exchange rate risk is partially offset to the extent our foreign operations incur expenses in the local currency. To date, we have not invested in any instruments designed to hedge currency risks. Our operating results could be adversely affected by fluctuations in the value of the U.S. Dollar relative to other currencies.*

We purchase materials from suppliers worldwide, which subjects the Company to increased risk.

We purchase components, sub-assemblies, and chambers from suppliers outside the United States. Increases in tariffs, additional taxes, or trade barriers may result in an increase in our manufacturing costs. A decrease in the value of the U.S. Dollar relative to foreign currencies would increase the cost of our materials. Should the Company increase its sales prices to recover the increase in costs, this could result in a decrease in the competitiveness of our products. In addition, we are subject to other risks associated with purchasing materials from suppliers worldwide. Government

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authorities may also implement protectionist policies or impose limitations on the transfer of intellectual property. This may limit our ability to obtain products from certain geographic regions and require us to identify and qualify new suppliers. The process of qualifying suppliers could be lengthy, and no assurance can be given that any additional sources would be available to us on a timely basis. Changes in trade relations, currency fluctuations, or protectionist policies could have a material adverse effect on our business, financial condition or results of operations.

Global unrest may impact our ability to sell our products or obtain critical materials.

Global economic uncertainty and financial market volatility caused by political instability, changes in international trade relationships and conflicts, such as the conflict between Russia and Ukraine and the political climate in China and Taiwan, the Israel-Hamas war, and escalating tensions in the Red Sea in connection with the attacks to disrupt shipments may result in limited access to these markets for sales and material purchases. Periods of macroeconomic weakness or recession and heightened market volatility caused by adverse geopolitical developments could increase these risks, potentially resulting in adverse impacts on our business operations. Increased energy costs in Europe, resulting from Russia's limiting energy supplies in the region, may result in an economic downturn or an increase in the cost of materials. The recent on-going decline in relations between the United States and China, and relations between China and Taiwan, may result in the imposition of trade restrictions with China or Taiwan. While we have limited sales in Europe and Taiwan, and procurement from these regions, unrest in these areas may result in a decrease in sales of our products, or an increase in costs of materials and services.

Our dependence on subcontractors and sole source suppliers may prevent us from delivering our products on a timely basis and expose us to intellectual property infringement.

We rely on subcontractors to manufacture many of the components or subassemblies used in our products. Our FOX systems, WaferPak contactors, Contactors, DiePak carriers, Carriers, WaferPak Aligners, and DiePak Loaders contain several components, including environmental chambers, power supplies, high-density interconnects, wafer contactors, module contactors, signal distribution substrates, and certain ICs that are currently supplied by only one or a limited number of suppliers. Our reliance on subcontractors and single source suppliers involves a number of significant risks, including the loss of control over the manufacturing process, the potential absence of adequate capacity and reduced control over delivery schedules, manufacturing yields, quality and costs. In the event that any significant subcontractor or single source supplier is unable or unwilling to continue to manufacture subassemblies, components or parts in required volumes, we would have to identify and qualify acceptable replacements. The process of qualifying subcontractors and suppliers could be lengthy, and no assurance can be given that any additional sources would be available to us on a timely basis. Any delay, interruption or termination of a supplier relationship could adversely affect our ability to deliver products, which would harm our operating results.

Our suppliers manufacture components, tooling, and provide engineering services. During this process, our suppliers are allowed access to our intellectual property. While we maintain patents to protect from intellectual property infringement, there can be no assurance that technological information gained in the manufacture of our products will not be used to develop a new product, improve processes or techniques which compete against our products. Litigation may be necessary to enforce or determine the validity and scope of our proprietary rights, and there can be no assurance that our intellectual property rights, if challenged, will be upheld as valid.

Tightening of fiscal monetary policy, and periodic economic and semiconductor industry downturns could negatively affect our business, results of operations and financial condition.

Inflation reached a 40-year high during 2022, and market rates of interest have risen after a prolonged period at historical lows. The increase in inflation has resulted in a tightening of world-wide monetary policy, which in turn has resulted in an increase in the cost of credit. Financial turmoil in the banking system and financial markets has resulted, and may result in the future, in a tightening of the credit markets, disruption in the financial markets and global economy downturn. Periodic global economic and semiconductor industry downturns have negatively affected and could continue to negatively affect our business, results of operations, and financial condition. These events may contribute to significant slowdowns in the industry in which we operate. Difficulties in obtaining capital and deteriorating market conditions can pose the risk that some of our customers may not be able to obtain necessary financing on reasonable terms, which could result in lower sales. Customers with liquidity issues may lead to additional bad debt expense.

Turmoil in the international financial markets has resulted, and may result in the future, in dramatic currency devaluations, stock market declines, restriction of available credit and general financial weakness. In addition, flash memory and other similar device prices have historically declined and will likely do so again in the future. These developments may affect us in several ways. The market for semiconductors and semiconductor capital equipment has historically been cyclical, and we expect this to continue in the future. The uncertainty of the semiconductor market may cause some manufacturers in the future to further delay capital spending plans. Economic conditions may also affect the ability of our customers to meet their *payment obligations, resulting in cancellations or deferrals of existing orders and limiting additional orders. In addition, some governments have subsidized portions of fabrication facility construction,*

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and financial turmoil may reduce these governments' willingness to continue such subsidies. Such developments could have a material adverse effect on our business, financial condition and results of operations.

The current economic conditions and uncertainty about future economic conditions, including volatility in the financial markets, national debt, fiscal or monetary concerns, inflation and interest rates, bank failures, and economic recession, make it challenging for us to forecast our operating results, make business decisions, and identify the risks that may affect our business, financial condition and results of operations. If such conditions recur, The market for semiconductors and semiconductor capital equipment has historically been cyclical, and we are expect this trend to continue in the future. If we do not able to timely and appropriately adapt to changes resulting from the difficult macroeconomic environment, manage our business operations in response to changing economic and industry conditions, it could have a material and adverse impact on our business performance and financial condition or results of operations may be materially and adversely affected. condition.

If we Our net sales are not able to reduce affected by the cyclicality of the semiconductor market, which may have a material adverse impact on our operating expenses sufficiently business performance and financial condition.

A significant portion of our business depends upon the capital expenditures of semiconductor manufacturers. Capital expenditures by these companies depend upon, among other things, the current and anticipated market demand for semiconductors and the products that utilize them. Typically, semiconductor manufacturers curtail capital expenditures during periods of weak revenue, economic downturn. Conversely, semiconductor manufacturers increase capital expenditures when market demand requires the addition of new or if we utilize significant amounts of cash to support operating losses, we expanded production capabilities. This cyclicality may erode have a material adverse impact on our cash resources business performance and may not have sufficient cash to operate our business. financial condition.

We have in the past, in the face of a downturn in our business and a decline in our net sales, implemented a variety of cost controls and restructured our operations with the goal of reducing our operating costs to position ourselves to more effectively meet the needs of the then weak market for test and burn-in equipment. While we took significant steps to minimize our expense levels and to increase the likelihood that we would have sufficient cash to support operations during the downturn, we have experienced historical operating losses. We anticipate that our existing cash balance together with income from operations, collections of existing accounts receivable, revenue from our existing backlog of products, the sale of inventory on hand, and deposits and down payments against significant orders, and available balance under our ATM offering, will be adequate to meet our working capital and capital equipment requirements. Depending on our rate of growth and profitability, and our ability to obtain significant orders with down payments, we may require additional equity or debt financing to meet our working capital requirements or capital equipment needs. There can be no assurance that additional financing will be available when required, or if available, that such financing can be obtained on terms satisfactory to us.

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We may be subject to litigation relating to intellectual property infringement which would be time-consuming, expensive and a distraction from our business.

If we do not adequately protect our intellectual property, competitors may be able to use our proprietary information to erode our competitive advantage, which could harm our business and operating results. Litigation may be necessary to enforce or determine the validity and scope of our proprietary rights, and there can be no assurance that our intellectual property rights, if challenged, will be upheld as valid. Such litigation could result in substantial costs and diversion of resources and could have a material adverse effect on our operating results, regardless of the outcome of the litigation. In addition, there can be no assurance that any of the patents issued to us will not be challenged, invalidated or circumvented or that the rights granted thereunder will provide competitive advantages to us.

There are no pending claims against us regarding infringement of any patents or other intellectual property rights of others. However, in the future we may receive communications from third parties asserting intellectual property claims against us. Such claims could include assertions that our products infringe, or may infringe, the proprietary rights of third parties, requests for indemnification against such infringement or suggestions that we may be interested in acquiring a license from such third parties. There can be no assurance that any such claim will not result in litigation, which could involve significant expense to us, and, if we are required or deem it appropriate to obtain a license relating to one or more products or technologies, there can be no assurance that we would be able to do so on commercially reasonable terms, or at all.

While we believe we have complied with all applicable environmental laws, our failure to do so could adversely affect our business as a result of having to pay substantial amounts in damages or fees.

Federal, state and local regulations impose various controls on the use, storage, discharge, handling, emission, generation, manufacture and disposal of toxic and other hazardous substances used in our operations. We believe that our activities conform in all material respects to current environmental and land use regulations applicable to our operations and our current facilities, and that we have obtained environmental permits necessary to conduct our business. Nevertheless, failure to comply with current or future regulations could result in substantial fines, suspension of production, alteration of our manufacturing processes or cessation of operations. Such regulations could require us to acquire expensive remediation equipment or to incur substantial expenses to comply with environmental regulations. Any failure to control the use, disposal or storage of or adequately restrict the discharge of, hazardous or toxic substances could subject us to significant liabilities.

The failure to successfully implement enterprise resource planning and other information systems changes could adversely impact our business and operating results.

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We periodically implement new or enhanced enterprise resource planning and related information systems in order to better manage our business operations, align our global organizations and enable future growth. Implementation of new business *processes and information systems requires the commitment of significant personnel, training and financial resources, and entails risks to our business operations. If we do not successfully implement enterprise resource planning and related information systems improvements, or if there are delays or difficulties in implementing these systems, we may not realize anticipated productivity improvements or cost efficiencies, and may experience interruptions in service and operational difficulties, which could result in quality issues, reputational harm, lost market and revenue opportunities, and otherwise adversely affect our business, financial condition and results of operations.*

Risks Related to Ownership of our Common Stock

Our stock price may fluctuate. is volatile.

The Historically, our common stock has experienced substantial price volatility. For example, during the two-year period ended May 31, 2024, the price of our common stock has fluctuated in ranged from $6.71 to $54.10. If our future operating results or margins are below the past and may fluctuate significantly in the future. We believe that factors expectations of stock market analysts or our investors, our stock price will likely decline. Factors such as announcements of developments related to our business, fluctuations in our operating results, general conditions in the semiconductor and semiconductor equipment industries as well as the worldwide economy, announcement of technological innovations, new systems or product enhancements by us or our competitors, fluctuations in the level of cooperative development funding, acquisitions, changes in governmental regulations, developments in patents or other intellectual property rights and changes in our relationships with customers and suppliers could cause the price of our common stock to fluctuate substantially. In addition, in recent years the stock market in general, and the market for small capitalization and high technology stocks in particular, have experienced extreme price fluctuations which have often been unrelated to the operating performance of the affected companies. Such fluctuations could adversely affect the market price of our common stock.

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Increased scrutiny and changing expectations from stakeholders with respect to the Company's ESG practices may result in additional costs or risks.

Companies across many industries are facing increasing scrutiny related to their ESG practices. Investor advocacy groups, certain institutional investors, investment funds and other influential investors are also increasingly focused on ESG practices and in recent years have placed increasing importance on the non-financial impacts of their investments. If our ESG practices do not meet investor or other industry stakeholder expectations, which continue to evolve, we may incur additional costs and our brand, ability to attract and retain qualified employees and business may be harmed.

Risks Related to our Financial/Legal/Organizational Structure

We depend on our key personnel and our success depends on our ability to attract, retain and retain motivate talented employees.

Our success depends to a significant extent upon the continued service of Gayn Erickson, our President and Chief Executive Officer, as well as other executive officers and key employees. We do not maintain key person life insurance for our benefit on any of our personnel, and none of our employees are subject to a non-competition agreement with us. The loss of the services of any of our executive officers or a group of key employees could have a material adverse effect on our business, financial condition and operating results. Our future success will depend in significant part upon our ability to attract, retain and retain motivating highly skilled technical, management, sales and marketing personnel. There are a limited number of personnel with the requisite skills to serve in these positions, and it has become increasingly difficult for us to hire such personnel. Competition for such personnel in the semiconductor equipment industry is intense, and there can be no assurance that we will be successful in attracting, retaining or retaining motivating such personnel. Changes in management could disrupt our operations and adversely affect our operating results.

If we fail to maintain effective internal control over financial reporting in the future, the accuracy and timing of our financial reporting may be adversely affected.

We are required to comply with Section 404 of the Sarbanes-Oxley Act of 2002. The provisions of the act require, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. Preparing our financial statements involves a number of complex processes, many of which are done manually and are dependent upon individual data input or review. These processes include, but are not limited to, calculating revenue, deferred revenue and inventory costs. While we continue to automate our processes and enhance our review and put in place controls to reduce the likelihood for errors, we expect that for the foreseeable future, many of our processes will remain manually intensive and thus subject to human error.

The collapse A change in accounting standards or practices or a change in existing taxation rules or practices (or changes in interpretations of certain U.S. banks and potentially other financial institutions may such standards, practices or rules) could have adverse impacts a significant effect on our business. reported results and may affect reporting of transactions completed before the change is effective.

On March 10, 2023, Silicon Valley Bank New accounting standards and taxation rules and varying interpretations of accounting pronouncements and taxation rules have occurred and will continue to occur in the future. Changes to (or revised interpretations or applications of) existing accounting standards or tax rules or the questioning of current or past practices may adversely affect our reported financial results or the way we conduct our business. Adoption of new standards may require changes to our processes, accounting systems, and internal controls. Difficulties encountered during adoption could result in internal control deficiencies or delay the reporting of our financial results.

Item 1B. Unresolved Staff Comments

None.

ITEM 1C. Cybersecurity

Cybersecurity Risk Management and Strategy

We have established processes for assessing, identifying, and managing material risk from cybersecurity threats, and have integrated these processes into our overall risk management systems and processes. To prevent, detect and respond to *information security threats, we maintain a cyber risk management program that employs Cyber Security Framework (“SVB” CSF”) was shut down, followed on March 11, 2023 by Signature Bank and the Federal Deposit Insurance Corporation was appointed as receiver for those banks. Since that time, there have been reports of instability at other U.S. banks. The Company’s cash and investment balances held at banks and brokerage firms may at time exceed federally insured levels. On March 15, 2023, the Company filed a Current Report on Form 8-K in accordance with the SEC, disclosing its exposure National Institute of Standards and Technology (“NIST”) security framework. CSF is a set of voluntary guidelines that help organizations assess and improve their cybersecurity posture by implementing processes for identifying and mitigating risk, and detecting, responding to SVB and stating that the Company did not expect a significant impact on its operations. recovering from cyberattacks.*

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We conduct periodic risk assessments to identify cybersecurity threats, as well as assessments in the event of a material change in our business practices that may affect information systems that are vulnerable to such cybersecurity threats. These risk assessments include identification of reasonably foreseeable internal and external risks, the likelihood and potential damage that could result from such risks, and the sufficiency of existing policies, procedures, systems, and safeguards in place to manage such risks. Following these risk assessments, we re-design, implement, and maintain reasonable safeguards to minimize identified risks; reasonably address any identified gaps in existing safeguards; and regularly monitor the effectiveness of our safeguards.

Our Security Awareness Program includes training that reinforces our information technology risk and security management policies, standards and practices, as well as the expectation that employees comply with these policies. The Security Awareness Program engages personnel through training on how to identify potential cybersecurity risks and protect the Company’s resources and information. This training is mandatory for all employees on a periodic basis, and it is supplemented by Company-wide testing initiatives.

Our processes also address cybersecurity threat risks associated with our use of third-party service providers, including our suppliers or who have access to our systems. In addition, cybersecurity considerations affect the selection and oversight of our third-party service providers. We perform diligence on third parties that have access to our systems, data or facilities that house such systems or data, and continually monitor cybersecurity threat risks identified through such diligence.

We have not identified risks from known cybersecurity threats, including as a result of any prior cybersecurity incidents, that have materially affected us, including our operations, business strategy, results of operations, or financial condition. We face risks from cybersecurity threats that, if realized, are reasonably likely to materially affect us, including our operations, business strategy, results of operations, or financial condition. See “Risk Factors – We are exposed to cybersecurity threats or incidents.”

Item 1B. Unresolved Staff CommentsCybersecurity Governance

None. One of the key functions of our Board of Directors is informed oversight of our risk management processes, including risks from cybersecurity threats. Our Board of Directors is responsible for monitoring and assessing strategic risk exposure, and our executive officers are responsible for the day-to-day management of the material risks we face. Our Board of Directors administers its cybersecurity risk oversight function directly as a whole, as well as through the Audit Committee of the Board of Directors (the “Audit Committee”). The Audit Committee has primary responsibility for oversight of information security risks, including fraud, vendor, data protection and privacy, business continuity and resilience, and cybersecurity risks, and provides regular updates to the Board of Directors on such matters. The Audit Committee receives regular reports from our Chief Operating Officer on, among other things, the Company’s cyber risks and threats, the status of projects to strengthen the Company’s information security systems, assessments of the Company’s security program and the emerging threat landscape. Information security risk is a significant oversight focus area for the Audit Committee, as well as the entire Board of Directors. Over the course of fiscal year 2024, the Audit Committee received four separate cybersecurity briefings from our Chief Operating Officer.

Our Chief Operating Officer is primarily responsible for assessing and managing our material risks from cybersecurity threats. Our Chief Operating Officer, who leads a team responsible for enterprise-wide cybersecurity strategy, policy, standards, architecture and processes, has extensive experience and background in information technology, cybersecurity, enterprise strategy, risk management. Additionally, our Chief Operating Officer chairs our Cybersecurity Incident Response Team, which is responsible for prevention, identification, containment, eradication and remediation of cybersecurity incidents.

Item 2. Properties

The Company’s principal administrative and production facilities are located in Fremont, California, in a 51,289 square foot building. The Company’s lease was renewed in December 2022 and expires in September 2030. 2030 with an option to extend the lease for another five years. The Company leases a 492 square foot sales and support office in Utting, Germany. The lease, which began February 1, 1992 and expires on January 31, 2025, contains an automatic twelve months renewal, at rates to be determined, if no notice is given prior to six months from expiration. On November 18, 2020, the Company established a wholly owned subsidiary, Aehr Test Systems Philippines Inc., which has been in full operation since March 2021. The Company currently leases a facility in Philippines located in a 2,713 6,458 square foot building in Clark Freeport Zone, Pampanga. The lease, which amended in 2023, began January 1, 2021 November 1, 2023 and expires on December 31, 2025, contains June 30, 2029 with an option to renew for another three or five years at rates stipulated in the contract, notice for renewal is given six months from expiration. prevailing market rate. The Company periodically evaluates its global operations and facilities to bring its capacity in line with demand and to provide cost efficient cost-effective services for its customers. In prior years, through this process, the Company has moved from certain facilities that exceeded the capacity required to satisfy its needs. The Company believes that its existing facilities in Fremont, California are adequate to meet its current and reasonably foreseeable requirements. The Company regularly evaluates its expected future facilities requirements and believes that alternate facilities would be available if needed.

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Item 3. Legal Proceedings

None.

Item 4. Mine Safety Disclosures

Not Applicable

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's common stock is publicly traded on the NASDAQ Capital Market under the symbol "AEHR". The following table sets forth, for the periods indicated, the high and low sale prices for the common stock on such market. These quotations represent prices between dealers and do not include retail markups, markdowns or commissions and may not necessarily represent actual transactions.

			High	Low
Fiscal 2024:				
First quarter ended August 31, 2023			$ 54.10	$ 33.72
Second quarter ended November 30, 2023			53.06	21.57
Third quarter ended February 29, 2024			30.50	14.54
Fourth quarter ended May 31, 2024			18.63	10.19
	High	Low		
Fiscal 2023:				
First quarter ended August 31, 2022	$ 19.43	$ 6.71	$ 19.43	$ 6.71
Second quarter ended November 30, 2022	27.00	13.00	27.00	13.00
Third quarter ended February 28, 2023	37.57	17.05	37.57	17.05
Fourth quarter ended May 31, 2023	40.69	23.11	40.69	23.11
Fiscal 2022:				
First quarter ended August 31, 2021	$ 8.60	$ 2.25		
Second quarter ended November 30, 2021	27.09	6.83		
Third quarter ended February 28, 2022	24.70	10.20		
Fourth quarter ended May 31, 2022	13.94	6.86		

At August 3, 2023 July 16, 2024, the Company had 86 97 holders of record of its common stock. A substantially greater number of holders of the Company's common stock are "street name" or beneficial holders whose shares are held by banks, brokers and other financial institutions.

The Company has not paid cash dividends on its common stock or other securities. The Company currently anticipates that it will retain its future earnings, if any, for use in the expansion and operation of its business and does not anticipate paying any cash dividends on its common stock in the foreseeable future.

The Company did not repurchase any of its common stock in the open market during the fiscal year ended May 31, 2023. May 31, 2024 because the Company does not have a stock repurchase plan.

Item 6. [Reserved]

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Item 6. [Reserved]

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

The following discussion and analysis of the financial condition and results of operations should be read in conjunction with our "Selected Consolidated Financial Data" and our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

OVERVIEWOverview

Aehr Test Systems ("Aehr Test", "Aehr", the "Company" or "We") is a leading provider of test solutions for testing, burning-in, and stabilizing semiconductor devices in wafer level, singulated die, and package part form, and has installed thousands of systems worldwide. Increasing quality, reliability, safety, and security needs of semiconductors used across multiple applications, including electric vehicles, electric vehicle charging infrastructure, solar and wind power, computing, data and telecommunications infrastructure, and solid-state memory and storage, are driving additional test requirements, incremental capacity needs, and new opportunities for Aehr Test products and solutions.

We have developed and introduced several innovative products including the FOX-P family of test and burn-in systems and FOX WaferPak Aligner, FOX WaferPak Contactor, FOX DiePak Carrier and FOX DiePak Loader. The FOX-XP and FOX-NP systems are full wafer contact and singulated die/module test and burn-in systems that can test, burn-in, and stabilize a wide range of devices such as leading-edge silicon carbide-based and other power semiconductors, 2D and 3D sensors used in mobile phones, tablets, and other computing devices, memory semiconductors, processors, microcontrollers, systems-on-a-chip, and photonics and integrated optical devices. The

FOX-CP system is a low-cost single-wafer compact test solution for logic, memory and photonic devices and the newest addition to the FOX-P product family. The FOX WaferPak Contactor contains a unique full wafer contactor capable of testing wafers up to 300mm that enables Integrated Circuit manufacturers to perform test, burn-in, and stabilization of full wafers on the FOX-P systems. The FOX DiePak Carrier allows testing, burning in, and stabilization of singulated bare die and modules up to 1,024 devices in parallel per DiePak on the FOX-NP and FOX-XP systems up to nine DiePaks at a time.

Our net sales consist revenue consists primarily of sales of FOX-P systems, WaferPak Aligners and DiePak Loaders, WaferPak contactors, Contactors, DiePak carriers, Carriers, test fixtures, upgrades and spare parts, service contracts revenues, and non-recurring engineering charges. Our selling arrangements may include contractual customer acceptance provisions, which are mostly deemed perfunctory or inconsequential, and installation of the product occurs after shipment, transfer of title and risk of loss.

CRITICAL ACCOUNTING POLICIES AND ESTIMATESCritical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. America ("US GAAP"). The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to customer programs revenues, inventories,
and incentives, product returns, bad debts, inventories, investments, income taxes, financing operations, warranty obligations, and long-term service contracts, among others. Our estimates are derived from historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Those results form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

REVENUE RECOGNITIONRevenue Recognition

The Company recognizes revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services by following a five-step process: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price, and (5) recognize revenue when or as the Company satisfies a performance obligation, as further described below.

Performance obligations include sales of systems, contactors, spare parts, and services, as well as installation and training services included in customer contracts.

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A contract's transaction price is allocated to each distinct performance obligation. In determining the transaction price, the Company evaluates whether the price is subject to refund or adjustment to determine the net consideration to which the Company expects to be entitled. The Company generally does not grant return privileges, except for defective products during the warranty period.

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For contracts that contain multiple performance obligations, the Company allocates the transaction price to the performance obligations on a relative standalone selling price basis. Standalone selling prices are based on multiple factors including, but not limited to, historical discounting trends for products and services and pricing practices in different geographies.

Revenue for systems and spares are is recognized at a point in time, which is generally upon shipment or delivery. delivery and evidenced by transfer of title and risk of loss to the customer. Revenue from services is recognized over time as services are completed or ratably the customer receives the benefit over the contractual period of generally one year or less.

The Company has elected the practical expedient to not assess whether a contract has a significant financing component as the Company's standard payment terms are less than one year.

We sell our The Company sells its products primarily through a direct sales force. In certain international markets, we sell our the Company sells its products through independent distributors.

Transfer of control is evidenced upon passage of title and risk of loss to the customer unless we are required to provide additional services.

ALLOWANCE FOR DOUBTFUL ACCOUNTSInventory Valuation

We maintain an allowance for doubtful accounts to reserve for potentially uncollectible trade receivables. We also review our trade receivables by aging category to identify specific customers with known disputes or collection issues. We exercise judgment when determining write down the adequacy of these reserves as we evaluate historical bad debt trends, general economic conditions in the United States and internationally and changes in customer financial conditions. Uncollectible receivables are recorded as bad debt expense when all efforts to collect have been exhausted and recoveries are recognized when they are received.

WARRANTY OBLIGATIONS

We provide and record the estimated cost of product warranties at the time revenues are recognized on products shipped. While we engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality carrying value of our component suppliers, our warranty obligation is affected by product failure rates, material usage and service delivery costs incurred in correcting a product failure. Our estimate of warranty reserve is based on management's assessment of future warranty obligations and on historical warranty obligations. Should actual product failure rates, material usage or service delivery costs differ from our estimates, revisions inventory to the estimated warranty liability would be required.

INVENTORY OBSOLESCENCE

In each of the last three fiscal years, we wrote down our inventory net realizable value for estimated obsolescence or unmarketable inventory by in an amount equal to the difference between the cost of inventory and the net its estimated realizable value based upon assumptions about future demand and market conditions. We assess the valuation of all inventories, including raw materials, work-in-process, finished goods and spare parts on a periodic basis.

Obsolete inventory or inventory in excess of our estimated usage is written down to its estimated market value less costs to sell, if less than its cost. The inventory write-downs are established on the basis of obsolete inventory or specifically identified inventory in excess of established usage. Inherent in our estimates of demand and market value in determining inventory valuation are estimates related to economic trends, market conditions, see Note 7, "Balance Sheet Detail." and future demand for our products. If future actual demand and market conditions are less favorable than those projected by management, our projections, additional inventory write-downs may be required. If the inventory value is written down to its net realizable value, and subsequently there is an increased demand for the inventory at a higher value, the increased value of the inventory is not realized until the inventory is sold either as a component of a system or as separate inventory.

INCOME TAXESIncome Taxes

Income taxes are accounted for under The determination of our tax provision is highly dependent upon the asset-and-liability method as required by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 740, Income Taxes ("ASC 740"). Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts geographic composition of existing assets and liabilities and their respective tax bases and operating loss worldwide earnings and tax credit carryforwards. Deferred regulations governing each region and is subject to judgments and estimates. Management carefully monitors the changes in many factors and adjusts the effective tax assets and liabilities are measured using enacted rate as required.

In the past, we assessed the likelihood that we would be able to recover our deferred tax rates expected assets. If recovery was not more likely than not, we increased our provision for taxes by recording a valuation allowance to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on reduce our deferred tax assets and liabilities of a change in tax rates is recognized in income in the period corresponding to the enactment date. Under ASC 740, a amount that was more likely than not to be recoverable. In determining whether the realization of these deferred tax assets would be impaired, we made *judgments with respect to whether we were likely to generate sufficient future taxable income to realize these assets. In order to reverse the* valuation allowance, *is required when management considered both positive and negative evidence and determined that there was sufficient positive evidence to conclude that it is more likely than not all or some portion of that the deferred tax assets will not be realized through generating sufficient future taxable income. realized. As a result, we released the entire valuation allowance in fiscal 2024 which contributed to the tax benefit of approximately $20.7 million for the year ended May 31, 2024.*

AsResults of May 31, 2023 the Company maintained a full valuation allowance against its deferred tax assets. We will continue to assess whether sufficient future taxable income will be generated to permit the use Operations

Fiscal Year

Our fiscal year ended on May 31 for each of deferred tax assets, and will reverse all or a portion of the allowance when there is sufficient evidence to support the reversal. Based upon our *prior two* fiscal years *of profitability, the outlook for the next in 2024, 2023 and 2022. Beginning on June 1, 2024, we have changed our* fiscal year *and absent any additional objective negative evidence, to* the *Company anticipates adjusting 52- or 53-week period ending on* the *current valuation allowance position Friday nearest May 31. Our first fiscal quarter* in fiscal *2024.*

FASB ASC Subtopic 740-10, Accounting for Uncertainty of Income Taxes, ("ASC 740-10") defines the criterion an individual tax position must meet for any part of the benefit of the tax position to be recognized in financial statements 2025 will end on August 30 and our fiscal year 2025 will end on May 30, 2025.

prepared in conformity with GAAP. The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not such tax position will be sustained on examination by the taxing authorities, based solely on the technical meritsDiscussion of the respective tax position. The tax benefits recognized in the financial statements from such a tax position should be measured based on the largest benefit having a greater than 50% likelihood Results of being realized upon ultimate settlement with the tax authority. In accordance with the disclosure requirements of ASC 740-10, the Company's policy on income statement classification of interest and penalties related to income tax obligations is to include such items as part of income taxes. Operations

STOCK-BASED COMPENSATION EXPENSERevenues

Stock-based compensation expense consists of expenses for stock options, restricted stock units, or RSUs, and employee stock purchase plan, or ESPP, purchase rights. Stock-based compensation cost for stock options and ESPP purchase rights is measured at each grant date, based on the fair value of the award using the Black-Scholes option valuation model, and is recognized as expense over the employee's requisite service period. This model was developed for use in estimating the value of publicly traded options that have no vesting restrictions and are fully transferable. Our employee stock options have characteristics significantly different from those of publicly traded

options. For RSUs, stock-based compensation expense is based on the fair value of our common stock at the grant date, and is recognized as expense over the employee's requisite service period. All of our stock-based compensation is accounted for as an equity instrument.

Revenue by Category	**Year Ended May 31,**						
(Dollars in thousands)	**2024**	**2023**	**2022**	**FY 2024 vs FY 2023**		**FY 2023 vs FY 2022**	
Products	$ 61,729	$ 60,717	$ 47,871	$ 1,012	1.7 %	$ 12,846	26.8 %
Services	4,489	4,244	2,958	245	5.8 %	1,286	43.5 %
Total revenues	$ 66,218	$ 64,961	$ 50,829	$ 1,257	1.9 %	$ 14,132	27.8 %
Products as a percentage of total revenues	*93.2 %*	*93.5 %*	*94.2 %*				
Services as a percentage of total revenues	*6.8 %*	*6.5 %*	*5.8 %*				

The fair value of each option grant and the right to purchase shares under our ESPP are estimated on the date of grant using the Black-Scholes option valuation model with assumptions concerning expected term, stock price volatility, expected dividend yield, risk-free interest rate and the expected life of the award. See Note 13 to our consolidated financial statements for detailed information relating to stock-based compensation and the stock option plan and the ESPP.

RESULTS OF OPERATIONS

The following table sets forth statements of operations data as a percentage of net sales for the periods indicated.

	Year Ended May 31,		
	2023	2022	2021
Net sales	100.0 %	100.0 %	100.0 %
Cost of sales	49.6	53.4	63.7
Gross profit	50.4	46.6	36.3
Operating expenses:			
Selling, general and administrative	18.8	19.8	39.5
Research and development	11.0	11.5	22.0
Total operating expenses	29.8	31.3	61.5
Income (loss) from operations	20.6	15.3	(25.2)
Interest income (expense), net	1.9	0.1	(0.3)
Net gain from dissolution of Aehr Test Systems Japan	--	--	13.2
Gain from forgiveness of PPP loan	--	3.3	--

Other (expense) income, net	--	0.1	(1.0)
Income (loss) before income tax (expense) benefit	22.5	18.8	(13.3)
Income tax (expense) benefit	(0.1)	(0.2)	1.1
Net income (loss)	22.4%	18.6%	(12.2)%

FISCAL YEAR ENDED MAY 31, 2023 COMPARED TO FISCAL YEAR ENDED MAY 31, 2022

NET SALES. Net sales Revenue increased to $65.0 million for the by $1.3 million in fiscal year ended May 31, 2023 from $50.8 million for the 2024 over fiscal year ended May 31, 2022 2023, primarily driven by higher sales in our contactors. Our contactors revenue increased by $15.7 million, an increase of 27.8% and our services revenue increased by $0.3 million. The increase was partially offset by a decrease in net sales for the systems revenue of $14.7 million.

Revenue increased by $14.1 million in fiscal year ended May 31, 2023 was 2023 over fiscal year 2022, primarily due to the increases in net sales revenue of our wafer-level test products. Net sales Revenue of our wafer-level test products and services for fiscal 2023 were $63.5 million and increased by $14.6 million from fiscal year 2022 due to strong demand for our FOX-P systems.

Revenue by Geography	**Year Ended May 31,**						
(Dollars in thousands)	**2024**	**2023**	**2022**	**FY 2024 vs FY 2023**		**FY 2023 vs FY 2022**	
Asia	$ 58,076	$ 55,609	$ 45,700	$ 2,467	4.4%	$ 9,909	21.7%
United States	3,532	9,289	5,110	(5,757)	(62.0%)	4,179	81.8%
Europe	4,610	63	19	4,547	N.M.	44	231.6%
Total revenues	$ 66,218	$ 64,961	$ 50,829	$ 1,257	1.9%	$ 14,132	27.8%
Asia as a percentage of total revenues	*87.7%*	*85.6%*	*89.9%*				
United States as a percentage of total revenues	*5.3%*	*14.3%*	*10.1%*				
Europe as a percentage of total revenues	*7.0%*	*0.1%*	*0.0%*				

N.M.-Not meaningful

On a geographic basis, revenues represent products that were shipped to or services that were performed at our customer locations. For fiscal year 2024, total revenues increased compared to the same period in the prior year due to an increase in international revenues as a result of more shipments to our customers in Asia and Europe, partially offset by the decline in revenue from a customer in the United states.

For fiscal year 2023, both international revenue and domestic revenue increased, compared to the same period in the prior year.

Gross Margin

Gross Profit by Category	**Year Ended May 31,**						
(Dollars in thousands)	**2024**	**2023**	**2022**	**FY 2024 vs FY 2023**		**FY 2023 vs FY 2022**	
Products	$ 30,636	$ 30,958	$ 22,207	$ (322)	(1.0%)	$ 8,751	39.4%

Services	1,907	1,788	1,458	119	6.7 %	330	22.6 %
Gross profit	$ 32,543	$ 32,746	$ 23,665	$ (203)	(0.6 %)	$ 9,081	38.4 %
Gross Margin by Category							
Product	49.6 %	51.0 %	46.4 %				
Services	42.5 %	42.1 %	49.3 %				
Gross margin	49.1 %	50.4 %	46.6 %				

Gross profit decreased slightly for fiscal year 2024, compared to fiscal year 2023. Gross margin decreased to 49.1% in fiscal year 2024 from 50.4% in fiscal year 2023. The decrease in gross margin of 1.3% was primarily due to an increase in inventory reserves, as well as an increase in costs from design changes.

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for fiscal 2023 were $63.5 million and increased approximately $14.6 million from fiscal 2022 due to strong demand for our FOX-P systems.

GROSS PROFIT. Gross profit increased to $32.7 million for the fiscal year ended May 31, 2023 2023 from $23.7 million for the fiscal year ended May 31, 2022, an increase of 38.4%. 2022. Gross margin increased to 50.4% for the in fiscal year ended May 31, 2023 2023 from 46.6% for the in fiscal year ended May 31, 2022. 2022. The increase in gross margin of 3.8% was primarily the result of a decrease in other cost of sales of 1.6 percentage points primarily due to lower costs of provision for inventory reserves, a decrease reserve provisions, an increase in labor and overhead of 1.2 percentage points due to manufacturing efficiencies due to as a result of higher sales volume, and a benefit of 1.0 percentage points due to lower decrease in direct material costs.

SELLING, GENERAL AND ADMINISTRATIVE. SG&AResearch and Development

	Year Ended May 31,						
(Dollars in thousands)	**2024**	**2023**	**2022**	**FY 2024 vs FY 2023**		**FY 2023 vs FY 2022**	
Research and development	$ 8,719	$ 7,134	$ 5,818	$ 1,585	22.2 %	$ 1,316	22.6 %
As a percentage of total revenues	13.2 %	11.0 %	11.4 %				

Research and development expenses were $12.2 million consist primarily of compensation and benefits for the product development personnel, outside development service costs, travel expenses, facilities cost allocations, and stock-based compensation charges. Research and development expenses increased by $1.6 million in fiscal year ended May 31, 2023, compared with $10.0 million for the 2024 over fiscal year ended May 31, 2022 2023 primarily due to higher employment-related costs of $0.5 million because of an increase in headcount, higher non-recurring engineering services charges of $0.3 million, an increase in allocated facility cost of 21.8%. The $0.3 million and an increase in SG&A expenses was primarily the result of increased shareholder relation costs of $0.5 million, recruiting

and relocation of $0.3 million, and employment-related expenses of $0.3 million to support our growing business. $0.2 million.

RESEARCH AND DEVELOPMENT. R&D Research and development expenses were $7.1 million for the increased by $1.3 million in fiscal year ended May 31, 2023, compared with $5.8 million for the 2023 over fiscal year ended May 31, 2022, an increase of 22.6%. The increase in R&D expenses was 2022, primarily due to increases in project expenses of $0.6 million and employment-related expenses costs of $0.5 million related to R&D research and development initiatives during fiscal 2023.

INTEREST INCOME (EXPENSE), NET. Interest income, net was $1.2 million Selling, General and $13,000 Administrative

(Dollars in thousands)	Year Ended May 31, 2024	2023	2022	FY 2024 vs FY 2023		FY 2023 vs FY 2022	
Selling, general and administrative	$ 13,746	$ 12,237	$ 10,047	$ 1,509	12.3 %	$ 2,190	21.8 %
As a percentage of total revenues	20.8 %	18.8 %	19.8 %				

Selling, general and administrative expenses consist primarily of compensation and benefits for the fiscal years ended May 31, 2023 sales, marketing and 2022, respectively. Higher interest income for the fiscal year ended May 31, 2023 was driven general and administrative personnel, legal and accounting service costs, marketing communications costs, travel expenses, facilities cost allocations, and stock-based compensation charges. Selling, general and administrative expenses increased by higher cash deposits and higher interest rates $1.5 million in fiscal year ended May 31, 2023.

GAIN FROM FORGIVENESS OF PPP LOAN. On June 12, 2021, we received confirmation from SVB that on June 4, 2021, the Small Business Administration approved our Payroll Protection Program loan (“PPP Loan”) forgiveness application for the entire PPP Loan balance of $1,679,000 and interest totaling $19,000, and we recognized a gain of $1,698,000.

OTHER (EXPENSE) INCOME, NET. Other expense, net was $3,000 for the 2024 over fiscal year ended May 31, 2023, compared with other income, net of $30,000 for the fiscal year ended May 31, 2022. The change in other (expense) income, net was 2023, primarily due to losses or gains realized in connection with the fluctuation in the value higher employment-related cost of the dollar compared to foreign currencies during the referenced periods.

INCOME TAX (EXPENSE) BENEFIT. Income tax expense was $60,000 and $91,000 for the fiscal years ended May 31, 2023 and 2022, respectively. Income tax expense for both fiscal years were related to income taxes incurred in foreign tax jurisdictions. Income tax expense was not significant due to available net operating loss and research and development credit carryforwards.

FISCAL YEAR ENDED MAY 31, 2022 COMPARED TO FISCAL YEAR ENDED MAY 31, 2021

NET SALES. Net sales increased to $50.8 million for the fiscal year ended May 31, 2022 from $16.6 million for the fiscal year ended May 31, 2021, an increase $1.3 million because of 206.2%. The increase in net sales for the fiscal year ended May 31, 2022 was primarily due to the increases in net sales of our wafer-level products. Net sales of our wafer-level products for fiscal 2022 were $48.9 million, and increased approximately $33.9 million from fiscal 2021 due to stronger demand related to silicon carbide applications.

GROSS PROFIT. Gross profit increased to $23.7 million for the fiscal year ended May 31, 2022 from $6.0 million for the fiscal year ended May 31, 2021, an increase of 292.3%. Gross profit margin increased to 46.6% for the fiscal year ended May 31, 2022 from 36.3% for the fiscal year ended May 31, 2021. The increase in gross profit margin was primarily the result of manufacturing efficiencies due to an increase in net sales.

SELLING, GENERAL AND ADMINISTRATIVE. SG&A expenses were $10.0 million for the fiscal year ended May 31, 2022, compared with $6.6 million for the fiscal year ended May 31, 2021, an increase of 53.1%. The increase in SG&A expenses was primarily the result of increased bonuses, stock-based compensation, and commission expense due to an increase in net sales and profitability, headcount, and an increase in headcount. audit and legal service fees of $0.3 million.

RESEARCH AND DEVELOPMENT. R&D Selling, general and administrative expenses were $5.8 million for the increased by $2.2 million in fiscal year ended May 31, 2022, compared with $3.7 million for the 2023 over fiscal year ended May 31, 2021, an increase of 59.3%. The increase in R&D expenses was 2022, primarily due to increases in employment-related increased shareholder related costs of $0.5 million, recruiting and relocation expenses of $1.7 million $0.3 million, outside services employment-related costs of $316,000, and project expenses $0.6 million because of $155,000. The increase in employment-related expenses was primarily the result of increased bonuses and stock-based compensation due to an increase in headcount to support our growing business, audit and legal service fees of $0.3 million, and travel expenses of $0.2 million.

Interest and Other Income, Net

	Year Ended May 31,						
(Dollars in thousands)	**2024**	**2023**	**2022**	**FY 2024 vs FY 2023**		**FY 2023 vs FY 2022**	
Interest income	$ 2,388	$ 1,245	$ 13	$ 1,143	91.8 %	$ 1,232	N.M.
Gain from forgiveness of PPP loan	-	-	1,698	-	-	(1,698)	(100.0%)
Other income (expense), net	(8)	(3)	30	(5)	166.7 %	(33)	(110.0%)
Interest and other income, net	$ 2,380	$ 1,242	$ 1,741	$ 1,138	91.6 %	$ (499)	(28.7%)

N.M.-Not meaningful

Interest and other income, net, sales primarily consists of interest income, foreign currency transaction exchange gains and profitability, losses and an increase other income (expense). Interest and other income, net, increased by $1.1 million in headcount. fiscal year 2024 over fiscal year 2023, primarily driven by higher interest income earned due to higher average cash and investment balances and higher yields from our investments in money market funds.

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INTEREST INCOME (EXPENSE), NET. Interest and other income, net, decreased by $0.5 million in fiscal year 2023 over fiscal year 2022, primarily due to the one-time gain from forgiveness of Payroll Protection Program loan ("PPP Loan") of $1.7 million in fiscal 2022. The decrease was $13,000 partially offset by higher interest income for the fiscal year ended May 31, 2022, 2023, driven by higher cash deposits and higher interest rates.

Provision for Income Taxes

	Year Ended May 31,						
(Dollars in thousands)	**2024**	**2023**	**2022**	**FY 2024 vs FY 2023**		**FY 2023 vs FY 2022**	
Income tax expense (benefit)	$ (20,698)	$ 60	$ 91	$ (20,758)	N.M	$ (31)	(34.1%)

N.M.-Not meaningful

Income tax benefit was $20.7 million in fiscal year 2024, *compared* ***with interest to income tax*** *expense of* ***$46,000 for the $60 thousand in*** *fiscal year* ***ended May 31, 2021. The interest expense for the 2023 and $91 thousand in*** *fiscal year* ***ended May 31, 2021 was from the PPP Loan that we obtained on April 23, 2020.***

NET GAIN FROM DISSOLUTION OF AEHR TEST SYSTEMS JAPAN. Net gain from dissolution of Aehr Test Systems Japan was $2.2 million for the 2022. A significant income tax benefit in *fiscal year* ***ended May 31, 2021, due to the release of the cumulative translation adjustment in connection with the complete liquidation of Aehr Test Systems Japan subsidiary in July 2020.***

GAIN FROM FORGIVENESS OF PPP LOAN. On June 12, 2021, we received confirmation from SVB that on June 4, 2021, the Small Business Administration approved our PPP Loan forgiveness application for the entire PPP Loan balance of $1,679,000 and interest totaling $19,000, and we 2024 was *recognized* ***a gain of $1,698,000.***

OTHER (EXPENSE) INCOME, NET. Other income, net was $30,000 for the fiscal year ended May 31, 2022, compared with other expense, net of $162,000 for the fiscal year ended May 31, 2021. The change in other (expense) income, net was *primarily due to* ***gains or losses release of a valuation allowance of $21.9 million, as management determined that there was sufficient positive evidence to conclude that it is more likely than not that the deferred tax assets will be*** *realized,* ***which was partially offset by income tax expense of $1.2 million*** *in* ***connection with the fluctuation in the value of the dollar compared to foreign currencies during the referenced periods. fiscal year 2024.***

INCOME TAX (EXPENSE) BENEFIT. Income tax expense for the fiscal year ended May 31, 2022 was $91,000 compared with income tax benefit of $177,000 for the fiscal year ended May 31, 2021. During the fiscal year ended May 31, 2021, the currency translation adjustment balance was releasedLiquidity *and* ***the residual income tax effect of $215,000 was recorded pursuant to the inter-period allocation rules in connection with the complete liquidation of Aehr Test Systems Japan subsidiary in July 2020. Capital Resources***

LIQUIDITY AND CAPITAL RESOURCES

We consider cash, cash equivalents and short-term investments as liquid and available for use. As of May 31, 2023 and 2022, respectively, we had $30.2 million and $31.6 million in cash, Cash, *cash equivalents, and restricted* ***cash. We also had $17.9 million in short-term investments cash were $49.3 million as of May 31, 2024, compared to $30.2 million*** *as of May 31, 2023.* ***Short term investments were $0 as of May 31, 2024, compared to $17.9 million as of May 31, 2023. We believe that our existing cash resources and anticipated funds generated from operations will satisfy our cash requirements to fund our operating activities, capital expenditures and other obligations for the next twelve months.***

	Year Ended May 31,		
(In thousands)	**2024**	**2023**	**2022**

Operating activities	$ 1,756	$ 10,011	$ 1,508
Investing activities	17,251	(18,656)	(416)
Financing activities	139	7,322	25,761
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(41)	(37)	49
Net increase (decrease) in cash, cash equivalents and restricted cash	$ 19,105	$ (1,360)	$ 26,902

Net Cash Flows Provided by Operating Activities

Cash flow from operating activities during fiscal year 2024 mostly consisted of net income, adjusted for certain non-cash items which primarily consisted of depreciation and amortization, share-based compensation expense and amortization of operating lease right-of-use assets. The $8.3 million decrease in cash flows from operating activities for fiscal year 2024, compared to fiscal year 2023, was driven primarily by an increase in cash used in inventory production and vendor payments due to anticipated customer demand, lower net income after non-cash adjustments and a decrease in cash provided by deferred revenue due to timing of customer deposits and revenue recognition, partially offset by an increase in cash provided by collection of accounts receivable. The $8.5 million increase in cash flows from operating activities for fiscal year 2023, compared to fiscal year 2022, was driven primarily by higher net income after non-cash adjustments, improved cash flow from collection of accounts receivable and increase in accounts payable due to higher inventory purchases, partially offset by an increase in cash used in inventory production and a decrease in cash provided by deferred revenue due to timing of customer deposits and revenue recognition.

Net Cash Flows Provided by (Used in) Investing Activities

Net cash provided by operating activities was $10.0 million and $1.5 million for the fiscal year ended May 31, 2023 and 2022, respectively. For the fiscal year ended May 31, 2023, net cash provided by operating activities was primarily the result of net income of $14.6 million, net of a non-cash charge of stock-based compensation expense of $2.7 million, depreciation and amortization of $0.5 million, and accretion of investment discount of $0.6 million. Other changes in cash from operations primarily resulted from increases in inventories and trade and other accounts receivable of $9.5 million and $3.8 million, respectively, partially offset by increases in accounts payable, accrued expenses and customer deposits and deferred revenue of $5.0 million, $0.5 million and $0.4 million, respectively. The increase in inventory was to support expected future shipments for customer orders. The increase in trade and other accounts receivable was primarily due to higher revenues and lower customer deposits on shipments. The increase in accounts payable was primarily due to inventory purchases to support future shipments. For the fiscal year ended May 31, 2022, net cash provided by operating activities was primarily the result of net income of $9.5 million, as adjusted to exclude the effect of forgiveness of PPP loan of $1.7 million, and a non-cash charge of stock-based compensation expense of $3.0 million and depreciation and amortization of $356,000. Other changes in cash from operations primarily resulted from increases in accounts receivable and inventories of $7.8 million and $6.7 million, respectively, partially offset by increases in customer deposits and deferred revenue, accrued expenses, and accounts payable of $2.2 million, $1.5 million and $1.4 million, respectively. The increase in accounts receivable was primarily due to the increase in and timing of revenue generated toward the end of the fiscal year ended May 31, 2022. The increase in inventory was to support expected future shipments for customer orders. The increase in customer deposits and deferred revenue was primarily due to the receipt of additional down payments from certain customers.

The increase in accrued expenses was primarily due to an increase in accrued employment related expenses including profit sharing, commissions, bonuses, and vacations. The increase in accounts payable was primarily due to inventory purchases to support future shipments.

Net cash used in investing activities was $18.7 million and $0.4 million $17.3 million for the fiscal years ended May 31, 2023 and 2022, respectively. During the fiscal year ended May 31, 2023, 2024, compared to net cash used in investing activities was due to the purchases of U.S. treasury securities of $33.3 million, partially offset by proceeds from maturities of U.S. treasury securities of $16 million, and the purchases of property and equipment of $1.4 million. During the $18.7 million for fiscal year ended May 31, 2022, net cash used in investing activities was due to purchases of property and equipment.

Financing activities provided cash of $7.3 million and $25.8 million for the fiscal years ended May 31, 2023 and 2022, respectively. Net cash provided by financing activities during the fiscal year ended May 31, 2023 2023. The increase was primarily due to the net proceeds from issuance maturity of common stock from public offering our short-term investments of $6.8 million, and the proceeds from the issuance of common stock under employee benefit plans of $2.6 million, partially offset by the shares repurchased for tax withholdings on vesting of RSUs and PRSUs of $2.1 million. Net cash provided by financing activities $18.0 million during the fiscal year ended May 31, 2022 2024, while there was a net purchase of short-term investments of $17.3 million during fiscal year 2023, compared to no purchase or sale of short-term investments during fiscal year 2022. Capital expenditure in fiscal 2024, 2023 and 2022 was $0.7 million, $1.4 million and $0.4 million, respectively. Capital expenditure was primarily due to the net proceeds from issuance for acquisition of common stock from public testing equipment and manufacturing equipment.

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Net Cash Flows Provided by Financing Activities

Net cash provided by financing activities decreased to $0.1 million for fiscal year 2024, compared to $7.3 million and $25.8 million for fiscal years 2023 and 2022, respectively. For the fiscal years 2023 and 2022, net proceeds from the sale of our common stock under our "At-the-Market" offering of program were $6.8 million and $24.0 million, and the respectively, compared to no such sales during fiscal year 2024. The proceeds from the issuance of common stock under employee benefit stock plans of in fiscal 2024, 2023 and 2022 were $1.8 million, $2.6 million and $3.6 million, partially offset by the respectively. Cash used in shares repurchased for tax withholdings on vesting of RSUs of restricted stock units in fiscal 2024, 2023 and 2022 were $1.6 million, $2.0 million and $0.4 million, and by respectively. In fiscal 2022, the net payment of Company also repaid the line of credit of $1.4 million.

The effect of fluctuation in exchange rates decreased cash by $37,000 for the fiscal years ended May 31, 2023 and increased cash by $49,000 for the fiscal years ended May 31, 2022. The changes were due to the fluctuation in the value of the dollar compared to foreign currencies.

As of May 31, 2023 and 2022, we had working capital of $72.7 million and $49.0 million, respectively.

For the fiscal year ended May 31, 2021, net cash used in operating activities was primarily the result of the net loss of $2.0 million, as adjusted to exclude the effect of net gain from dissolution of Aehr Test Systems Japan of $2.4 million, including an income tax benefit of $215,000, a non-cash charge for stock-based compensation expense of $1.1 million and depreciation and amortization of $328,000. Net cash used in operations was also impacted by increases in accounts receivable and inventories of $1.4 million and $972,000, respectively, partially offset by increases in accounts payable and accrued expenses of $1.9 million and $732,000, respectively. The increase in accounts receivable was primarily due to higher shipment activities toward the end of fiscal year ended May 31, 2021. The increase in inventory was to support expected future shipments for customer orders. The increase in accounts payable was primarily due to inventory purchases to support future shipments. The increase in accrued expenses was primarily due to increases in warranty provision and accrued employment related expenses.

Net cash used in investing activities was $227,000 for the fiscal year ended May 31, 2021 was due to the purchase of property and equipment.

Net cash provided by financing activities was $2.0 million for the fiscal year ended May 31, 2021 was due to $1.4 million borrowing from our line of credit and $560,000 in proceeds from the issuance of common stock under employee plans.

The effect of fluctuation in exchange rates increased cash by $117,000 for the fiscal year ended May 31, 2021 due to the fluctuation in the value of the dollar compared to foreign currencies.

We lease our manufacturing and office space under operating leases. We entered into a non-cancelable operating lease agreement for our United States manufacturing and office facilities, which was renewed in December 2022 and expires in September 2030. As of May 31, 2023 our operating lease liabilities totaled $6,300,000. Under that lease agreement, we are responsible for payments of utilities, taxes and insurance.

From time to time, we evaluate potential acquisitions of businesses, products or technologies that complement our business. If consummated, any such transactions may use a portion of our working capital or require the issuance of equity. We have no present understandings, commitments or agreements with respect to any material acquisitions.

We anticipate that the existing cash balance and the available line of credit together with future income from operations, collections of existing accounts receivable, revenue from our existing backlog of products as of this filing date, the sale of inventory on hand, deposits and down payments against significant orders will be adequate to meet our working capital and capital equipment requirement needs over the next 12 months. Our future capital requirements will depend on many factors, including our growth rate, the timing and extent of our spending to support research and development activities, the timing and cost of establishing additional sales and marketing capabilities, the timing and cost to introduce new and enhanced products and the timing and cost to implement new manufacturing technologies. We successfully raised $25 million in an at-the-market ("ATM") offering in October 2021 and $7.3 million in a follow on ATM offering in February 2023; however, in the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. Any additional debt financing obtained by us in the future could also involve restrictive covenants relating to our capital-raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. Additionally, if we raise additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, our existing

stockholders could suffer significant dilution in their percentage ownership of the Company, and any new equity securities we issue could have rights, preferences and privileges senior to those of holders of our common stock. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to grow or support our business and to respond to business challenges could be significantly limited.

OFF-BALANCE SHEET FINANCINGOff-Balance Sheet Financing

We have not entered into any off-balance sheet financing arrangements and have not established any special purpose or variable interest entities.

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OVERVIEW OF CONTRACTUAL OBLIGATIONSContractual Obligations

The following table provides As of May 31, 2024, the Company's unconditional purchase obligations, which have a summary remaining term in excess of such arrangements, or contractual obligations.

	Payments Due by Period (in thousands)				
	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Lease obligations	$ 8,429	$ 608	$ 2,317	$ 2,429	$ 3,075
Purchases (1)	26,318	26,318	--	--	--
Total	$ 34,747	$ 26,926	$ 2,317	$ 2,429	$ 3,075

(1) Shown above 12 months, are our binding purchase obligations. The large majority of our purchase orders are cancelable by either party, which if canceled may result in a negotiation with the vendor to determine if there shall be any restocking or cancellation fees payable to the vendor. not material.

In the normal course of business to facilitate sales of our products, we indemnify other parties, including customers, with respect to certain matters. We have agreed to hold the other party harmless against losses arising from a breach of representations or covenants, or from intellectual property infringement or other claims. These agreements may limit the time period within which an indemnification claim can be made and the amount of the claim. In addition, we have entered into indemnification agreements with our officers and directors, and our bylaws contain similar indemnification obligations to our agents.

It is not possible to determine the maximum potential amount under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. To date, our payments under these agreements have not had a material impact on our operating results, financial position or cash flows.

RECENT ACCOUNTING PRONOUNCEMENTSRecent Accounting Pronouncements

For a description of recent accounting pronouncements, including the expected dates of adoption and estimated effects, if any, on our consolidated financial statements, see Note 1, “Organization and Summary of Significant Accounting Policies,” of the Notes to Consolidated Financial Statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

As a Smaller Reporting Company, we are not required to provide information under Item 7A.

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Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements of Aehr Test Systems

Financial statement schedules not listed above are either omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or in the Notes thereto.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of
Aehr Test Systems

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Aehr Test Systems and its subsidiaries (the "Company") as of May 31, 2023 May 31, 2024 and 2022, 2023, the related consolidated statements of operations, comprehensive income, (loss), shareholders' equity, and cash flows for each of the three years in the period ended May 31, 2023 May 31, 2024, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of May 31, 2023 May 31, 2024 and 2022, 2023, and the results of its operations and its cash flows for each of the three years in the period ended May 31, 2023 May 31, 2024, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by

management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Inventory Valuation – Adjustments for Excess or Obsolete Inventory

As described in Note 1 to the consolidated financial statements, the Company's consolidated inventories balance was $23.9 million $37.5 million as of May 31, 2023 May 31, 2024. The Company's inventory is stated at the lower of cost, which is determined on a standard cost basis on a first-in, first-out method, or net realizable value. The Company evaluates the net realizable value by considering obsolescence, excessive levels of inventory, deterioration and other factors. Adjustments to reduce the cost of inventory to its net realizable value, if required, are made for estimated excess, obsolescence or impaired inventory. If actual demand were to be substantially lower than estimated, there could be a significant adverse impact on the carrying value of the inventory and results of operations.

The principal considerations for our determination that performing procedures relating to adjustments for excess or obsolete inventory is a critical audit matter are the significant amount of judgement by management in developing the assumptions of the forecasted product demand, which in turn led to significant auditor judgement, subjectivity, and effort in performing audit procedures and evaluating audit evidence relating to the forecasted product demand. Additionally, for certain new sales channels there may be limited historical data with which to evaluate forecasts.

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Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included, among others, testing management's

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process for developing the estimate of the adjustments for excess or obsolete inventory, testing the completeness and accuracy of the underlying data used in the estimate, and evaluating management's assumptions of forecasted

product demand. Evaluating management’s demand forecast for reasonableness involved considering historical sales of its products, comparing prior period estimates to actual results of the same period, and determining whether the demand forecast used was consistent with evidence obtained in other areas of the audit.

/s/ BPM LLP

We have served as the Company’s auditor since 2005.

San Jose, California
August 28, 2023

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AEHR TEST SYSTEMS AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	May 31,	
	2023	2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 30,054	$ 31,484
Short-term investments	17,853	-
Trade and other accounts receivable, net	16,594	12,859
Inventories	23,908	15,051
Prepaid expenses and other current assets	621	613
Total current assets	89,030	60,007
Property and equipment, net	2,759	1,203
Operating lease right-of-use assets	6,123	917
Other assets	231	201
Total assets	$ 98,143	$ 62,328
LIABILITIES AND SHAREHOLDERS' EQUITY		

Current liabilities:		
Accounts payable	$ 9,206	$ 4,195
Accrued expenses	4,143	3,610
Operating lease liabilities, short-term	137	794
Customer deposits and deferred revenue, short-term	2,822	2,415
Total current liabilities	16,308	11,014
Operating lease liabilities, long-term	6,163	212
Deferred revenue, long-term	31	69
Other long-term liabilities	41	44
Total liabilities	22,543	11,339
Commitments and contingencies (Note 20)		
Shareholders' equity:		
Preferred stock, $0.01 par value: Authorized: 10,000 shares; Issued and outstanding: none	-	-
Common stock, $0.01 par value: Authorized: 75,000 shares; Issued and outstanding: 28,539 shares and 27,120 shares at May 31, 2023 and 2022 respectively	285	271
Additional paid-in capital	127,776	117,686
Accumulated other comprehensive loss	(155)	(105)
Accumulated deficit	(52,306)	(66,863)
Total shareholders' equity	75,600	50,989
Total liabilities and shareholders' equity	$ 98,143	$ 62,328

The accompanying notes are an integral part of these consolidated financial statements.

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AEHR TEST SYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Year Ended May 31,		
	2023	2022	2021

Net sales	$	64,961	$	50,829	$	16,600
Cost of sales		32,215		27,164		10,568
Gross profit		32,746		23,665		6,032
Operating expenses:						
Selling, general and administrative		12,237		10,047		6,562
Research and development		7,134		5,818		3,652
Total operating expenses		19,371		15,865		10,214
Income (loss) from operations		13,375		7,800		(4,182)
Interest income (expense), net		1,245		13		(46)
Net gain from dissolution of Aehr Test Systems Japan		-		-		2,186
Gain from forgiveness of PPP loan		-		1,698		-
Other (expense) income, net		(3)		30		(162)
Income (loss) before income tax (expense) benefit		14,617		9,541		(2,204)
Income tax (expense) benefit		(60)		(91)		177
Net income (loss)	$	14,557	$	9,450	$	(2,027)
Earnings (net loss) per share – basic	$	0.52	$	0.36	$	(0.09)
Earnings (net loss) per share – diluted	$	0.50	$	0.34	$	(0.09)
Shares used in per share calculation – basic		27,785		26,014		23,457
Shares used in per share calculation – diluted		29,215		27,774		23,457

The accompanying notes are an integral part of these consolidated financial statements.

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AEHR TEST SYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(IN THOUSANDS)

	Year Ended May 31,

	2023	2022	2021
Net income (loss)	$ 14,557	$ 9,450	$ (2,027)
Other comprehensive income (loss), net of tax:			
Foreign currency translation (loss) income	(33)	(77)	160
Net change in unrealized loss on investments	(17)	-	-
Reclassification of cumulative translation adjustment as a result of dissolution of Aehr Test Systems Japan	-	-	(2,401)
Total comprehensive income (loss)	14,507	9,373	(4,268)
Less: Comprehensive income attributable to noncontrolling interest	-	-	21
Comprehensive income (loss)	$ 14,507	$ 9,373	$ (4,289)

The accompanying notes are an integral part of these consolidated financial statements.* *July 30, 2024

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AEHR TEST SYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(IN THOUSANDS) BALANCE SHEETS

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (loss)	Accumulated Deficit	Total Aehr Test Systems Shareholders' Equity	Noncontrolling Interest	Total Stockholders' Equity
Balances, May 31, 2020	23,107	$ 231	$ 85,898	$ 2,234	$ (74,286)	$ 14,077	$ (21)	$ 14,056
Issuance of common stock under employee plans	627	6	574	-	-	580	-	580

Shares repurchased for tax withholdings on vesting of RSUs	(9)	-	(20)	-	-	(20)	-	(20)
Stock-based compensation	-	-	1,101	-	-	1,101	-	1,101
Net loss	-	-	-	-	(2,027)	(2,027)	-	(2,027)
Reclassification of cumulative translation adjustment	-	-	-	(2,401)	-	(2,401)	-	(2,401)
Foreign currency translation adjustment	-	-	-	139	-	139	21	160
Balances, May 31, 2021	23,725	237	87,553	(28)	(76,313)	11,449	-	11,449
Issuance of common stock under employee plans	1,760	17	3,543	-	-	3,560	-	3,560
Shares repurchased for tax withholdings on vesting of RSUs	(62)	-	(429)	-	-	(429)	-	(429)
Proceeds from public offerings, net of issuance costs	1,697	17	24,013	-	-	24,030	-	24,030
Stock-based compensation	-	-	3,006	-	-	3,006	-	3,006
Net income	-	-	-	-	9,450	9,450	-	9,450

Foreign currency translation adjustment	-	-	-	(77)	-	(77)	-	(77)
Balances, May 31, 2022	27,120	271	117,686	(105)	(66,863)	50,989	-	50,989
Issuance of common stock under employee plans	1,388	13	2,549	-	-	2,562	-	2,562
Shares repurchased for tax withholdings on vesting of RSUs	(178)	(1)	(2,059)	-	-	(2,060)	-	(2,060)
Proceeds from public offerings, net of issuance costs	209	2	6,818	-	-	6,820	-	6,820
Stock-based compensation	-	-	2,782	-	-	2,782	-	2,782
Net income	-	-	-	-	14,557	14,557	-	14,557
Net unrealized loss on investments	-	-	-	(17)	-	(17)	-	(17)
Foreign currency translation adjustment	-	-	-	(33)	-	(33)	-	(33)
Balances, May 31, 2023	28,539	$ 285	$ 127,776	$ (155)	$ (52,306)	$ 75,600	$ -	$ 75,600

	May 31,	
(In thousands, except par value)	2024	2023
ASSETS		

Current assets:		
Cash and cash equivalents	$ 49,159	$ 30,054
Short-term investments	-	17,853
Accounts receivable	9,796	16,594
Inventories	37,470	23,908
Prepaid expenses and other current assets	1,423	621
Total current assets	97,848	89,030
Property and equipment	3,253	2,759
Operating lease right-of-use assets, net	5,734	6,123
Deferred tax assets, net	20,773	-
Other non-current assets	304	231
Total assets	$ 127,912	$ 98,143
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 5,332	$ 9,206
Accrued expenses	3,366	4,143
Operating lease liabilities, short-term	465	137
Deferred revenue, short-term	1,345	2,822
Total current liabilities	10,508	16,308
Operating lease liabilities, long-term	5,732	6,163
Deferred revenue, long-term	41	31
Other long-term liabilities	38	41
Total liabilities	16,319	22,543
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Preferred stock, $0.01 par value: Authorized: 10,000 shares;		
Issued and outstanding: none	-	-
Common stock, $0.01 par value: Authorized: 75,000 shares;		
Issued and outstanding: 28,995 shares and 28,539 shares at May 31, 2024 and 2023, respectively	289	285
Additional paid-in-capital	130,612	127,776
Accumulated other comprehensive loss	(158)	(155)
Accumulated deficit	(19,150)	(52,306)
Total shareholders' equity	111,593	75,600
Total liabilities and shareholders' equity	$ 127,912	$ 98,143

The accompanying notes are an integral part of these consolidated financial statements.

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AEHR TEST SYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS OPERATIONS

(IN THOUSANDS)

	Year Ended May 31,		
	2023	2022	2021
Cash flows from operating activities:			
Net income (loss)	$ 14,557	$ 9,450	$ (2,027)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Stock-based compensation	2,748	3,006	1,101
Provision for doubtful accounts	24	-	-
Depreciation and amortization	450	356	328
Non-cash operating lease expense	88	(49)	(18)
Accretion of investment discount	(576)	-	-
Net gain from dissolution of Aehr Test Systems Japan	-	-	(2,186)
Income tax benefit related to dissolution of Aehr Test Systems Japan	-	-	(215)
Gain from forgiveness of PPP loan	-	(1,698)	-
Changes in operating assets and liabilities:			
Trade and other accounts receivable	(3,788)	(7,834)	(1,373)
Inventories	(9,469)	(6,674)	(972)
Prepaid expenses and other	28	(71)	(81)
Accounts payable	5,044	1,356	1,877
Accrued expenses	528	1,464	732
Customer deposits and deferred revenue	369	2,196	96
Other long-term liabilities	-	-	47
Income taxes payable	8	6	(10)
Net cash provided by (used in) operating activities	10,011	1,508	(2,701)
Cash flows from investing activities:			
Purchases of investments	(33,294)	-	-
Proceeds from maturities of investments	16,000	-	-

Purchases of property and equipment	(1,362)	(416)	(227)
Net cash used in investing activities	(18,656)	(416)	(227)
Cash flows from financing activities:			
Line of credit (repayments) borrowings, net	-	(1,400)	1,400
Proceeds from issuance of common stock under employee plans	2,562	3,560	580
Shares repurchased for tax withholdings on vesting of restricted stock units	(2,060)	(429)	(20)
Proceeds from issuance of common stock from public offering, net of issuance costs	6,820	24,030	-
Net cash provided by financing activities	7,322	25,761	1,960
Effect of exchange rates on cash, cash equivalents and restricted cash	(37)	49	117
Net (decrease) increase in cash, cash equivalents and restricted cash	(1,360)	26,902	(851)
Cash, cash equivalents and restricted cash, beginning of year	31,564	4,662	5,513
Cash, cash equivalents and restricted cash, end of year	$ 30,204	$ 31,564	$ 4,662
Supplemental cash flow information:			
Cash paid during the year for:			
Income taxes	$ 21	$ 4	$ 15
Interest	$ 15	$ 12	$ 6
Supplemental disclosure of non-cash flow information:			
Net transfer of equipment between inventory and property and equipment	$ 646	$ 472	$ 113

	Year Ended May 31		
(In thousands, except per share data)	**2024**	**2023**	**2022**
Revenue:			
Product	$ 61,729	$ 60,717	$ 47,871
Services	4,489	4,244	2,958
Total revenue	66,218	64,961	50,829
Cost of revenue:			
Product	31,093	29,759	25,664
Services	2,582	2,456	1,500
Total cost of revenue	33,675	32,215	27,164
Gross profit	32,543	32,746	23,665

Operating expenses:			
Research and development	8,719	7,134	5,818
Selling, general and administrative	13,746	12,237	10,047
Total operating expenses	22,465	19,371	15,865
Income from operations	10,078	13,375	7,800
Interest income, net	2,388	1,245	13
Other income (expense), net	(8)	(3)	30
Gain from forgiveness of PPP loan	-	-	1,698
Income before income tax expense (benefit)	12,458	14,617	9,541
Income tax expense (benefit)	(20,698)	60	91
Net income	$ 33,156	$ 14,557	$ 9,450
Net income per share:			
Basic	$ 1.15	$ 0.52	$ 0.36
Diluted	$ 1.12	$ 0.50	$ 0.34
Shares used in per share calculations:			
Basic	28,818	27,785	26,014
Diluted	29,617	29,215	27,774

The accompanying notes are an integral part of these consolidated financial statements.

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AEHR TEST SYSTEMS AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended May 31		
(In thousands)	**2024**	**2023**	**2022**
Net income	$ 33,156	$ 14,557	$ 9,450
Other comprehensive income (loss), net of tax:			
Net change in cumulative translation adjustment	(20)	(33)	(77)
Net change in unrealized gain (loss) on investments	17	(17)	-
Comprehensive income	$ 33,153	$ 14,507	$ 9,373

The accompanying notes are an integral part of these consolidated financial statements.

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AEHR TEST SYSTEMS

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Shareholders' Equity
Balances, May 31, 2021	23,725	$ 237	$ 87,553	$ (28)	$ (76,313)	$ 11,449
Issuance of common stock under employee plans	1,760	17	3,543	-	-	3,560
Proceeds from public offerings, net of issuance cost	1,697	17	24,013	-	-	24,030
Shares repurchased for tax withholdings on vesting of restricted stock units	(62)	-	(429)	-	-	(429)
Stock-based compensation	-	-	3,006	-	-	3,006
Net income	-	-	-	-	9,450	9,450
Foreign currency translation adjustment	-	-	-	(77)	-	(77)
Balances, May 31, 2022	27,120	271	117,686	(105)	(66,863)	50,989
Issuance of common stock under employee plans	1,388	13	2,549	-	-	2,562
Proceeds from public offerings, net of issuance cost	209	2	6,818	-	-	6,820
Shares repurchased for tax withholdings on vesting of restricted stock units	(178)	(1)	(2,059)	-	-	(2,060)
Stock-based compensation	-	-	2,782	-	-	2,782
Net income	-	-	-	-	14,557	14,557
Foreign currency translation adjustment	-	-	-	(33)	-	(33)
Net unrealized loss on investments	-	-	-	(17)	-	(17)
Balances, May 31, 2023	28,539	285	127,776	(155)	(52,306)	75,600
Issuance of common stock under employee plans	501	4	1,803	-	-	1,807
Issuance cost of common stock offering	-	-	(72)	-	-	(72)

Shares repurchased for tax withholdings on vesting of restricted stock units	(45)	-	(1,596)	-	-	(1,596)
Stock-based compensation	-	-	2,701	-	-	2,701
Net income	-	-	-	-	33,156	33,156
Net unrealized gain on investments	-	-	-	17	-	17
Foreign currency translation adjustment	-	-	-	(20)	-	(20)
Balances, May 31, 2024	28,995	$ 289	$ 130,612	$ (158)	$ (19,150)	$ 111,593

The accompanying notes are an integral part of these consolidated financial statements.

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AEHR TEST SYSTEMS

Consolidated Statements of Cash Flows

	Year Ended May 31		
(In thousands)	**2024**	**2023**	**2022**
Cash flows from operating activities:			
Net income	$ 33,156	$ 14,557	$ 9,450
Adjustments to reconcile net income to net cash provided by operating activities:			
Stock-based compensation expense	2,518	2,748	3,006
Depreciation and amortization	657	450	356
Deferred income taxes	(20,773)	-	-
Accretion of investment discount	(130)	(576)	-
Amortization of operating lease right-of-use assets	706	649	689
Provision for credit losses	-	24	-
Gain from forgiveness of PPP loan	-	-	(1,698)
Changes in operating assets and liabilities:			
Accounts receivable	6,790	(3,788)	(7,834)
Inventories	(13,732)	(9,469)	(6,674)
Prepaid expenses and other current assets	(875)	28	(71)
Accounts payable	(3,891)	5,044	1,356
Accrued expenses	(792)	528	1,464
Deferred revenue	(1,469)	369	2,196
Operating lease liabilities	(423)	(561)	(738)
Income taxes payable	14	8	6
Net cash provided by operating activities	1,756	10,011	1,508
Cash flows from investing activities:			

Proceeds from maturities of investments	18,000	16,000	-
Purchases of investments	-	(33,294)	-
Purchases of property and equipment	(749)	(1,362)	(416)
Net cash provided by (used in) investing activities	17,251	(18,656)	(416)
Cash flows from financing activities:			
Proceeds from issuance of common stock under employee plans	1,807	2,562	3,560
Shares repurchased for tax withholdings on vesting of restricted stock units	(1,596)	(2,060)	(429)
Proceeds from issuance of common stock, net of issuance costs	(72)	6,820	24,030
Line of credit repayments, net	-	-	(1,400)
Net cash provided by financing activities	139	7,322	25,761
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(41)	(37)	49
Net increase (decrease) in cash, cash equivalents and restricted cash	19,105	(1,360)	26,902
Cash, cash equivalents and restricted cash, beginning of year (1)	30,204	31,564	4,662
Cash, cash equivalents and restricted cash, end of year (1)	$ 49,309	$ 30,204	$ 31,564
Supplemental cash flow information:			
Income taxes paid	$ 90	$ 21	$ 4
Interest paid	$ -	$ 15	$ 12
Supplemental disclosure of non-cash flow information:			
Net transfer of equipment between inventory and property and equipment	$ 357	$ 646	$ 472

(1) Includes restricted cash equivalents in other non-current assets.

The accompanying notes are an integral part of these consolidated financial statements.

AEHR TEST SYSTEMS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: POLICIES

BUSINESS:Organization

Aehr Test Systems (the "Company") was incorporated in California in May 1977 and primarily designs, engineers and manufactures test and burn-in equipment used in the semiconductor industry. The Company's principal products are the FOX-XP, FOX-NP, and FOX-CP wafer contact parallel test and burn-in systems, the WaferPak full wafer contactor, the DiePak carrier, Carrier, the WaferPak aligner, Aligner, the DiePak autoloader, Autoloader, and test fixtures.

CONSOLIDATION:Principles of Consolidation

The consolidated financial statements include the accounts of the Company and both its wholly-owned and majority-owned foreign subsidiaries. Intercompany accounts and transactions have been eliminated.

FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS:Foreign Currency Translation and Transactions

Assets and liabilities of the Company's foreign subsidiaries and a branch office are translated into U.S. Dollars from their functional currencies of Euros, Philippines Peso and New Taiwan Dollars using the exchange rate in effect at the balance sheet date. Additionally, their net sales revenues and expenses are translated using exchange rates approximating average rates prevailing during the fiscal year. Translation adjustments that arise from translating their financial statements from their local currencies to U.S. Dollars Dollar are accumulated and reflected as a separate component of shareholders' equity.

Transaction gains and losses that arise from exchange rate changes denominated in currencies other than the local currency are included in the Consolidated Statements consolidated statements of Operations operations as incurred. See Note 15, "Other (Expense) Income, Net" for the detail of foreign exchange transaction gains and losses for all periods presented.

USE OF ESTIMATES:Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates in the Company's consolidated financial statements include allowance revenue recognition, inventory valuation and accounting for doubtful accounts, valuation of inventory at the lower of cost or net realizable value, and warranty reserves. income taxes.

RECLASSIFICATIONS:

Certain reclassifications have been made to the previous year consolidated financial statements to conform to the current period presentation. The reclassifications had no impact on net income (loss), total assets, total liabilities, or shareholders' equity.

CASH EQUIVALENTS:Cash and Cash Equivalents

Cash equivalents consist of money market instruments purchased with an original maturity of three months or less. These investments are reported at fair value.

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS:Accounts Receivable and Allowance for Credit Losses

Accounts receivable are derived from the sale of products throughout the world to semiconductor manufacturers, semiconductor contract assemblers, electronics manufacturers and burn-in and test service companies. Accounts receivable are recorded at the invoiced amount and are not interest bearing.

The Company maintains an allowance for doubtful credit losses for expected uncollectible accounts to reserve for potentially uncollectible trade receivables. The Company also reviews its trade receivables receivable and assess collectibility by aging category to identify reviewing accounts receivable on a collective basis where similar risk characteristics exist and on an individual basis when specific customers with known disputes or collection issues. collectibility issues are identified. The Company exercises judgment when determining the adequacy estimate of these reserves expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Changes in circumstances, such as an unexpected material adverse change in a major customer's ability to meet its financial obligation to the Company, evaluates historical bad debt trends, general economic conditions in the United States and internationally, and changes in customer financial conditions. Uncollectible receivables are recorded as bad debt expense when all efforts to collect have been exhausted and recoveries are recognized when they are received. During the fiscal year ended May 31, 2023, may require the Company recorded bad debt expense to further adjust its estimates of $24,000. No the recoverability of accounts receivable. The credit losses recognized on accounts receivable during the years ended May 31, 2024, 2023 and 2022 were not significant adjustments to the and management has determined that no allowance for doubtful accounts were recorded during the fiscal years ended May 31, 2022 or 2021.

credit losses was required as of May 31, 2024 and 2023.

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CONCENTRATION OF CREDIT RISK:Concentration of Credit Risk

The Financial instruments which subject the Company sells its products primarily to semiconductor manufacturers in North America, Asia, and Europe. As of May 31, 2023, approximately 17% and 83% of gross accounts receivable were from customers located in North America and Asia, respectively. As of May 31, 2022, approximately 20% and 80% of gross accounts receivable were from customers located in North America and Asia, respectively. Two customers accounted for 82% and 17% of gross accounts receivable as of May 31, 2023. Three customers accounted for 68%, 18% and 11% of gross accounts receivable as of May 31, 2022. Two customers accounted for 79% and 10% of net

sales in fiscal 2023, respectively. One customer accounted for 82% of net sales in fiscal 2022. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company uses letter concentrations of credit terms for some risk consist principally of its international customers.

cash and cash equivalents and accounts receivable. The Company's cash and cash equivalents are generally deposited with major financial institutions in the United States, Philippines, Germany and Taiwan. The Company invests its excess cash in money market funds and U.S. Treasury securities. The money market funds bear the risk associated with each fund. The money market funds have variable interest rates. The Company's cash and investment balances held at banks and brokerage firms may at time exceed federally insured levels. The Company has not experienced any material losses on its money market funds or short-term cash deposits.

CONCENTRATION OF SUPPLY RISK: The Company performs credit evaluations of its customers' financial condition and generally requires no collateral. The Company had revenues from individual customers in excess of 10% of total revenues as follows:

	Year Ended May 31		
	2024	2023	2022
Customer A	67.3 %	78.8 %	81.8 %
Customer B	16.7 %	*	*
Customer C	*	10.4 %	*

** Amount was less than 10% of total revenue*

The Company relies on subcontractors to manufacture many had gross accounts receivable from individual customers in excess of the components and subassemblies used in its products. Quality or performance failures 10% of the Company's products or changes in its manufacturers' financial or business condition could disrupt the Company's ability to supply quality products to its customers and thereby have a material and adverse effect on its business and operating results. Some gross accounts receivable as follows:

	May 31,	
	2024	2023
Customer A	49.9 %	81.6 %
Customer B	16.5 %	16.5 %
Customer C	12.3 %	*

** Amount was less than 10% of the components and technologies used in the Company's products are purchased and licensed from a single source or a limited number of sources. The loss of any of these suppliers may cause the Company to incur additional transition costs, result in delays in the manufacturing and delivery of its products, or cause it to carry excess or obsolete inventory and could cause it to redesign its products. total gross accounts receivable*

INVENTORIES:Inventories

Inventories include material, labor and overhead, and are stated at the lower of cost (first-in, first-out method) or net realizable value. value, with cost determined on a first-in, first-out (FIFO) basis. Net realizable value is the estimated selling prices in the ordinary course of business, less costs of completion, disposal and transportation. Provisions for excess, obsolete and unusable inventories are made after management's evaluation of future demand and market conditions. The Company adjusts inventory balances to approximate the lower of its manufacturing costs or net realizable value. If actual future demand or market conditions become less favorable than those projected by management, additional adjustment for excess or obsolete inventory write-downs may be required, and would be reflected in cost of sales in the period the revision is made. During fiscal 2023, 2022 and 2021 the Company recognized a provision for inventory reserves of $569,000, $1,031,000, and $176,000, respectively.

PROPERTY AND EQUIPMENT:Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Major improvements are capitalized, while repairs and maintenance are expensed as incurred. Leasehold improvements are amortized over the lesser of their estimated useful lives or the term of the related lease. Furniture and fixtures, machinery and equipment, and test equipment are depreciated on a straight-line basis over their estimated useful lives. The ranges of estimated useful lives are generally as follows:

Furniture and fixtures	***2 to 65 years***
Machinery and equipment	***3 to 65 years***
Test equipment	***4 to 65 years***

REVENUE RECOGNITION:Long-Lived Assets

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of an asset group may not be recoverable. An impairment loss is recognized when estimated future cash flows expected to result from the use of the asset, including disposition, are less than the carrying value of the asset. Such an impairment charge would be measured as the excess of the carrying value of the asset over its fair value.

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Warranty Reserves

The Company provides for the estimated cost of product warranties at the time revenues are recognized on the products shipped. While the Company engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its component suppliers, the Company's warranty obligation is affected by product failure rates, material usage and service delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage or service delivery costs differ from the Company's estimates,

revisions to the estimated warranty liability would be required. The standard warranty period is one year for systems and ninety days for parts and service.

Revenue Recognition

The Company recognizes revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services by following a five-step process: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price, and (5) recognize revenue when or as the Company satisfies a performance obligation, as further described below.

Performance obligations include sales of systems, WaferPak contactors, spare parts, and services, as well as installation and training services included in customer contracts.

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A contract's transaction price is allocated to each distinct performance obligation. In determining the transaction price, the Company evaluates whether the price is subject to refund or adjustment to determine the net consideration to which the Company expects to be entitled. The Company generally does not grant return privileges, except for defective products during the warranty period.

For contracts that contain multiple performance obligations, the Company allocates the transaction price to the performance obligations on a relative standalone selling price basis. Standalone selling prices are based on multiple factors including, but not limited to, historical discounting trends for products and services and pricing practices in different geographies.

Revenue for systems and spares are is recognized at a point in time, which is generally upon shipment or delivery. delivery and evidenced by transfer of title and risk of loss to the customer. Revenue from services is recognized over time as services are completed or ratably the customer receives the benefit over the contractual period of generally one year or less.

The Company has elected the practical expedient to not assess whether a contract has a significant financing component as the Company's standard payment terms are less than one year.

We sell our The Company sells its products primarily through a direct sales force. In certain international markets, we sell our the Company sells its products through independent distributors.

Transfer of control is evidenced upon passage of title and risk of loss to the customer unless we are required to provide additional services.

PRODUCT DEVELOPMENT COSTS AND CAPITALIZED SOFTWARE:

Shipping And Handling Costs incurred in the research and development of new products or systems are charged to operations as incurred. Costs incurred in the development of software programs for the Company's

products are charged to operations as incurred until technological feasibility of the software has been established. Generally, technological feasibility is established when the software module performs its primary functions described in its original specifications, contains features required for it to be usable in a production environment, is completely documented and the related hardware portion of the product is complete. After technological feasibility is established, any additional costs are capitalized. Capitalization of software costs ceases when the software is substantially complete and is ready for its intended use. Capitalized costs are amortized over the estimated life of the related software product using the greater of the units of sales or straight-line methods over ten years. No system software development costs were capitalized or amortized in fiscal 2023, 2022 and 2021.

IMPAIRMENT OF LONG-LIVED ASSETS:

In the event that facts and circumstances indicate that the carrying value of assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset would be compared to the asset's carrying value to determine if a write-down is required.

ADVERTISING COSTS:

The Company expenses all advertising costs as incurred and the amounts were not material for all periods presented.

SHIPPING AND HANDLING OF PRODUCTS:

Amounts billed to customers for shipping and handling of products are included in net sales. revenue. Costs incurred related to shipping and handling of products are included in cost of sales. revenue.

INCOME TAXES:Stock-based Compensation Expense

Income taxes are Stock-based compensation expense consists of expenses for stock options, restricted stock units ("RSUs"), performance RSUs ("PRSUs"), and an employee stock purchase plan ("ESPP"). Stock-based compensation cost for stock options and ESPP purchase rights is measured at each grant date, based on the fair value of the award using the Black-Scholes option valuation model, and is recognized as expense over the employee's requisite service period. For RSUs, PRSUs, restricted shares and performance restricted shares, stock-based compensation expense is based on the fair value of the Company's common stock at the grant date, and is recognized as expense over the employee's requisite service period. All of the Company's stock-based compensation is accounted for under as an equity instrument.

Income Taxes

The Company accounts for income taxes in accordance with the asset-and-liability method as required by Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 740, Income Taxes ("ASC 740"). authoritative guidance, which requires income tax effects for changes in tax laws to be recognized in the period in which the law is enacted. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to effects of temporary differences between the financial statement carrying amounts book and tax bases of existing assets and liabilities and their respective liabilities. Deferred tax bases and assets are also recognized for net operating loss and tax credit carryforwards. Deferred tax assets are offset by a valuation allowance

to the extent it is more likely than not that they are not expected to be realized. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred Deferred tax assets and liabilities are adjusted for the effect of a change in tax rates, laws, or status when the change is recognized in income in the period corresponding to the enactment date. Under ASC 740, a valuation allowance is required when it is more likely than not all or some portion of the deferred tax assets will not be realized through generating sufficient future taxable income.

As of May 31, 2023 the Company maintained a full valuation allowance against its deferred tax assets. We will continue to assess whether sufficient future taxable income will be generated to permit the use of deferred tax assets, and will reverse all or a portion of the allowance when there is sufficient evidence to support the reversal. Based upon our prior two fiscal years of profitability, the outlook for the next fiscal year, and absent any additional objective negative evidence, the Company anticipates adjusting the current valuation allowance position in fiscal 2024.

enacted.

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FASB ASC Subtopic 740-10, Accounting for Uncertainty During the year ended May 31, 2024, the Company concluded that its deferred tax assets are more likely than not to become realizable, and as such, the Company reversed all $21.9 million of Income Taxes, ("ASC 740-10") defines its existing valuation allowance. The conclusion that a valuation allowance was no longer needed was based on three years of cumulative pre-tax income, current year utilization of federal and state net operating losses, combined with estimates of future years' pre-tax income that are sufficient to realize the criterion an individual remaining deferred tax position must meet for any part assets. The amount of the benefit deferred tax asset considered realizable can change if estimates of future taxable income change or if objective negative and positive evidence change. As of May 31, 2023, the Company maintained a full valuation allowance against its deferred tax position to be recognized in financial statements prepared in conformity with GAAP. assets.

The Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not such tax position will be sustained on examination by the taxing authorities, based solely on the technical merits of the respective tax position. The tax benefits recognized in the consolidated financial statements from such a tax position should be measured based on the largest benefit having a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority. In accordance with the disclosure requirements of ASC 740-10, the Company's policy on income statement classification of interest Interest and penalties related to income uncertain tax obligations is to include such items as part of positions are recognized in the provision for income taxes.

COMPREHENSIVE INCOME (LOSS):Comprehensive Income (Loss)

Comprehensive income (loss) generally represents all changes in shareholders' equity except those resulting from investments or contributions by shareholders. Unrealized gains and losses from available-for-sale securities and on

foreign currency translation adjustments are included in the Company's components of comprehensive income (loss), which are excluded from net income (loss). In fiscal 2021, the Company recognized a gain of $2,401,000 related to the completed liquidation of ATS-Japan, a majority owned subsidiary, which is deducted from net income (loss) when calculating comprehensive income (loss). Refer to Note 18, "Dissolution of Aehr Test Systems Japan," for a further discussion of the transaction. income. Comprehensive income (loss) is included in the consolidated statements of comprehensive income (loss). income.

RECENT ACCOUNTING PRONOUNCEMENTS:Reclassifications

Certain reclassifications have been made to the previous year consolidated financial statements to conform to the current period presentation. The reclassifications had no impact on net income, total assets, total liabilities, or shareholders' equity.

Accounting Standards Not Yet Adopted

In June 2016, the FASB Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2016-13, Financial Instruments – Credit Losses (Topic 326), that requires measurement and recognition of expected credit losses for financial assets held based on historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability collectibility of the reported amount. Due to a subsequent ASU in November 2019, the accounting standard will be effective for the The Company adopted this update beginning in the first quarter of its fiscal 2024 year ended May 31, 2024 on a modified retrospective basis. The Company does not expect a basis and the adoption had no material impact of this accounting standard on its the consolidated financial statements.

2. REVENUE:Recent Accounting Pronouncements Not Yet Adopted

Disaggregation Improvements to Reportable Segment Disclosures: In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures (ASU 2023-07), which requires disclosure of revenueincremental segment information on an annual and interim basis. This ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024 on a retrospective basis. The Company is currently evaluating the effect of this pronouncement on its disclosures.

Improvements to Income Tax Disclosures: In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which expands the disclosures required for income taxes. This ASU is effective for fiscal years beginning after December 15, 2024, with early adoption permitted. The following tables show revenues by major product categories. Within each product category, contract terms, conditions and economic factors affecting amendment should be applied on a prospective basis while retrospective application is permitted. The Company is currently evaluating the nature, amount, timing and uncertainty around revenue recognition and cash flow are substantially similar.

The Company's revenues by product category are as follows (in thousands):

	Year Ended May 31,					
	2023		2022		2021	
Type of good / service:						
Systems	$	38,844	$	25,224	$	7,250
Contactors		21,873		22,647		5,837
Services		4,244		2,958		3,513
	$	64,961	$	50,829	$	16,600
Product lines:						
Wafer-level	$	63,531	$	48,926	$	15,004
Test During Burn-In		1,430		1,903		1,596
	$	64,961	$	50,829	$	16,600

The following presents information about the Company's operations in different geographic areas. Net sales are based upon ship-to location (in thousands): effect of this pronouncement on its disclosures.

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	Year Ended May 31,					
	2023		2022		2021	
Geographic region:						
United States	$	9,289	$	5,110	$	5,386
Asia		55,609		45,700		11,074
Europe		63		19		140
	$	64,961	$	50,829	$	16,600

With the exception of the amount of service contracts and extended warranties, the Company's product category revenues are recognized at point in time when control transfers to customers. The following presents revenue based on timing of recognition (in thousands):

	Year Ended May 31,					
	2023		2022		2021	
Timing of revenue recognition (in thousands):						
Products and services transferred at a point in time	$	63,531	$	49,441	$	15,009
Services transferred over time		1,430		1,388		1,591
	$	64,961	$	50,829	$	16,600

Contract balances

A receivable is recognized in the period the Company delivers goods or provides services or when the Company's right to consideration is unconditional. The Company usually does not record contract assets because

the Company has an unconditional right to payment upon satisfaction of the performance obligation, and therefore, a receivable is more commonly recorded than a contract asset.

Contract liabilities include payments received in advance of performance under a contract and are satisfied as the associated revenue is recognized. Contract liabilities are reported on the consolidated balance sheets at the end of each reporting period as a component of deferred revenue. Contract liabilities as of May 31, 2023 and 2022 were $2,853,000 and $2,484,000, respectively. During the fiscal years ended May 31, 2023 and 2022, the Company recognized $2,179,000 and $189,000 of revenues that were included in contract liabilities as of May 31, 2022 and 2021, respectively.

Remaining performance obligations

On May 31, 2023, the Company had $163,000 of remaining performance obligations, exclusive of customer deposits, which were comprised of deferred service contracts and extended warranty contracts not yet delivered. The Company expects to recognize approximately 81% of its remaining performance obligations as revenue in fiscal 2024, and an additional 19% in fiscal 2025 and thereafter. The foregoing excludes the value of other remaining performance obligations as they have original durations of one year or less, and also excludes information about variable consideration allocated entirely to a wholly unsatisfied performance obligation.

Costs to obtain or fulfill a contract

The Company generally expenses sales commissions when incurred as a component of selling, general and administrative expense as the amortization period is typically less than one year. Additionally, the majority of the Company's cost of fulfillment as a manufacturer of products is classified as inventory and fixed assets, which are accounted for under the respective guidance for those asset types. Other costs of contract fulfillment are immaterial due to the nature of the Company's products and their respective manufacturing process.

3. EARNINGS PER SHARE ("EPS"):

Basic EPS is determined using the weighted average number of common shares outstanding during the period. Diluted EPS is determined using the weighted average number of common shares and potential common shares (representing the dilutive effect of stock options, restricted shares, restricted shares units, or RSUs, and ESPP shares) outstanding during the period using the treasury stock method.

The following table presents the computation of basic and diluted earnings (net loss) per share attributable to Aehr Test Systems common shareholders (in thousands, except per share data):

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	Year Ended May 31,		
	2023	2022	2021
Numerator: Net income (net loss)	$ 14,557	$ 9,450	$ (2,027)
Denominator for basic earnings (net loss) per share:			
Weighted average shares outstanding	27,785	26,014	23,457
Shares used in basic earnings (net loss) per share calculation	27,785	26,014	23,457

Effect of dilutive securities	1,430	1,760	-
Denominator for diluted earnings (net loss) per share	29,215	27,774	23,457
Basic earnings (net loss) per share	$ 0.52	$ 0.36	$ (0.09)
Diluted earnings (net loss) per share	$ 0.50	$ 0.34	$ (0.09)

For the purpose of computing diluted earnings per share, weighted average potential common shares do not include stock options with an exercise price greater than the average fair value of the Company's common stock for the period, as the effect would be anti-dilutive. Stock options to purchase 5,000 and 64,000 shares of common stock were outstanding as of May 31, 2023 and 2022, respectively, but were not included in the computation of diluted earnings per share, because the inclusion of such shares would be anti-dilutive. Stock options to purchase 2,766,000 shares of common stock were outstanding on May 31, 2021 but were not included in the computation of diluted net loss per share, because the inclusion of such shares would be anti-dilutive. ESPP rights to purchase 239,000 ESPP shares and RSUs for 132,000 shares were outstanding on May 31, 2021 but were not included in the computation of diluted net loss per share, because the inclusion of such shares would be anti-dilutive.

4. 2. CASH, CASH EQUIVALENTS AND INVESTMENTS

The following table summarizes the Company's cash, cash equivalents and investments by security type as of May 31, 2023 (in thousands) May 31, 2024:

Balances as of May 31, 2024 (In thousands)	Cost	Gross Unrealized Loss	Estimated Fair Value	Cost	Gross Unrealized Gain (Loss)	Estimated Fair Value
Cash	$ 3,182	$ -	$ 3,182	$ 5,029	$ -	$ 5,029
Cash equivalents:						
Money market funds	26,872	-	26,872	$ 44,130	$ -	$ 44,130

Total cash and cash equivalents	***$ 30,054***	***$ -***	***$ 30,054***	***$ 49,159***	***$ -***	***$ 49,159***
Short-term investments:						
U.S. treasury securities	***$ 17,870***	***$ (17)***	***$ 17,853***			
Long-term investments:						
Money market funds	***$ 150***	***$ -***	***$ 150***	***$ 150***	***$ -***	***$ 150***
Total cash, cash equivalents and investments	***$ 48,074***	***$ (17)***	***$ 48,057***	***$ 49,309***	***$ -***	***$ 49,309***

The following table summarizes the Company's cash, cash equivalents and investments by security type as of May 31, 2022 (in thousands) May 31, 2023:

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	Cost	***Gross Unrealized Loss***	***Estimated Fair Value***		***Gross***	
Balances as of May 31, 2023 (In thousands)				***Cost***	***Unrealized Loss***	***Estimated Fair Value***
Cash	***$ 2,955***	***$ -***	***$ 2,955***	***$ 3,182***	***$ -***	***$ 3,182***
Cash equivalents:						

Money market funds	28,529	-	28,529	$ 26,872	$ -	$ 26,872
Total cash and cash equivalents	$ 31,484	$ -	$ 31,484	$ 30,054	$ -	$ 30,054
Short-term investments:						
U. S. treasury securities				$ 17,870	$ (17)	$ 17,853
Long-term investments:						
Money market funds	$ 80	$ -	$ 80	$ 150	$ -	$ 150
Total cash, cash equivalents and investments	$ 31,564	$ -	$ 31,564	$ 48,074	$ (17)	$ 48,057

Long-term investments are included in other non-current assets on the accompanying consolidated balance sheets.

Unrealized gains and losses on investments classified as available-for-sale are included within accumulated other comprehensive loss, net of any related tax effect. Upon realization, those amounts are reclassified from accumulated other comprehensive loss to results of operations.

The unrealized loss of $17,000 as of May 31, 2023 is not considered other-than-temporary, and has been in an unrealized loss position for less than a year.

5. 3. FAIR VALUE OF FINANCIAL INSTRUMENTS: INSTRUMENTS

The Company's financial instruments are measured at fair value consistent with authoritative guidance. This authoritative guidance defines fair value, establishes a framework for using fair value to measure assets and liabilities, and disclosures required related to fair value measurements.

The guidance establishes a fair value hierarchy based on inputs to valuation techniques that are used to measure fair value that are is either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable *inputs reflect a reporting entity's pricing based upon their own market assumptions. The fair value hierarchy consists of the following three levels:*

Level 1 - instrument valuations are obtained from real-time quotes Observable inputs that reflect quoted prices (unadjusted) for transactions identical assets or liabilities in active exchange markets involving identical assets. markets.

Level 2 - instrument valuations Inputs that are obtained based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant inputs are observable in the market or can be derived from readily-available pricing sources for comparable instruments. observable market data. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, foreign exchange rates, and credit ratings.

Level 3 - instrument valuations Unobservable inputs that are obtained without observable supported by little or no market values and require activities.

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The following table summarizes the Company's financial assets measured at fair value on a high level recurring basis as of judgment to determine the fair value. May 31, 2024:

(In thousands)	**Balance as of May 31, 2024**	**Level 1**	**Level 2**	**Level 3**
Money market funds	$ 44,280	$ 44,280	$ -	$ -
Total	$ 44,280	$ 44,280	$ -	$ -

The following table summarizes the Company's financial assets measured at fair value on a recurring basis as of May 31, 2023 (in thousands):

	Balance as of May 31, 2023	Level 1	Level 2	Level 3
Money market funds	$ 27,022	$ 27,022	$ -	$ -
U.S. treasury securities	17,853	17,853		
Total	$ 44,875	$ 44,875	$ -	$ -

The following table summarizes the Company's financial assets measured at fair value on a recurring basis as of May 31, 2022 (in thousands):

	Balance as of May 31, 2022	Level 1	Level 2	Level 3
Money market funds	$ 28,609	$ 28,609	$ -	$ -
Total	$ 28,609	$ 28,609	$ -	$ -

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(In thousands)	**Balance as of May 31, 2023**	**Level 1**	**Level 2**	**Level 3**
Money market funds	$ 27,022	$ 27,022	$ -	$ -
U. S. treasury securities	17,853	17,853	-	-
Total	$ 44,875	$ 44,875	$ -	$ -

Included in money market funds as of May 31, 2023 May 31, 2024 and 2022 2023 was $150,000 and $80,000 of $0.2 million restricted cash, respectively, representing a security deposit for the Company's United States manufacturing and office space lease which is included in other non-current assets in the consolidated balance sheets.

There were no financial liabilities measured at fair value as of May 31, 2023 May 31, 2024 and 2022. 2023.

There were no transfers between Level 1 and Level 2 fair value measurements during the fiscal years ended May 31, 2023 May 31, 2024 and 2022. 2023.

The carrying amounts of financial instruments including cash equivalents, accounts receivables, accounts payable and certain other accrued liabilities, approximate fair value due to their short maturities.

6. TRADE AND OTHER ACCOUNTS RECEIVABLE, NET: 4. BALANCE SHEET INFORMATION

Accounts receivable comprise (in thousands): Inventories consisted of the following:

	May 31, 2023	May 31, 2022
Accounts receivable	$ 16,594	$ 12,859
Less: Allowance for doubtful accounts	-	-

	$ 16,594	$ 12,859

	May 31,	
(In thousands)	**2024**	**2023**
Raw materials and sub-assemblies	$ 22,410	$ 15,953
Work in process	13,593	5,764
Finished goods	1,467	2,191
	$ 37,470	$ 23,908

Accounts receivable represents customer trade receivables. As Property and equipment, net consisted of May 31, 2023 and 2022, there were no allowances for doubtful accounts. the following:

7. BALANCE SHEET DETAIL:

INVENTORIES:

	May 31,	
(In Thousands)	2023	2022
Raw materials and sub-assemblies	$ 15,953	$ 9,507
Work in process	5,764	5,461
Finished goods	2,191	83
	$ 23,908	$ 15,051

PROPERTY AND EQUIPMENT, NET:

	May 31,		May 31,	
(In Thousands)	***2023***	***2022***		
(In thousands)			***2024***	***2023***
Leasehold improvements	***$ 1,310***	***$ 1,230***	***$ 1,588***	***$ 1,310***
Furniture and fixtures	***706***	***697***		
Machinery and equipment	***5,445***	***4,013***	***4,528***	***5,445***
Test equipment	***2,998***	***2,523***	***1,928***	***2,998***
Furniture and fixtures			***175***	***706***
	10,459	***8,463***	***8,219***	***10,459***
Less: Accumulated depreciation and amortization	***(7,700)***	***(7,260)***		
Less: accumulated depreciation and amortization			***(4,966)***	***(7,700)***
	$ 2,759	***$ 1,203***	***$ 3,253***	***$ 2,759***

Depreciation expense was $450,000, $307,000 $0.7 million, $0.5 million, and $310,000 $0.4 million for fiscal 2024, 2023, and 2022, and 2021, respectively.

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ACCRUED EXPENSES:

(In Thousands)	May 31, 2023	May 31, 2022
Commissions and bonuses	$ 1,728	$ 1,505
Payroll related	1,491	1,401
Warranty	267	410
Professional services	520	204
Investor relations	79	44
Taxes payable	22	13
Other	36	33
	$ 4,143	$ 3,610

CUSTOMER DEPOSITS AND DEFERRED REVENUE, SHORT-TERM:

(In Thousands)	May 31, 2023	May 31, 2022
Customer deposits	$ 2,690	$ 2,263
Deferred revenue	132	152
	$ 2,822	$ 2,415

8. ACCUMULATED OTHER COMPREHENSIVE LOSS:

Changes in the components of accumulated other comprehensive loss, net of tax, were as follows (in thousands):

	Cumulative Translation Adjustments	Unrealized Loss on Investments, Net	Total
Balance as of May 31, 2021	$ (28)	$ -	$ (28)
Other comprehensive loss before reclassifications	(77)	-	(77)
Balance as of May 31, 2022	(105)	-	(105)
Other comprehensive loss before reclassifications	(33)	(17)	(50)
Balance as of May 31, 2023	$ (138)	$ (17)	$ (155)

9. INCOME TAXES:

Domestic and foreign components of income (loss) before income tax (expense) benefit are as follows (in thousands):

	Year Ended May 31,

	2023	2022	2021
Domestic	$ 14,541	$ 9,416	$ (13,064)
Foreign	76	125	10,860
	$ 14,617	$ 9,541	$ (2,204)

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Accrued expenses consisted of the following:

	May 31,	
(In thousands)	**2024**	**2023**
Commissions and bonuses	$ 1,290	$ 1,728
Payroll related	1,202	1,491
Professional services	503	520
Other	371	404
	$ 3,366	$ 4,143

Changes in the Company's warranty reserve were as follows:

	May 31,	
(In thousands)	**2024**	**2023**
Balance at the beginning of the period	$ 267	$ 410
Accruals for warranties issued during the period	511	420
Adjustments to previously existing warranty accruals	-	61
Consumption of reserves	(544)	(624)
Balance at the end of the period	$ 234	$ 267

The accrued warranty balance is included in accrued expenses on the consolidated balance sheets.

Deferred revenue, short-term consisted of the following:

	May 31,	
(In thousands)	**2024**	**2023**
Customer deposits	$ 1,248	$ 2,690
Deferred revenue	97	132
	$ 1,345	$ 2,822

5. INCOME TAXES

Domestic and foreign components of income before income tax expense (benefit) are as follows:

	Year Ended May 31,		
(In thousands)	**2024**	**2023**	**2022**

Domestic	$ 12,355	$ 14,541	$ 9,416
Foreign	103	76	125
	$ 12,458	$ 14,617	$ 9,541

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The income tax (expense) benefit expense (benefit) consists of the following (in thousands): following:

	Year Ended May 31,			Year Ended May 31,		
	2023	2022	2021			
(In thousands)				2024	2023	2022
Federal income taxes:						
Current	$ (28)	$ (59)	$ 163	$ 6	$ 28	$ 59
Deferred	-	-	-	(14,377)	-	-
State income taxes:						
Current	-	(5)	13	14	-	5
Deferred	-	-	-	(6,396)	-	-
Foreign income taxes:						
Current	(32)	(27)	1	55	32	27
Deferred	-	-	-	-	-	-
	$ (60)	$ (91)	$ 177	$ (20,698)	$ 60	$ 91

The Company's effective tax rate differs from the U.S. federal statutory tax rate, as follows:

	Year Ended May 31,			Year Ended May 31,		
	2023	2022	2021			
(In thousands)				2024	2023	2022
U.S. federal statutory tax rate	21.0%	21.0%	21.0%	21.0%	21.0%	21.0%
State taxes, net of federal tax effect	-	0.1	0.6	(51.1)	-	0.1
Foreign rate differential	0.7	0.3	9.8	0.2	0.7	0.3
Stock-based compensation	(9.1)	(11.0)	(4.7)	(8.4)	(9.1)	(11.0)
Research and development credit	(2.3)	(1.3)	4.0	(1.5)	(2.3)	(1.3)

Change in valuation allowance	*(9.3)*	*(4.7)*	*(32.1)*	*(126.0)*	*(9.3)*	*(4.7)*
Controlled Foreign Corporation Liquidation. .	*-*	*-*	*9.8*			
PPP Loan	*-*	*(3.7)*	*-*	*-*	*-*	*(3.7)*
Other	*(0.6)*	*0.4*	*(0.4)*	*(0.3)*	*(0.6)*	*0.4*
Effective tax rate	*0.4%*	*1.1%*	*8.0%*	*(166.1)%*	*0.4%*	*1.1%*

The components of the net deferred tax assets and liabilities are as follows (in thousands): follows:

	Year Ended May 31,		*May 31,*	
	2023	*2022*		
(In thousands)			*2024*	*2023*
Deferred tax assets:				
Net operating losses	*$ 11,964*	*$ 14,912*	*$ 9,344*	*$ 11,964*
Lease liability	*1,335*	*218*	*1,310*	*1,335*
Credit carryforwards	*6,235*	*5,535*	*6,739*	*6,235*
Inventory reserves	*938*	*934*	*1,070*	*938*
Reserves and accruals	*1,200*	*1,360*	*855*	*1,200*
Capitalized research and development	*1,187*	*-*	*2,645*	*1,187*
Other	*297*	*220*	*23*	*297*
Less: valuation allowance	*(21,859)*	*(22,980)*	*-*	*(21,859)*
	1,297	*199*	*21,986*	*1,297*
Deferred tax liabilities:				
Operating lease right-of-use assets	*(1,297)*	*(199)*	*(1,213)*	*(1,297)*
Net deferred tax assets (liabilities)	*$ -*	*$ -*		
Net deferred tax assets			*$ 20,773*	*$ -*

The valuation allowance decreased by $1,121,000 $21.9 million during fiscal 2024, $1.1 million during fiscal 2023, decreased by $278,000 and $0.3 million during fiscal 2022, and increased by $2,438,000 during fiscal 2021. 2022. As of May 31, 2023 and 2022, , the Company provided maintained a full valuation allowance against on all the U.S. net deferred tax assets as it did was determined that it was more likely than not have enough objective evidence as required by GAAP to reverse its full valuation allowance. that the Company would not recognize the benefits of these assets. The Company will continue continued to evaluate the need for record a valuation allowance against through the first nine months of fiscal 2024. In the fourth quarter of fiscal 2024, the Company concluded that the valuation allowance related to the U.S. federal and state deferred tax assets was no longer required due to existence of

sufficient positive evidence to support that it is more likely than not that its deferred tax assets on a quarterly basis. are realizable.

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At May 31, 2023 May 31, 2024 and 2022, 2023, the Company has federal net operating loss carryforwards of approximately $46,967,000 $34.6 million and $61,068,000 $47.0 million respectively, to reduce future taxable income. A portion of the federal net operating losses will begin to expire in 2024. 2033. Federal net operating losses of $14,425,000 $14.4 million will carryforward indefinitely and would be subject to an 80% taxable income limitation in the year utilized. At May 31, 2023 May 31, 2024 and 2022, 2023, the Company has state net operating loss carryforwards of $30,203,000 $29.8 million and $30,043,000, $30.2 million respectively, to reduce future taxable income. The state net operating loss carryforwards will begin to expire in 2028.

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At May 31, 2023 May 31, 2024 and 2022, 2023, the Company has federal research and development credit carryforwards of approximately $2,923,000 $3.3 million and $2,362,000, $2.9 million, respectively, to offset future tax liability. The federal credit carryforwards began to expire in 2022. At May 31, 2023 May 31, 2024 and 2022, 2023, the Company has state research and development credit carryforwards of approximately $6,623,000 $7.1 million and $6,152,000 $6.6 million respectively, to offset future tax liability. The state credit carryforwards are not subject to expiration. The Company also has alternative minimum tax credit carryforwards of $34,000 $30 thousand for state purposes. The credits may be used to offset regular tax and do not expire.

Sections 382 and 383 of the Internal Revenue Code of 1986, as amended ("IRC") Section 382 ("§382") limits limit the annual use of NOL carryforwards and tax credit carryforwards, respectively, following an ownership change. NOL carryforwards may be subject to annual limitations under Section 382 (or comparable provisions of state law) if certain changes in certain situations where changes occur ownership of our company were to occur. In general, an ownership change occurs for the purposes of Section 382 if there is a more than 50% change in the stock ownership of a company. In general, if we experience a greater than 50% aggregate change in ownership company by 5% shareholders over a three-year period, 3-year testing period. During the year ended May 31, 2024, we are subject to an annual completed a Section 382 study and determined that there is no limitation under IRC §382 on the utilization of the Company's pre-change NOL carryforwards. California and other states have similar laws. The annual limitation generally is determined by multiplying the value of the Company's stock at the time of such ownership change (subject ability to certain adjustments) by the applicable long-term exempt rate. Such limitations may result in expiration of a portion of the NOL carryforwards before utilization. utilize its NOLs under Section 382.

The Company has made no provision for U.S. income taxes on undistributed earnings of certain foreign subsidiaries because it is the Company's intention to permanently reinvest such earnings in its foreign subsidiaries. If such

earnings were distributed, the Company would be subject to additional U.S. income tax expense.

The Company maintains liabilities for uncertain tax positions. These liabilities involve considerable judgment and estimation and are continuously monitored by management based on the best information available.

The aggregate changes in the balance of gross unrecognized tax benefits are as follows (in thousands): follows:

Beginning balance as of May 31, 2020	$ 1,852	
(In thousands)		
Balance at May 31, 2021		$ 1,928
Increases related to prior year tax positions	11	12
Increases related to current year tax positions	65	78
Balance at May 31, 2021	1,928	
Balance at May 31, 2022		2,018
Increases related to prior year tax positions	12	90
Increases related to current year tax positions	78	168
Balance at May 31, 2022	2,018	
Balance at May 31, 2023		2,276
Increases related to prior year tax positions	90	35
Decreases related to prior year tax positions		(28)
Increases related to current year tax positions	168	233
Balance at May 31, 2023	$ 2,276	
Decreases related to current year tax positions		(32)
Balance at May 31, 2024		$ 2,484

As of May 31, 2023 May 31, 2024 and 2022, 2023, the Company has not recorded interest and penalties associated with its total amount of unrecognized tax benefits. benefits was approximately $2.5 million and $2.3 million, respectively. The Company's unrecognized gross tax benefits benefit of $2.5 million would not reduce impact the annual effective tax rate, if recognized because it has recorded a full valuation allowance on its deferred recognized. The Company had zero accrued interest and accrued penalties related to unrecognized tax assets. benefit as of May 31, 2024. The Company does not foresee any material changes to the gross expect its unrecognized tax benefit within benefits to

change materially over the next twelve 12 months. The Company's Company policy is to recognize interest and penalties in income tax expense.

The Company's federal and state income tax returns are subject to possible examination by the taxing authorities until the expiration of the related statutes of limitations on those tax returns. In general, the federal income tax returns have a three-year statute of limitations, and the state income tax returns have a four-year statute of limitations. The Company's foreign income tax returns are also subject to examination by the foreign tax authorities with the longest statute of limitations period of four-year. The Company is not currently under audit with the Internal Revenue Service, or any foreign, state or local jurisdictions, nor has it been notified of any other potential future income tax audit.

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10. 6. LEASES

The Company leases its manufacturing and office space under operating leases. The principal administrative and production facility is located in Fremont, California, in a 51,289 square foot building. The Company entered into a non-cancelable operating lease agreement for its United States manufacturing and office facility, which was renewed amended in December 2022 and expires in to extend the lease term to September 2030. The total commitments, net of tenant incentives of up to $0.3 million expected to be received by December 2024, under the modified lease are $8.6 million. The modified lease contains an option to further extend the lease for five years. The lease modification resulted in an increase in the Company's operating lease right-of-use assets and operating lease liabilities of $5.9 million each in December 2022. The Company leases a 492 square foot sales and support office in Utting, Germany. The lease, which began on February 1, 1992 and expires on January 31, 2025, contains an automatic twelve months renewal, at rates to be determined, if no notice is given prior to six months from expiration. renewal. The Company leases a facility in the Philippines located in a 2,713 6,458 square foot building in Clark Freeport Zone, Pampanga. The lease, which amended in 2023, began on January 1, 2021 November 1, 2023 and expires on December 31, 2025, contains June 30, 2029 with an option to renew for another three or five years at rates stipulated in the contract, notice for renewal is given six months from expiration. prevailing market rate. Under the lease agreements, the Company is responsible for payments of utilities, taxes and insurance.

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The Company has only operating leases for real estate including corporate offices, warehouse space and certain equipment. A lease with an initial term of 12 months or less is generally not recorded on the consolidated balance sheets, unless the arrangement includes an option to purchase the underlying asset, or renew the arrangement that the Company is reasonably certain to exercise (short-term leases). exercise. The Company recognizes lease expense on a straight-line basis over the lease term for short-term leases that the Company does not record on its

consolidated balance sheets. The Company's operating leases have remaining lease terms of one year to seven six years.

The Company determines whether an arrangement is or contains a lease based on the unique facts and circumstances present at the inception of the arrangement. Operating lease liabilities and their corresponding right-of-use assets are recorded based on the present value of lease payments over the expected lease term. The interest rate implicit in lease contracts is typically not readily determinable. As such, the Company utilizes the appropriate incremental borrowing rate, which is the rate incurred to borrow on a collateralized basis over a similar term at an amount equal to the lease payments in a similar economic environment. Certain adjustments to the right-of-use asset may be required for items such as initial direct costs paid or incentives received.

In December 2022, As of May 31, 2024, the Company amended its lease agreement to extend the lease term of an existing office facility located in the United States, which is considered a lease modification not accounted for as a separate contract. The total commitments, net of tenant incentives expected to be received, under the modified lease are $8.6 million. The modified lease expires in fiscal 2031 and contains an option to further extend the lease. The lease modification resulted in an increase in the Company's operating lease right-of-use assets and operating lease liabilities of $5.9 million each.

The weighted average remaining lease term for the Company's operating leases was 7.3 6.2 years at May 31, 2023 and the weighted average discount rate was 7.5% 7.58%.

The Company's operating lease cost was $923,000, $766,000 $1.2 million, $0.9 million, and $761,000 $0.8 million for the years ended May 31, 2023 May 31, 2024, 2022 2023, and 2021, 2022, respectively.

The following table presents supplemental cash flow information related to the Company's operating leases (in thousands): leases:

	Year Ended May 31,		
	2023	2022	2021
Cash paid for amounts included in the measurement of operating lease liabilities:			
Operating cash flows from operating leases	$ 835	$ 813	$ 779

(In thousands)	**Year Ended May 31,**		
	2024	**2023**	**2022**
Operating cash flows paid for operating leases	$ 916	$ 835	$ 813
Right-of-use assets obtained in exchange for operating leases liabilities	$ 318	$ 5,855	$ -

The following table presents the maturities of the Company’s operating lease liabilities as of May 31, 2023 (in thousands) May 31, 2024:

(In thousands)		
Fiscal year	Operating Leases	Operating Leases
2024	$ 608	
2025	1,143	$ 921
2026	1,174	1,244
2027	1,195	1,284
2028	1,234	1,316
2029		1,361
Thereafter	3,075	1,798
Total future minimum operating lease payments	8,429	7,924
Less: imputed interest	(2,129)	(1,727)
Present value of operating lease liabilities	$ 6,300	$ 6,197

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11. 7. BORROWING AND FINANCING ARRANGEMENTS: ARRANGEMENTS

Payroll Protection Program Loan

On April 23, 2020, the Company obtained a Payroll Protection Program loan (“PPP Loan”) in the aggregate amount of $1.7 million from Silicon Valley Bank (“SVB”). The PPP Loan was evidenced by a promissory note dated April 23, 2020 (the “Note”) that matured on April 23, 2022 and bore interest at a rate of 1% per annum, payable monthly commencing on November 23, 2020. The PPP Loan proceeds were used for payroll, health care benefits, rent and utilities.

Under the terms of the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), PPP Loan recipients can apply for and be granted forgiveness for all or a portion of loans granted under the PPP Loan. On June 12, 2021, the Company received confirmation from SVB that on June 4, 2021, the Small Business Administration approved the Company’s PPP Loan forgiveness application for the entire PPP Loan balance of $1.7 million and interest totaling $20 thousand, and the Company recognized a gain on loan forgiveness of $1.7 million.

SVB Credit Facility

The Company terminated the revolving line as described below on January 4, 2024.

On January 16, 2020, the Company entered into a Loan and Security Agreement (the “Loan Agreement”) with Silicon Valley Bank (“SVB”). Pursuant to the Loan Agreement, the Company may borrow up to (a) the lesser of (i) the revolving line of $4.0 million or (ii) the amount available under the borrowing base under a revolving line of credit which is collateralized by all the Company’s assets except intellectual property. The borrowing base is 80% of eligible

accounts, as determined by SVB from the Company's most recent borrowing base statement; provided, however, SVB has the right to decrease the foregoing percentage in its good faith business judgment to mitigate the impact of certain events or conditions, which may adversely affect the collateral or its value. Subject to an event of default, the principal amount outstanding under the revolving line of credit will accrue interest at a floating per annum rate equal to the greater of (a) the prime rate plus an additional percentage of up to 1%, which additional percentage depends on the Company's adjusted quick ratio, and (b) 4.75%. Interest is payable monthly on the last calendar day of each month and the outstanding principal amount, the unpaid interest and all other obligations are due on the maturity date, which is 364 days from the effective date of January 13, 2020.

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On January 14, 2021, the Company entered into the First Amendment to Loan and Security Agreement (the "Amendment") with SVB. The Amendment, among other things, extended the Revolving Line Maturity Date to July 14, 2021; provided, however, that if the Company achieved specified operating metrics on a consolidated basis on or prior to May 31, 2021 the Amended Revolving Line Maturity Date would be extended to January 13, 2022.

On January 11, 2022, the Company entered into the Second Amendment to the Loan and Security Agreement (the "Second Amendment") with SVB. The Second Amendment, among other things, (A) increased the available amount of the line up to the lesser of (i) $10 million or (ii) the available amount under the borrowing base, under a revolving line of credit, (B) allowed for borrowing up to $3 million of the available balance based upon eligible customer purchase orders, (C) reduced the interest rate for account advances under the line to the greater of (a) prime rate plus an additional percentage up to 1.0%, which additional percentage depends on the Company's adjusted quick ratio, and (b) 3.25%, reduces the interest rate for purchase order advances under the line to the greater of (a) prime rate plus an additional percentage up to 1.5%, which additional percentage depends on the Company's adjusted quick ratio, and (b) 3.75%, and (D) extended the maturity date to January 13, 2023.

On January 10, 2023, the Company entered into the Third Amendment to the Loan and Security Agreement (the "Third Amendment") with SVB. The Third Amendment, among other things, extends the Revolving Line Maturity Date to January 13, 2024, provided, however, that (i) if the Company submits a fiscal year 2024 plan of record that is generally acceptable to SVB, and (ii) the minimum net liquidity at the end of November 30, 2023 is at least $20.0 million, the Amended Revolving Line Maturity Date would be extended to January 13, 2025.

As of May 31, 2023 the Company had not drawn against the credit facility and was in compliance with all covenants related to obligations to meet reporting requirements. The balance available to borrow under the line as of May 31, 2023 was $8,004,000. There are no financial covenants in the agreement.8. RETIREMENT PLAN

12. LONG-TERM DEBT:

On April 23, 2020, the Company obtained a Payroll Protection Program loan ("PPP Loan") in the aggregate amount of $1,679,000 from SVB. The PPP Loan was evidenced by a promissory note dated April 23, 2020 (the "Note")

that matures on April 23, 2022 and bears interest at a rate of 1% per annum, payable monthly commencing on November 23, 2020. The PPP Loan proceeds were used for payroll, health care benefits, rent and utilities.

Under the terms of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), PPP Loan recipients can apply for and be granted forgiveness for all or a portion of loans granted under the PPP Loan. On June 12, 2021, the Company received confirmation from the SVB that on June 4, 2021, the Small Business Administration approved the Company's PPP Loan forgiveness application for the entire PPP Loan balance of $1,679,000 and interest totaling $19,000, and the Company recognized a gain on loan forgiveness of $1,698,000.

13. STOCK-BASED COMPENSATION:

Stock-based compensation expense consists of expenses for stock options, restricted stock units ("RSUs"), performance RSUs, or PRSUs, restricted shares, performance restricted shares and employee stock purchase plan, or ESPP, purchase rights. Stock-based compensation expense for stock options and ESPP purchase rights is measured at each grant date, based on the fair value of the award using the Black-Scholes option valuation model, and is recognized as expense over the employee's requisite service period. This model was developed for use in estimating the value of publicly traded options that have no vesting restrictions and are fully transferable. The Company's employee stock options have characteristics significantly different from those of publicly traded options. For RSUs, PRSUs, restricted shares and performance restricted shares, stock-based compensation expense is based on the fair value of the Company's common stock at the grant date, and is recognized as expense over the employee's requisite service period. All of the Company's stock-based compensation is accounted for as equity instruments.

The following table summarizes the stock-based compensation expense for the fiscal years ended May 31, 2023, 2022 and 2021 (in thousands, except per share data):

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	Year Ended May 31,		
	2023	2022	2021
Stock-based compensation in the form of stock options, RSUs, and ESPP purchase rights, included in:			
Cost of sales	$ 331	$ 234	$ 70
Selling, general and administrative	1,711	1,721	816
Research and development	706	968	215
Net effect on net income (loss)	$ 2,748	$ 2,923	$ 1,101
Effect on earnings (net loss) per share:			
Basic	$ 0.10	$ 0.11	$ 0.05
Diluted	$ 0.09	$ 0.11	$ 0.05

As of the years ended May 31, 2023, 2022 and 2021, stock-based compensation totaling $120,000, $83,000 and $0, respectively, was capitalized as part of inventory.

During fiscal 2023, 2022 and 2021, the Company recorded stock-based compensation related to stock options, RSUs, PRSUs, performance restricted shares and restricted shares of $1,988,000, $2,071,000 and $993,000, respectively. For PRSUs and performance restricted shares, the Company evaluates compensation expense quarterly and recognizes expense for performance-based awards only if it determines it is probable that performance criteria for the awards will be met.

As of May 31, 2023, the total compensation expense related to unvested stock-based awards under the Company's 2016 Equity Incentive Plan, but not yet recognized, was $3,102,000 which is net of estimated forfeitures of $8,000. This expense will be amortized on a straight-line basis over a weighted average period of approximately 2.3 years.

During fiscal 2023, 2022 and 2021, the Company recorded stock-based compensation related to its ESPP of $760,000, $935,000 and $108,000, respectively.

As of May 31, 2023, the total compensation expense related to purchase rights under the ESPP but not yet recognized was $715,000. This expense will be amortized on a straight-line basis over a weighted average period of approximately 1.1 years.

Valuation Assumptions

Valuation and Amortization Method. The Company estimates the fair value of stock options granted using the Black-Scholes option valuation method and a single option award approach. The fair value under the single option approach is amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period.

Expected Term. The Company's expected term represents the period that the Company's stock-based awards are expected to be outstanding and was determined based on historical experience, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior as evidenced by changes to the terms of its stock-based awards.

Volatility. Volatility is a measure of the amounts by which a financial variable such as stock price has fluctuated (historical volatility) or is expected to fluctuate (expected volatility) during a period. The Company uses the historical volatility for the past five to six years, based on weighted average of the expected term of option grants, to estimate expected volatility. Volatility for each of the ESPP's four time periods of six months, twelve months, eighteen months, and twenty-four months is calculated separately and included in the overall stock-based compensation expense recorded.

Risk-Free Interest Rate. The Company bases the risk-free interest rate used in the Black-Scholes option valuation method on the implied yield in effect at the time of option grant on U.S. Treasury zero-coupon issues with a remaining term equivalent to the expected term of the stock awards including the ESPP.

Fair Value. The fair values of the Company's stock options granted to employees in fiscal 2023, 2022 and 2021 were estimated using the following weighted average assumptions in the Black-Scholes option valuation method:

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	Year Ended May 31,		
	2023	2022	2021
Expected term (in years)	5 - 6	5 - 6	6
Volatility	86 %	88 %	72 %
Risk-free interest rates	3.12 %	1.50 %	0.44 %
Weighted average grant date fair value	$ 6.29	$ 4.01	$ 1.12

The fair value of our ESPP purchase rights for the fiscal 2023, 2022 and 2021 was estimated using the following weighted average assumptions:

	Year Ended May 31,		
	2023	2022	2021
Expected term (in years)	0.5 – 2.0	0.5 – 2.0	0.5 – 2.0
Volatility	91% – 203 %	101% – 272 %	74% – 88 %
Risk-free interest rates	3.97%–4.94 %	0.05%–2.44 %	0.04%–0.17 %
Weighted average grant date fair value	$ 13.60	$ 9.68	$ 1.03

EQUITY INCENTIVE PLAN:

In October 2006, the Company’s 2006 Equity Incentive Plan was approved by the shareholders, which provides for granting of incentive stock options, non-statutory stock options, restricted shares, RSUs, stock appreciation rights, PRSUs, performance restricted shares and other stock or cash awards as the Company’s Board of Directors may determine.

In October 2016, the Company’s 2016 Equity Incentive Plan was approved by the Company’s shareholders. The 2016 Equity Incentive Plan replaced our 2006 Equity Incentive Plan, which was scheduled to expire in October 2016, and will continue in effect until 2026. The exercise price of each stock option equals the market value of the Company's common stock on the date of grant. Options typically vest over four years, subject to the grantee’s continued service with the Company through the scheduled vesting date, and expire in seven years from the grant date. A total of 4,848,000 shares of common stock have been reserved for issuance under the Company’s 2016 Equity Incentive Plan, which includes 2,248,000 shares that remained available for issuance under the 2006 Equity Incentive Plan. Full value awards, which are equity awards other than options, stock appreciation rights or other awards that are based solely on an increase in value of the shares following the grant date, when granted or forfeited will be counted as two times the number of shares added or deducted to the remaining available shares for issuance under 2016 Equity Incentive Plan. See the Company’s Registration Statement on Form S-8 filed with the Securities and Exchange Commission on November 16, 2021 for further information regarding the 2016 Equity Incentive Plan.

The following tables summarize the Company’s stock option and RSU transactions during fiscal 2023, 2022 and 2021 (in thousands):

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	Available Shares
Balance, May 31, 2020	1,416
Options granted	(297)
RSUs granted	(680)
RSUs cancelled	2
Shares withheld for taxes and not issued	18
Options terminated	455
Options expired	(341)
Balance, May 31, 2021	573
Additional shares reserved	1,414
Options granted	(303)
RSUs granted	(1,044)
RSUs cancelled	20
Shares withheld for taxes and not issued	(30)
Options terminated	105
Balance, May 31, 2022	735
Options granted	(110)
RSUs granted	(674)
RSUs cancelled	60
Options terminated	16
Balance, May 31, 2023	27

The following table summarized the stock option transactions during fiscal 2023, 2022 and 2021 (in thousands, except per share data):

	Outstanding Options		
	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Balances, May 31, 2020	3,153	$ 2.17	$ 102
Options granted	297	$ 1.78	
Options terminated	(455)	$ 2.31	

Options exercised	(229)	$	1.54		
Balances, May 31, 2021	2,766	$	2.16	$	807
Options granted	303	$	5.37		
Options terminated	(105)	$	1.59		
Options exercised	(1,367)	$	2.28		
Balances, May 31, 2022	1,597	$	2.70	$	9,290
Options granted	110	$	9.06		
Options terminated	(16)	$	5.42		
Options exercised	(730)	$	2.32		
Balances, May 31, 2023	961	$	3.67	$	28,211
Options fully vested and expected to vest at May 31, 2023	947	$	3.66	$	27,796

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The options outstanding and exercisable at May 31, 2023 were in the following exercise price ranges (in thousands, except per share data):

	Options Outstanding at May 31, 2023			Options Exercisable at May 31, 2023			
Range of Exercise Prices	Number Outstanding Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value
$ 1.34	41	4.39	$ 1.34	41	4.39	$ 1.34	
$1.64-$1.86	365	3.53	$ 1.72	291	3.45	$ 1.70	
$2.03-$2.40	185	2.61	$ 2.14	175	2.48	$ 2.14	
$ 2.93	139	5.12	$ 2.93	35	5.12	$ 2.93	
$3.46-$3.93	37	1.11	$ 3.93	37	1.11	$ 3.93	
$8.00-34.00	194	5.97	$ 9.77	41	5.90	$ 10.18	
$1.34-34.00	961	4.02	$ 3.67	620	3.35	$ 2.56	$ 18,895

The total intrinsic values of options exercised were $17,088,000, $12,542,000 and $152,000 during fiscal 2023, 2022 and 2021, respectively. The weighted average contractual life of the options exercisable and expected to be exercisable at May 31, 2023 was 4.01 years.

Options to purchase 620,000, 1,042,000 and 2,045,000 shares were exercisable at May 31, 2023, 2022 and 2021, respectively. These exercisable options had weighted average exercise prices of $2.56, $2.22 and $2.26 as of May 31, 2023, 2022 and 2021, respectively.

The following table summarizes RSUs, PRSUs, restricted shares and performance restricted shares granted to employees and members of the Company's Board of Directors during fiscal 2023, 2022 and 2021:

	Year Ended May 31,		
	2023	2022	2021
Employees:			
Annual RSUs granted	152,000	120,000	161,000
Weighted-average grant-date fair value of annual RSUs	$ 8.03	$ 3.17	$ 1.86
Annual restricted shares granted	8,000	-	-
Weighted-average grant-date fair value of annual restricted shares	$ 8.00	-	-
RSUs granted in lieu of cash payment for salary reductions and bonus	-	89,000	18,000
Weighted-average grant-date value of RSU in lieu of cash payment	-	$ 2.50	$ 2.21
Maximum PRSUs to be vested if all revenue goals are achieved	80,000	270,000	-
Maximum Performance restricted shares to be vested if all revenue goals are achieved	24,000	-	-
Weighted-average grant-date fair value of PRSUs and performance restricted shares	$ 8.00	$ 3.41	-
Members of Board of Directors:			
RSUs granted	44,000	43,000	161,000
Weighted-average grant-date fair value of RSUs	$ 11.35	$ 8.02	$ 1.81
Maximum PRSUs granted to be vested if all revenue goals are achieved	25,000	-	-
Weighted-average grant-date fair value of PRSUs	$ 8.00	-	-

PRSUs were granted to key officers and members of Board of Directors based upon revenue target thresholds for fiscal 2023 and 2022.

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The following table summarizes the RSUs and PRSUs vested and unvested during fiscal 2023, 2022 and 2021:

	Year Ended May 31,		
	2023	2022	2021
Net RSUs and PRSUs vested	240,000	96,000	207,000
Shares withheld to settle payroll taxes	178,000	62,000	9,000
Weighted average grant-date fair value of vested RSUs and PRSUs	$ 4.47	$ 3.12	$ 1.90

RSUs and PRSUs cancelled		30,000		10,000		1,000
Weighted average grant-date fair value of cancelled RSUs and PRSUs	$	8.56	$	2.93	$	3.46
RSUs and PRSUs unvested		345,000		185,000		132,000
Weighted average grant-date fair value of unvested RSUs and PRSUs	$	6.40	$	3.00	$	1.88
Intrinsic value of unvested RSUs and PRSUs (in thousands)	$	11,392	$	1,554	$	297

EMPLOYEE STOCK PURCHASE PLAN:

In October 2006, the Company's shareholders approved the 2006 Employee Stock Purchase Plan. In October 2016, the Company's shareholders approved the Company's Amended and Restated 2006 Employee Stock Purchase Plan (the "Purchase Plan"), which amended and restated the 2006 Employee Stock Purchase Plan. The Purchase Plan extended the term of the 2006 Employee Stock Purchase Plan indefinitely. See the Company's Registration Statements on Form S-8 filed with the Securities and Exchange Commission on November 18, 2020 and November 16, 2022 for further information regarding the Purchase Plan. The Purchase Plan has consecutive, overlapping, twenty-four month offering periods. Each twenty-four-month offering period includes four six-month purchase periods. The offering periods generally begin on the first trading day on or after April 1 and October 1 each year. All employees who work a minimum of 20 hours per week and are customarily employed by the Company (or an affiliate thereof) for at least five months per calendar year are eligible to participate. Under the Purchase Plan, shares are purchased through employee payroll deductions at exercise prices equal to 85% of the lesser of the fair market value of the Company's common stock at either the first day of an offering period or the last day of the purchase period. If a participant's rights to purchase stock under all employee stock purchase plans of the Company accrue at a rate which exceeds $25,000 worth of stock for a calendar year, such participant may not be granted an option to purchase stock under the Purchase Plan. The maximum number of shares a participant may purchase during a single purchase period is 3,000 shares. In October 2022, the Company's shareholders approved an amendment to the Purchase Plan to increase the number of shares authorized for issuance thereunder by an additional 350,000 shares of the Company's common stock. After such amendment, a total of 2,550,000 shares of the Company's common stock have been authorized for issuance under the Purchase Plan. During the fiscal years ended May 31, 2023, 2022 and 2021, ESPP purchase rights of 77,000, 101,000, and 279,000 shares, respectively, were granted. For the fiscal years ended May 31, 2023, 2022 and 2021, approximately 211,000, 178,000 and 147,000 shares of common stock, respectively, were issued under the Purchase Plan. As of May 31, 2023, a total of 2,152,000 shares have been issued under the Purchase Plan, and 398,000 ESPP shares remain available for issuance.

14. EMPLOYEE BENEFIT PLANS:

EMPLOYEE STOCK OWNERSHIP PLAN:

The Company has a non-contributory, trusteed employee stock ownership plan for full-time employees who have completed three consecutive months of service and for part-time employees who have completed one year of service and have attained an age of 21. The Company can contribute either shares of the Company's stock or cash to the plan. The contribution is determined annually by the Company and cannot exceed 15% of the annual aggregate salaries of those employees eligible for participation in the plan. On May 31, 2007, the Company converted the Aehr Test Systems Employee Stock Bonus Plan into the Aehr Test Systems Employee Stock Ownership Plan (the "Plan"). The stock bonus plan was converted to an employee stock ownership plan ("ESOP") to enable the Plan to better comply with changes in the law regarding Company stock. Individuals' account balances vest at a rate of 20% per

year commencing upon completion of two years of service. Non-vested balances, which are forfeited following termination of employment, are allocated to the remaining employees in the Plan. Under the Plan provisions, each employee who reaches age fifty-five (55) and has been a participant in the Plan for ten years will be offered an election each year to direct the transfer of up to 25% of his/her ESOP account to the employee self-directed account in the Savings and Retirement Plan. For anyone who met the above prerequisites, the first election to diversify holdings was offered after May 31, 2008. In the sixth year, employees will be able to diversify up to 50% of their ESOP accounts. Contributions of $300,000 were authorized for the plan during fiscal 2023, $250,000 for 2022 and $60,000 for 2021. The contribution amounts are recorded as compensation expense in the period authorized and included in accrued expenses in the period authorized. Contributions of 29,832 shares were made to the ESOP during fiscal 2023 for fiscal 2022. Contributions of 26,666 shares were made to the ESOP during fiscal 2022 for fiscal 2021. Contributions of 36,000 shares were made to the ESOP during fiscal 2021 for fiscal 2020. The contribution for fiscal 2023 will be made in fiscal 2024. Shares held in the ESOP are included in the EPS calculation.

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401(K) PLAN: Plan

The Company maintains a defined contribution savings plan (the “401(k) Plan”) to provide retirement income to all qualified employees of the Company. The 401(k) Plan is intended to be qualified under Section 401(k) of the Internal Revenue Code of 1986, as amended. The 401(k) Plan is funded by voluntary pre-tax contributions from employees. Contributions are invested, as directed by the participant, in investment funds available under the 401(k) Plan. The Company is not required to make, and did not make, any contributions to the 401(k) Plan during fiscal 2023, 2022 and 2021.

15. OTHER (EXPENSE) INCOME, NET:

Other (expense) income, net comprises the following (in thousands):

	Year Ended May 31,		
	2023	2022	2021
Foreign exchange (loss) gain	$ (3)	$ 32	$ (111)
Other expense, net	-	(2)	(51)
	$ (3)	$ 30	$ (162)

16. PRODUCT WARRANTIES:

The Company provides for the estimated cost of product warranties at the time revenues are recognized on the products shipped. While the Company engages in extensive product quality programs and processes, including actively monitoring and evaluating the quality of its component suppliers, the Company’s warranty obligation is affected by product failure rates, material usage and service delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage or service delivery costs differ from the Company’s estimates, revisions to the estimated warranty liability would be required.

The standard warranty period is one year for systems and ninety days for parts and service.

Following is a summary of changes in the Company’s liability for product warranties during the fiscal years ended May 31, 2023 May 31, 2024, 2023 and 2022 (in thousands):

	May 31, 2023	May 31, 2022
Balance at the beginning of the year	$ 410	$ 494
Accruals for warranties issued during the year	420	465
Adjustment to previously existing warranty	61	98
Consumption of reserves	(624)	(647)
Balance at the end of the year	$ 267	$ 410

The accrued warranty balance is included in accrued expenses on the consolidated balance sheets.

17. SEGMENT INFORMATION:

The Company has only one reportable segment. The information for revenue category by type, product line, geography and timing of revenue recognition, is summarized in Note 2, "Revenue."

Property and equipment information is based on the physical location of the assets. The following table presents property and equipment information for geographic areas (in thousands): 2022.

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	May 31, 2023	May 31, 2022
United States	$ 2,713	$ 1,156
Asia	44	47
Europe	2	-
	$ 2,759	$ 1,203

As of May 31, 2023, operating lease right-of-use assets of $6,007,000, $70,000 and $45,000 were allocated in the United States, Asia and Europe, respectively. As of May 31, 2022, the operating lease right-of-use assets of $822,000 and $95,000 were allocated in the United States and Asia, respectively.

*There were no revenues through distributors for the fiscal years ended May 31, 2023, 2022 and 2021.**9. COMMITMENTS AND CONTINGENCIES***

18. DISSOLUTION OF AEHR TEST SYSTEMS JAPAN:Commitment

On July 31, 2020 Purchase obligations consist of non-cancelable significant contractual obligations. As of May 31, 2024, the Company completed the liquidation Company's unconditional purchase obligations, which have a remaining term in excess of ATS-Japan, a majority owned subsidiary. Accordingly, the Company deconsolidated ATS-Japan and recognized an aggregate *net gain of $2,401,000 for the period ended August 31, 2020. The net gain was mainly due to cumulative translation adjustment reclassified into earnings of $2,186,000 and the residual income tax effect in connection with the cumulative translation adjustment released into income tax benefits of $215,000. 12 months, are not material.*

19. EQUITY:Contingencies

On August 25, 2021, the Board of Directors authorized management to take actions necessary for the execution of a $75 million shelf registration. A Registration Statement on Form S-3 was filed with the SEC on September 3, 2021. A Prospectus Supplement for an "At the Market" ("ATM") sale of $25 million of common stock was subsequently filed on September 17, 2021. On October 8, 2021, the Company executed the ATM offering by selling 1,696,729 shares of common stock at an average selling price of $14.73 per share. The gross proceeds to the Company were $25.0 million, before commission fees of $0.7 million and offering expenses of $0.3 million. Another Prospectus Supplement for an ATM sale of $25 million of common stock was subsequently filed on February 8, 2023. The Company partially executed the ATM offering by selling 208,917 shares of common stock at an average selling price of $34.78 per share. The gross proceeds to the Company were $7.3 million, before commissions of $0.2 million and offering expenses of $0.2 million.

20. COMMITMENTS AND CONTINGENCIES:

COMMITMENTS

As of May 31, 2023 and 2022, the Company had restricted money market funds of $150,000 and $80,000, respectively, held by a financial institution, representing a security deposit for its United States manufacturing and office space lease. This amount is included in other assets on the consolidated balance sheets.

PURCHASE OBLIGATIONS

The Company has purchase obligations to certain suppliers. In some cases, the products the Company purchases are unique and have provisions against cancellation of the order. At May 31, 2023, the Company had $26,318,000 of purchase obligations which are due within the following 12 months. This amount does not include contractual obligations recorded on the consolidated balance sheets as liabilities.

CONTINGENCIES

The Company may, from time to time, be involved in legal proceedings arising in the ordinary course of business. While there can be no assurances as to the ultimate outcome of any litigation involving the Company, management does not believe any pending legal proceedings will result in judgment or settlement that will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

In the normal course of business to facilitate sales of its products, the Company indemnifies other parties, including customers, with respect to certain matters, for example, including against losses arising from a breach of representations or covenants, or from intellectual property infringement or other claims. These agreements may limit the time within which an indemnification claim can be made and the amount of the claim. In addition, the Company has entered into indemnification agreements with its officers and directors, and the Company's bylaws contain similar indemnification obligations to the Company's agents.

It is not possible to determine the maximum potential amount under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. To date, *payments made by the Company under these agreements have not had a material impact on the Company's operating results, financial position or cash flow.*

10. EQUITY

On August 25, 2021, the Board of Directors authorized management to take actions necessary for the execution of a $75 million shelf registration. A Registration Statement on Form S-3 was filed with the SEC on September 3, 2021. A Prospectus Supplement for sales of $25 million of common stock pursuant to an "At the Market" ("ATM") offering program was subsequently filed on September 17, 2021. The Company sold 1,696,729 shares of common stock at an average selling price of $14.73 per share between September and October 2021. The gross proceeds to the Company were $25 million, before commission fees of $0.7 million and offering expenses of $0.3 million. Another Prospectus Supplement for an ATM sales of $25 million of common stock was subsequently filed on February 8, 2023. The Company sold 208,917 shares of common stock at an average selling price of $34.78 per share in February 2023. The gross proceeds to the Company during the quarter ended February 28, 2023 were $7.3 million, before commissions of $0.2 million and offering expenses of $0.2 million. The Company did not sell any shares under the ATM during the year ended May 31, 2024. As of May 31, 2024, the remaining amount of the ATM offering was $17.7 million.

11. EMPLOYEE STOCK PLANS

2023 Equity Incentive Plan

On October 23, 2023, the shareholders of the Company approved the 2023 Equity Incentive Plan (the "2023 Plan") to replace the Company's 2016 Equity Incentive Plan (the "2016 Plan") and reserved a total of 1,500,000 shares of common stock under the 2023 Plan.

The 2023 Plan permits grants to employees of share-based awards, including stock options, RSUs, PRSUs, restricted shares, performance restricted shares. Full value awards, which are equity awards other than options, stock appreciation rights or other awards that are based solely on an increase in value of the shares following the grant date, when granted or forfeited will be counted as the same number of common stock shares added or deducted to the remaining available shares for issuance under the 2023 Plan.

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2016 Equity Incentive Plan

In October 2016, the Company's 2016 Plan was approved by the Company's shareholders. The 2016 Plan replaced the 2006 Equity Incentive Plan and would continue in effect until 2026. The exercise price of each stock option equals the market value of the Company's common stock on the date of grant. Options typically vest over four years, subject to the grantee's continued service with the Company through the scheduled vesting date, and expire in seven years from the grant date. A total of 4,848,000 shares of common stock have been reserved for issuance under the Company's 2016 Plan. Full value awards, which are equity awards other than options, stock appreciation rights or other awards that are based solely on an increase in value of the shares following the grant date, when granted or forfeited will be counted as two times the number of shares added or deducted to the remaining available shares for issuance under the 2016 Plan.

The following table summarizes the total stock-based compensation expense for the fiscal years ended May 31, 2024, 2023, and 2022:

(In thousands, except per share data)	Year Ended May 31, 2024	2023	2022
Cost of sales	$ 330	$ 331	$ 234
Research and development	639	706	968
Selling, general and administrative	1,549	1,711	1,721
Net effect on net income	$ 2,518	$ 2,748	$ 2,923
Effect on earnings per share:			
Basic	$ 0.09	$ 0.10	$ 0.11
Diluted	$ 0.09	$ 0.09	$ 0.11

As of May 31, 2024 and 2023, stock-based compensation totaling $0.3 million and $0.1 million, respectively, was capitalized as part of inventory.

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The following table presents the combined stock activities and the total number of shares available for grant under the Company's equity incentive plans:

(in thousands)	Available Shares for Grant
Balance, May 31, 2021	573
Additional shares reserved under the 2016 Plan	1,414
Options granted	(303)
RSUs granted	(1,044)
RSUs cancelled	20
Shares withheld for taxes and not issued	(30)
Options terminated	105
Balance, May 31, 2022	735
Options granted	(110)
RSUs granted	(674)
RSUs cancelled	60
Options terminated	16
Balance, May 31, 2023	27
Shares reserved under the 2023 Plan	1,500
Shares retired under the 2016 Plan	(95)
Options granted	(4)
RSUs granted	(221)

RSUs cancelled	144
Options terminated	12
Balance, May 31, 2024	1,363

Restricted Stock Units, Performance Restricted Stock Units and Restricted Stock Awards

The Company's nonvested RSU, PRSU and restricted stock awards granted to employees and members of the Company's Board of Directors for the fiscal year ended May 31, 2024 were as follows:

	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value Per Share	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value (in thousands)
Unvested, May 31, 2023	345	$ 6.40	2.35	$ 11,392
Granted (1)	205	31.36		
Vested	(170)	9.31		
Forfeited	(86)	13.63		
Unvested, May 31, 2024	294	$ 20.08	2.29	$ 3,381

(1) Includes 88,000 performance-based awards. The number of shares subject to performance-based conditions represents the aggregate maximum number of shares that may be issued pursuant to the award over its full term.

During fiscal 2024, the Company recorded stock-based compensation related to RSUs, PRSUs, performance restricted shares and restricted shares of $1.3 million. As of May 31, 2024, the total unrecognized compensation expense related to unvested RSU, PRSU and restricted shares was $3.9 million. This expense will be amortized on a straight-line basis over a weighted average period of approximately 2.29 years.

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Stock Options

The following table summarized the stock option transactions during fiscal 2024:

	Number of Shares (in thousands)	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (In Years)	Aggregated Intrinsic Value (in thousands)
Balances, May 31, 2023	961	$ 3.67	4.02	$ 28,211
Options granted	4	49.21		

Options terminated	(12)		3.78			
Options exercised	(251)		2.51			
Balances, May 31, 2024	702	$	4.37	3.26	$	5,322
Options exercisable, May 31, 2024	536	$	3.26	2.83	$	4,512
Options exercisable and expected to vest	701	$	4.37	3.26	$	5,320

The fair value of the Company's stock options granted to employees was estimated on the date of grant using the Black-Scholes model and the straight-line attribution approach with the following weighted average assumptions:

	Year Ended May 31,		
	2024	2023	2022
Expected term (in years)	5	5-6	5-6
Volatility	93 %	86 %	88 %
Risk-free interest rates	4.34 %	3.12 %	1.50 %
Weighted average grant date fair value	$ 36.02	$ 6.29	$ 4.01

The total intrinsic values of options exercised were $9.5 million, $17.1 million, and $12.5 million during fiscal 2024, 2023, and 2022, respectively.

During fiscal 2024, the Company recorded stock-based compensation related to its stock options of $0.4 million. As of May 31, 2024, the Company had $0.9 million of total unrecognized compensation expense related to unvested stock options granted and outstanding which is expected to be recognized over a weighted average remaining period of 3.26 years.

Employee Stock Purchase Plan

The ESPP permits employees to purchase common stock at a discount through payroll withholdings at certain specified dates (purchase period) within a defined offering period. The purchase price is 85.0% of the fair market value of the common stock at the end of the purchase period and is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code.

For the fiscal years ended May 31, 2024, 2023, and 2022, approximately 72,000, 211,000, and 178,000 shares of common stock, were issued under the ESPP. As of May 31, 2024, 326,000 shares remain available for issuance under the ESPP.

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The fair value of each purchase right under the ESPP was estimated on the date of grant using the Black-Scholes model with the following weighted-average assumptions:

	Year Ended May 31,		
	2024	2023	2022
Expected term (in years)	0.5 – 2.0	0.5 – 2.0	0.5 – 2.0
Volatility	70% – 94 %	91% – 203 %	101% – 272 %
Risk-free interest rates	4.72%–5.53 %	3.97%–4.94 %	0.05%–2.44 %
Weighted average grant date fair value	$ 6.30	$ 13.60	$ 9.68

During fiscal 2024, 2023, and 2022, the Company recorded stock-based compensation related to its ESPP of $0.8 million, $0.8 million, and $0.9 million, respectively.

As of May 31, 2024, the total unrecognized compensation expense related to purchase rights under the ESPP was $1.1 million. This expense will be amortized on a straight-line basis over a weighted average period of approximately 1.2 years.

Employee Stock Ownership Plan

The Company has a non-contributory, trusteed employee stock ownership plan or Employee Stock Ownership Plan ("ESOP") for full-time and part-time employees. The Company can contribute either shares of the Company's stock or cash to the ESOP. During the fiscal years ended May 31, 2024, 2023 and 2022, the Company contributed 9,085, 29,832 and 26,666 shares to the ESOP. As a result, the Company recognized stock-based compensation expense totaling $0.3 million, $0.3 million and $0.3 million during the fiscal years ended May 31, 2024, 2023 and 2022, respectively. Shares held in the ESOP are included in the net income per share calculation.

12. REVENUE

Disaggregation of Revenue

The following tables show revenues by major product categories. Within each product category, contract terms, conditions and economic factors affecting the nature, amount, timing and uncertainty around revenue recognition and cash flow are substantially similar.

The Company's revenues by product category are as follows:

	Year Ended May 31		
(In thousands)	**2024**	**2023**	**2022**
Systems	$ 24,169	$ 38,844	$ 25,224
Contactors	37,560	21,873	22,647
Services	4,489	4,244	2,958
	$ 66,218	$ 64,961	$ 50,829

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The following presents information about the Company's operations in different geographic areas. Net revenues are based on ship-to locations:

	Year Ended May 31		
(In thousands)	**2024**	**2023**	**2022**
Asia	$ 58,076	$ 55,609	$ 45,700
United States	3,532	9,289	5,110
Europe	4,610	63	19
	$ 66,218	$ 64,961	$ 50,829

With the exception of the amount of service contracts and extended warranties, the Company's product category revenues are recognized at point in time when control transfers to customers. The following presents revenue based on timing of recognition:

	Year Ended May 31

(In thousands)	2024	2023	2022
Timing of revenue recognition:			
Products and services transferred at a point in time	$ 64,590	$ 63,531	$ 49,441
Services transferred over time	1,628	1,430	1,388
	$ 66,218	$ 64,961	$ 50,829

Contract Balances

Accounts receivable are recognized in the period the Company delivers goods and provides services or when the Company's right to consideration is unconditional. Contract assets include unbilled receivables which represent revenues that are earned in advance of scheduled billings to customers. These amounts are primarily related to product sales where transfer of control has occurred but the Company has not yet invoiced. As of May 31, 2024, unbilled receivables were $0.2 million and were included in prepaid expenses and other current assets on the accompanying consolidated balance sheets. Contract assets were not significant as of May 31, 2023.

Contract liabilities include payments received in advance of performance under a contract and are satisfied as the associated revenue is recognized. Contract liabilities as of May 31, 2024 and May 31, 2023 were $1.4 million and $2.9 million, respectively, and were included in deferred revenue, short-term and deferred revenue, long-term on the accompanying consolidated balance sheets. During the fiscal years ended May 31, 2024 and 2023, the Company recognized $2.8 million and $2.2 million, respectively, of revenues that were included in contract liabilities as of May 31, 2023 and 2022, respectively.

Remaining Performance Obligations

As of May 31, 2024, the remaining performance obligations, exclusive of customer deposits, which were comprised of deferred service contracts and extended warranty contracts not yet delivered, are not material. The foregoing excludes the value of the remaining performance obligations that have original durations of one year or less, and also excludes information about variable consideration allocated entirely to a wholly unsatisfied performance obligation.

Costs to Obtain or Fulfill a Contract

The Company generally expenses sales commissions when incurred as a component of selling, general and administrative expense as the amortization period is typically less than one year. Additionally, the majority of the Company's cost of fulfillment as a manufacturer of products is classified as inventory and fixed assets, which are accounted for under the respective guidance for those asset types. Other costs of contract fulfillment are immaterial due to the nature of the Company's products and their respective manufacturing process.

13. NET INCOME PER SHARE

Basic net income per share is determined using the weighted average number of common shares outstanding during the period. Diluted net income per share is determined using the weighted average number of common shares and potential common shares (representing the hypothetical number of incremental shares issuable under the assumed exercise of outstanding stock options, and vesting of outstanding RSUs and ESPP shares) during the period using the treasury stock method. The calculation of dilutive shares outstanding excludes securities that would have an antidilutive effect on net income per share.

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The following table presents the computation of basic and diluted net income per share:

(In thousands, except per share data)	Year Ended May 31 2024	2023	2022
Numerator:			
Net income	$ 33,156	$ 14,557	$ 9,450
Denominator:			
Basic weighted average shares outstanding	28,818	27,785	26,014
Dilutive effect of common equivalent shares outstanding	799	1,430	1,760
Diluted weighted average shares outstanding	29,617	29,215	27,774
Net income per share - Basic	$ 1.15	$ 0.52	$ 0.36
Net income per share - Diluted	$ 1.12	$ 0.50	$ 0.34
Antidilutive employee share-based awards, excluded	351	5	64

14. ACCUMULATED OTHER COMPREHENSIVE LOSS

Changes in the components of accumulated other comprehensive loss, net of tax, were as follows:

(In thousands)	Cumulative translation adjustment	Unrealized loss on investments, net	Total
Balance as of May 31, 2022	$ (105)	$ -	$ (105)
Other comprehensive loss before reclassifications	(33)	(17)	(50)
Balance as of May 31, 2023	(138)	(17)	(155)
Other comprehensive income (loss) before reclassifications	(20)	17	(3)
Balance as of May 31, 2024	$ (158)	$ -	$ (158)

15. SEGMENT INFORMATION

The Company has only one reportable segment. The information for revenue category by type, geography and timing of revenue recognition, is summarized in Note 12, "Revenue."

Property and equipment information is based on the physical location of the assets. The following table presents property and equipment information for geographic areas:

(In thousands)	May 31, 2024	2023
United States	$ 3,128	$ 2,713
International	125	46
Total long-lived assets, net	$ 3,253	$ 2,759

As of May 31, 2024, the operating lease right-of-use assets of $5.4 million and $0.3 million were allocated in the United States and international locations, respectively. As of May 31, 2023, operating lease right-of-use assets of $6.0 million and $0.2 million were allocated in the United States and international locations, respectively.

16. SUBSEQUENT EVENTS

On July 15, 2024, the Company entered into a Stock Purchase Agreement to acquire all the outstanding shares of Incal Technology, Inc. ("acquiree"), a California corporation based in Fremont, California and specializing in packaged part reliability/burn-in test solutions. The acquisition aligns with the Company's strategic objective to expand its market presence and diversify its product offering. Under the terms of the agreement, the Company will acquire all of the outstanding capital stock of the acquiree for a purchase price of $21.0 million, consisting of $14.0 million in cash and issuance of $7.0 million in shares of the Company's common stock, subject to certain post-closing adjustments with respect to working capital. The acquisition is expected to close within the first quarter of fiscal year 2025, subject to customary closing conditions.

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

None.

Item 9A. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, 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 the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

(b) Management's report on internal control over financial reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based upon the framework in "Internal Control – Integrated Framework" (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management has concluded that the Company's internal control over financial reporting was effective as of May 31, 2023 May 31, 2024.

(c) Changes in internal controls over financial reporting.

There were no changes in our internal controls over financial reporting that occurred during the period covered by this Annual Report on Form 10-K that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Item 9B. Other Information

Change in Fiscal Year

On March 28, 2023 July 11, 2024, Kenneth B. Spink, the Board of Directors approved a change in the Company's Chief Financial Officer ("CFO"), notified fiscal year-end from May 31 to a 4-4-5 fiscal calendar ending on the Company of his intention Friday closest to retire after the end of current May 31. The change is being made to better align financial reporting with operational cycles.

The change in fiscal year end will not impact the Company's previously issued consolidated financial statements or tax reporting. The Company has hired Chris Siu new fiscal year will begin on June 1, 2024, and end on May 30, 2025, following the 4-4-5 calendar format.

Insider Adoption or Termination of Trading Arrangements

During the fiscal quarter ended May 31, 2024, none of our directors or officers informed us of the adoption or termination of a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as CFO effective June 1, 2023. To facilitate an orderly transition, Mr. Spink intends to remain at the Company and continue to serve those terms are defined in his current role until August 31, 2023 Regulation S-K, Item 408(a).

Item 9C. Disclosure Regarding Foreign Jurisdiction that Prevent Inspections

Not applicable.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated by reference to our Proxy Statement to be filed with the Securities and Exchange Commission in connection with our 2023 2024 Annual Meeting of Shareholders.

Item 11. Executive Compensation

The information required by this item is incorporated by reference to our Proxy Statement to be filed with the Securities and Exchange Commission in connection with our 2023 2024 Annual Meeting of Shareholders.

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

The information required by this item is incorporated by reference to our Proxy Statement to be filed with the Securities and Exchange Commission in connection with our 2023 2024 Annual Meeting of Shareholders.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated by reference to our Proxy Statement to be filed with the Securities and Exchange Commission in connection with our 2023 2024 Annual Meeting of Shareholders.

Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated by reference to our Proxy Statement to be filed with the Securities and Exchange Commission in connection with our 2023 2024 Annual Meeting of Shareholders.

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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. *Financial Statements*

   See Index under Item 8.

2. *Financial Statement Schedule*

   See Index under Item 8.

3. *Exhibits*

See Item 15(b) below.

(b) Exhibits

The following exhibits are filed as part of or incorporated by reference into this Report:

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Exhibit No.	Description
3.1(1)	Restated Articles of Incorporation of Registrant.
3.2(2)(25)(28)(29)	Amended and Restated Bylaws of Registrant.
4.1(3)	Form of Common Stock certificate.
4.2(4)	Registration Rights Agreement by and among the Company and the Investors (as defined therein), dated as of September 22, 2016.
4.3(32) 4.3(26)	Description of Securities
10.1(5)	2006 Equity Incentive Plan.*
10.2(6)	Amended and Restated 2006 Employee Stock Purchase Plan.*
10.3(7)	2016 Equity Incentive Plan.*
10.4(8)	Form of Indemnification Agreement entered into between Registrant and its directors and executive officers.*
10.5(9)	Form of Change of Control Agreement.*
10.6(10)	Lease dated August 3, 1999 for facilities located at Building C, 400 Kato Terrace, Fremont, California.
10.7(11)	First Amendment dated May 06, 2008 for facilities located at 400 Kato Terrace, Fremont, California.
10.8(12)	Second Amendment dated November 7, 2014 for facilities located at 400 Kato Terrace, Fremont, California.
10.9(13)	Third Amendment dated February 27, 2018 for facilities located at 400 Kato Terrace, Fremont, California.
10.10(14)	Offer Letter dated January 3, 2012, between the Company and Gayn Erickson.*
10.11(15)	Offer Letter dated March 5, 2013, between the Company and Rhea Posedel.*
10.12(16)	Change of Control Severance Agreement dated January 3, 2012, between the Company and Gayn Erickson.*
10.13(17)	Amended and Restated Change of Control Severance Agreement dated March 5, 2013, between the Company and Rhea J. Posedel.*
10.15(18)	Form of 2006 Equity Incentive Plan Stock Option Award Agreement.*
10.16(19)	Form of 2006 Equity Incentive Plan Restricted Stock Unit Award.*
10.17(20)	Form of 2016 Equity Incentive Plan Stock Option Award Agreement.*

10.18(21)	Form of 2016 Equity Incentive Plan Restricted Stock Unit Award.*

10.19(22)	Purchase Agreement by and among the Company and the Investors (as defined therein), dated as of September 22, 2016.
10.20(23)	Loan and Security Agreement, dated as of January 13, 2020 and effective on January 16, 2020, by and between Silicon Valley Bank and Aehr Test Systems.
10.21(24)	Promissory Note, dated April 23, 2020, with Silicon Valley Bank as Lender and Aehr Test Systems as Borrower.
10.22(26)	First Amendment, dated as of January 14, 2021, to Loan and Security Agreement by and between Silicon Valley Bank and Aehr Test Systems, dated January 13, 2020
10.23(27)	Equity Distribution Agreement, dated as of September 17, 2021, by and between Craig-Hallum Capital Group LLC and Aehr Test Systems
10.24(29)	Second Amendment, dated as of January 11, 2022, to Loan and Security Agreement by and between Silicon Valley Bank and Aehr Test Systems, dated January 13, 2020
10.25(30)	Third Amendment, dated as of January 10, 2023, to Loan and Security Agreement by and between Silicon Valley Bank and Aehr Test Systems, dated January 17, 2023
10.26(31) 10.21(24)	Equity Distribution Agreement, dated as of February 7, 2023, by and among William Blair & Company L.L.C., Craig-Hallum Capital Group LLC and Aehr Test Systems
21.1(33) 10.22(25)	Fourth Amendment dated December 5, 2022 for facilities located at 400 Kato Terrace, Fremont, California.
10.23(30)	2023 Equity Incentive Plan
21.1(27)	Subsidiaries of the Company.
21.1	Subsidiaries of the Company (filed herewith).
23.1	Consent of BPM LLP - Independent Registered Public Accounting Firm (filed herewith).
24.1	Power of Attorney (incorporated by reference to the signature page of this Annual Report on Form 10-K).
31.1	Certification Statement of Chief Executive Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification Statement of Chief Financial Officer pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification of Chief Executive Officer and pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
97	Aehr Test Systems Policy for Recovery of Erroneously Awarded Compensation, effective as of August 14, 2023
101.INS	XBRL Instance Document

101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(1) Incorporated by reference to the same-numbered exhibit previously filed with the Company's Registration Statement on Form S-1 filed June 11, 1997 (File No. 333-28987).

(2) Incorporated by reference to the same-numbered exhibit previously filed with the Company's Current Report on Form 8-K filed September 11, 2019 (File No. 000-22893).

(3) Incorporated by reference to the same-numbered exhibit previously filed with Amendment No.1 to the Company's Registration Statement on Form S-1 filed July 17, 1997 (File No. 333-28987).

(4) Incorporated by reference to Exhibit 10.2 previously filed with the Company's Current Report on Form 8-K filed September 28, 2016 (File No. 000-22893).

(5) Incorporated by reference to Exhibit 4.1 previously filed with the Company's Registration Statement on Form S-8 filed October 27, 2006 (File No. 333-138249).

(6) Incorporated by reference to Exhibit 4.2 previously filed with the Company's Registration Statement on Form S-8 filed November 14, 2016 (File No. 333-214589).

(7) Incorporated by reference to Appendix A of the Company's Definitive Proxy Statement filed September 26, 2019 (File No. 333-214589).

(8) Incorporated by reference to Exhibit 10.4 previously filed with Amendment No.1 to the Company's Registration Statement on Form S-1 filed July 17, 1997 (File No. 333-28987).

(9) Incorporated by reference to Exhibit 10.14 previously filed with the Company's Form 10-K for the year ended May 31, 2001 filed August 29, 2001 (File No. 000-22893).

(10) Incorporated by reference to Exhibit 10.12 exhibit previously filed with the Company's Form 10-K for the year ended May 31, 1999 filed August 30, 1999 (File No. 000-22893).

(11) Incorporated by reference to Exhibit 10.15 previously filed with the Company's Current Report on Form 8-K filed May 9, 2008 (File No. 000-22893).

(12) Incorporated by reference to Exhibit 10.1 previously filed with the Company's Current Report on Form 8-K filed November 12, 2014 (File No. 000-22893).

(13) Incorporated by reference to Exhibit 10.1 previously filed with the Company's Current Report on Form 8-K filed March 2, 2018 (File No. 000-22893).

(14) Incorporated by reference to Exhibit No. 10.1 previously filed with the Company's Current Report on Form 8-K filed January 9, 2012 (File No. 000-22893).

(15) Incorporated by reference to Exhibit No. 10.1 previously filed with the Company's Current Report on Form 8-K filed March 8, 2013 (File No. 000-22893).

(16) Incorporated by reference to Exhibit No. 10.3 previously filed with the Company's Current Report on Form 8-K filed January 9, 2012 (File No. 000-22893).

(17) Incorporated by reference to Exhibit No. 10.2 previously filed with the Company's Current Report on Form 8-K filed March 8, 2013 (File No. 000-22893).

(18) Incorporated by reference to Exhibit 10.17 previously filed with the Company's Annual Report on Form 10-K filed August 29, 2016 (File No. 000-22893).

(19) Incorporated by reference to Exhibit 10.18 previously filed with the Company's Annual Report on Form 10-K filed August 29, 2016 (File No. 000-22893).

(20) Incorporated by reference to Exhibit 10.19 previously filed with the Company's Annual Report on Form 10-K filed August 29, 2017 (File No. 000-22893).

(21) Incorporated by reference to Exhibit 10.20 previously filed with the Company's Annual Report on Form 10-K filed August 29, 2017 (File No. 000-22893).

(22) Incorporated by reference to Exhibit 10.1 previously filed with the Company's Current Report on Form 8-K filed September 28, 2016 (File No. 000-22893).

(23) Incorporated by references reference to Exhibit 10.1 1.1 previously filed with the Company's Current Report on Form 8-K filed January 1, 2020 September 17, 2021 (File No. 000-22893).

(24) Incorporated by reference to Exhibit 4.3 previously filed with the Company's Annual Report on Form 10-K filed August 27, 2021 (File No. 000-22893).

(25) Incorporated by reference to Exhibit 10.1 previously filed with the Company's Current Report on Form 8-K filed April 28, 2020 December 5, 2022 (File No. 000-22893).

(26) Incorporated by reference to Exhibit 4.3 previously filed with the Company's Annual Report on Form 10-K filed August 27, 2021 (File No. 000-22893).

(25) (27) Incorporated by reference to Exhibit 21.1 previously filed with the Company's Annual Report on Form 10-K filed August 27, 2021 (File No. 000-22893).

(28) Incorporated by reference to Exhibit 3.1 previously filed with the Company's Current Report on Form 8-K filed September 2, 2020 (File No. 000-22893).

(26) Incorporated by reference to Exhibit 10.1 previously filed with the Company's Current Report on Form 8-K filed January 14, 2021 (File No. 000-22893).

(27) Incorporated by reference to Exhibit 1.1 previously filed with the Company's Current Report on Form 8-K filed September 17, 2021 (File No. 000-22893).

(28) (29) Incorporated by reference to Exhibit 3.1 previously filed with the Company's Current Report on Form 8-K filed October 19, 2021 (File No. 000-22893).

(29) Incorporated by reference to Exhibit 10.1 previously filed with the Company's Current Report on Form 8-K filed January 11, 2022 (File No. 000-22893).

(30) Incorporated by reference to Exhibit 10.1 previously filed with 99.1 of the Company's Current Report on Form 8-K S-8 filed January 17, 2023 October 27, 2023 (File No. 000-22893).

(31) Incorporated by reference to Exhibit 1.1 previously filed with the Company's Current Report on Form 8-K filed February 8, 2023 (File No. 000-22893).

(32) Incorporated by reference to Exhibit 4.3 previously filed with the Company's Annual Report on Form 10-K filed August 27, 2021 (File No. 000-22893).

(33) Incorporated by reference to Exhibit 21.1 previously filed with the Company's Annual Report on Form 10-K filed August 27, 2021 (File No. 000-22893). 333-275202)

* Management contracts or compensation plans or arrangements in which directors or executive officers are eligible to participate.

Item 16. Form 10-K Summary

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: August 28, 2023 July 30, 2024

AEHR TEST SYSTEMS

By: ______________________

By: /s/ GAYN ERICKSON

Gayn Erickson

Gayn Erickson

PRESIDENT AND CHIEF EXECUTIVE OFFICER

(Principal Executive Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Gayn Erickson and Kenneth B. Spink, Chris P. Siu, jointly and severally, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ RHEA J. POSEDEL *Rhea J. Posedel*	*Chairman*	*July 30, 2024*
/s/ GAYN ERICKSON *Gayn Erickson*	*President, Chief Executive Officer, and Director (Principal Executive Officer)*	*August 28, 2023 July 30, 2024*
/s/ KENNETH B. SPINK *Kenneth B. Spink* *Chris P. Siu* *CHRIS P. SIU*	*Executive Vice President of Finance and Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)*	*August 28, 2023 July 30, 2024*

/s/ FARIBA DANESH Fariba Danesh	Director	August 28, 2023	Director	July 30, 2024
/s/ LAURA OLIPHANT Laura Oliphant	Director	August 28, 2023 July 30, 2024		
/s/ RHEA J. POSEDEL Rhea J. Posedel	Chairman	August 28, 2023		
/s/ GEOFFREY G. SCOTT Geoffrey G. Scott	Director	August 28, 2023 July 30, 2024		
/s/ HOWARD T. SLAYEN Howard T. Slayen	Director	August 28, 2023 July 30, 2024		

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-259317, 333-216792, 333-214218 and 333-204008) 333-259317) and the Registration Statements on Form S-8 (No. 333-275202, 333-268413, 333-261147, 333-250175, 333-235105, 333-228509, 333-214589, 333-208130, 333-200442, 333-184865, 333-177954, 333-163100, 333-155389 333-138249, 333-119636, 333-52592 and 333-40577) 333-138249) of Aehr Test Systems of our report dated August 28, 2023 July 30, 2024 relating to the consolidated financial statements, which appears in this Form 10-K.

/s/ BPM LLP

San Jose, California

August 28, 2023

amounts so withheld.

July 30, 2024

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO SECTION 302(a) OF THE SARBANES-OXLEY ACT

I, Gayn Erickson, certify that:

1. I have reviewed this annual report on Form 10-K of Aehr Test Systems; I have reviewed this annual report on Form 10-K of Aehr Test Systems;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period

covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and

procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to

the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 28, 2023

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

By: /s/ GAYN ERICKSON

Gayn Erickson

President and Chief Executive Officer

(Principal Executive Officer)

sFrom0(�]�

Date: July 30, 2024

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302(a) OF THE SARBANES-OXLEY ACT

I, Kenneth B. Spink, Chris P. Siu, certify that:

1. I have reviewed this annual report on Form 10-K of Aehr Test Systems;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) 1. I have reviewed this annual report on Form 10-K of Aehr Test Systems;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 28, 2023

By: /s/ KENNETH B. SPINK
Kenneth B. Spink

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ CHRIS P. SIU

Chris P. Siu

Executive Vice President of Finance, and

Chief Financial Officer and Secretary

(Principal Financial and Accounting Officer)

"us-g (�M

Date: July 30, 2024

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Gayn Erickson, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Aehr Test Systems on Form 10-K for the period ending May 31, 2023 May 31, 2024 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Aehr Test Systems.

Date: August 28, 2023

By: /s/ GAYN ERICKSON

Gayn Erickson

President and Chief Executive Officer
(Principal Executive Officer)

Date: July 30, 2024

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Kenneth B. Spink, Chris P. Siu, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Aehr Test Systems on Form 10-K for the period ending May 31, 2023 May 31, 2024 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Aehr Test Systems.

Date: August 28, 2023

By: /s/ KENNETH B. SPINK CHRIS P. SIU
Kenneth B. Spink
Chris P. Siu

Executive Vice President of Finance, and Chief Financial Officer and Secretary

(Principal Financial and Accounting Officer)

Date: July 30, 2024

EXHIBIT 97

AEHR TEST SYSTEMS POLICY FOR RECOVERY OF ERRONEOUSLY AWARDED COMPENSATION

Aehr Test Systems, a California corporation (the "***Company***") has adopted this Policy for Recovery of Erroneously Awarded Compensation (the "***Policy***"), effective as of August 14, 2023[1] (the "***Effective Date***"). Capitalized terms used in this Policy but not otherwise defined herein are defined in Section 11.

1. <u>Persons Subject to Policy</u>

This Policy shall apply to current and former Officers of the Company.

2. <u>Compensation Subject to Policy</u>

This Policy shall apply to Incentive-Based Compensation received on or after the Effective Date. For purposes of this Policy, the date on which Incentive-Based Compensation is "received" shall be determined under the Applicable Rules, which generally provide that Incentive-Based Compensation is "received" in the Company's fiscal period during which the relevant Financial Reporting Measure is attained or satisfied, without regard to whether the grant, vesting or payment of the Incentive-Based Compensation occurs after the end of that period.

3. <u>Recovery of Compensation</u>

In the event that the Company is required to prepare a Restatement, the Company shall recover, reasonably promptly, the portion of any Incentive-Based Compensation that is Erroneously Awarded Compensation, unless the Committee has determined that recovery would be Impracticable. Recovery shall be required in accordance with the preceding sentence regardless of whether the applicable Officer engaged in misconduct or otherwise caused or contributed to the requirement for the Restatement and regardless of whether or when restated financial statements are filed by the Company. For clarity, the recovery of Erroneously Awarded Compensation under this Policy will not give rise to any person's right to voluntarily terminate employment for "good reason," or due to a "constructive termination" (or any similar term of like effect) under any plan, program or policy of or agreement with the Company or any of its affiliates.

4. <u>Manner of Recovery; Limitation on Duplicative Recovery</u>

The Committee shall, in its sole discretion, determine the manner of recovery of any Erroneously Awarded Compensation, which may include, without limitation, reduction or cancellation by the Company or an affiliate of the Company of Incentive-Based Compensation or Erroneously Awarded Compensation, reimbursement or repayment by any person subject to this Policy of the Erroneously Awarded Compensation, and, to the extent permitted by law, an offset of the Erroneously Awarded Compensation against other compensation payable by the Company or an affiliate of the Company to such person. Notwithstanding the foregoing, certifications unless otherwise prohibited by the Applicable Rules, to the extent this Policy provides for recovery of Erroneously Awarded Compensation already recovered by the Company pursuant to Section 304 of the Sarbanes-Oxley Act of 2002 or Other Recovery Arrangements, the amount of Erroneously Awarded Compensation already recovered by the Company from the recipient of such Erroneously Awarded Compensation may be credited to the amount of Erroneously Awarded Compensation required to be recovered pursuant to this Policy from such person.

[1] "Effective Date" will be the effective date of the applicable listing rules of the national securities exchange or association on which the Company's securities are listed.

5. <u>Administration</u>

This Policy shall be administered, interpreted and construed by the Committee, which is authorized to make all determinations necessary, appropriate or advisable for such purpose. The Board of Directors of the Company (the "***Board***") may re-vest in itself the authority to administer, interpret and construe this Policy in accordance with applicable law, and in such event references herein to the "Committee" shall be deemed to be references to the Board. Subject to any permitted review by the applicable national securities exchange or association pursuant to the Applicable Rules, all determinations and decisions made by the Committee pursuant to the provisions of this Policy shall be final, conclusive and binding on all persons, including the Company and its affiliates, equityholders and employees. The Committee may delegate administrative duties with respect to this Policy to one or more directors or employees of the Company, as permitted under applicable law, including any Applicable Rules.

6. Interpretation

This Policy will be interpreted and applied in a manner that is consistent with the requirements of the Applicable Rules, and to the extent this Policy is inconsistent with such Applicable Rules, it shall be deemed amended to the minimum extent necessary to ensure compliance therewith.

7. No Indemnification; No Liability

The Company shall not indemnify or insure any person against the loss of any Erroneously Awarded Compensation pursuant to this Policy, nor shall the Company directly or indirectly pay or reimburse any person for any premiums for third-party insurance policies that such person may elect to purchase to fund such person's potential obligations under this Policy. None of the Company, an affiliate of the Company or any member of the Committee or the Board shall have any liability to any person as a result of actions taken under this Policy.

8. Application; Enforceability

Except as otherwise determined by the Committee or the Board, the adoption of this Policy does not limit, and is intended to apply in addition to, any other clawback, recoupment, forfeiture or similar policies or provisions of the Company or its affiliates, including any such policies or provisions of such effect contained in any employment agreement, bonus plan, incentive plan, equity-based plan or award agreement thereunder or similar plan, program or agreement of the Company or an affiliate or required under applicable law (the "***Other Recovery Arrangements***"). The remedy specified in this Policy shall not be exclusive and shall be in addition to every other right or remedy at law or in equity that may be available to the Company or an affiliate of the Company.

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9. Severability

The provisions in this Policy are intended to be applied to the fullest extent of the law; provided, however, to the extent that any provision of this Policy is found to be unenforceable or invalid under any applicable law, such provision will be applied to the maximum extent permitted, and shall automatically be deemed filed amended in a manner consistent with its objectives to the extent necessary to conform to any limitations required under applicable law.

10. Amendment and Termination

The Board or the Committee may amend, modify or terminate this Policy in whole or in part at any time and from time to time in its sole discretion. This Policy will terminate automatically when the Company does not have a class of securities listed on a national securities exchange or association.

11. Definitions

"***Applicable Rules***" means Section 10D of the Exchange Act, Rule 10D-1 promulgated thereunder, the listing rules of the national securities exchange or association on which the Company's securities are listed, and any applicable rules, standards or other guidance adopted by the Securities and Exchange Commission or any national securities exchange or association on which the Company's securities are listed.

"***Committee***" means the committee of the Board responsible for purposes executive compensation decisions comprised solely of Section 18 independent directors (as determined under the Applicable Rules), or in the absence of such a committee, a majority of the independent directors serving on the Board.

"***Erroneously Awarded Compensation***" means the amount of Incentive-Based Compensation received by a current or former Officer that exceeds the amount of Incentive-Based Compensation that would have been received by such current or former Officer based on a restated Financial Reporting Measure, as determined on a pre-tax basis in accordance with the Applicable Rules.

"***Exchange Act***" means the Securities Exchange Act of 1934, as amended (Exchange Act) amended.

"***Financial Reporting Measure***" means any measure determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and any measures derived wholly or in part from such measures, including GAAP, IFRS and non-GAAP/IFRS financial measures, as well as stock or share price and total equityholder return.

"***GAAP***" means United States generally accepted accounting principles.

"***IFRS***" means international financial reporting standards as adopted by the International Accounting Standards Board.

"***Impracticable***" means (a) the direct costs paid to third parties to assist in enforcing recovery would exceed the Erroneously Awarded Compensation; provided that the Company (i) has made reasonable attempts to recover the Erroneously Awarded Compensation, (ii) documented such attempt(s), and (iii) provided such documentation to the relevant listing exchange or association, (b) to the extent permitted by the Applicable Rules, the recovery would violate the Company's home country laws pursuant to an opinion of home country counsel; provided that the Company has (i) obtained an opinion of home country counsel, acceptable to the relevant listing exchange or association, that recovery would result in such violation, and (ii) provided such opinion to the relevant listing exchange or association, or (c) recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are not broadly available to be incorporated employees of the Company, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and the regulations thereunder.

"***Incentive-Based Compensation***" means, with respect to a Restatement, any compensation that is granted, earned, or vested based wholly or in part upon the attainment of one or more Financial Reporting Measures and received by reference into a person: (a) after beginning service as an Officer; (b) who served as an Officer at any filing time during the performance period for that compensation; (c) while the issuer has a class of Aehr Test Systems its securities listed on a national securities exchange or association; and (d) during the applicable Three-Year Period.

"***Officer***" means each person who serves as an executive officer of the Company, as defined in Rule 10D-1(d) under the Securities Act Exchange Act.

"***Restatement***" means an accounting restatement to correct the Company's material noncompliance with any financial reporting requirement under securities laws, including restatements that correct an error in previously issued financial statements (a) that is material to the previously issued financial statements or (b) that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period.

"***Three-Year Period***" means, with respect to a Restatement, the three completed fiscal years immediately preceding the date that the Board, a committee of 1933, as amended, the Board, or the Exchange Act, whether made before officer or after officers of the Company authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare such Restatement, or, if earlier, the date hereof, regardless on which a court, regulator or other legally authorized body directs the Company to prepare such Restatement. The "Three-Year Period" also includes any transition period (that results from a change in the Company's fiscal year) within or immediately following the three completed fiscal years identified in the preceding sentence. However, a transition period between the last day of any general incorporation language in such filing. the Company's previous fiscal year end and the first day of its new fiscal year that comprises a period of nine to 12 months shall be deemed a completed fiscal year.

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