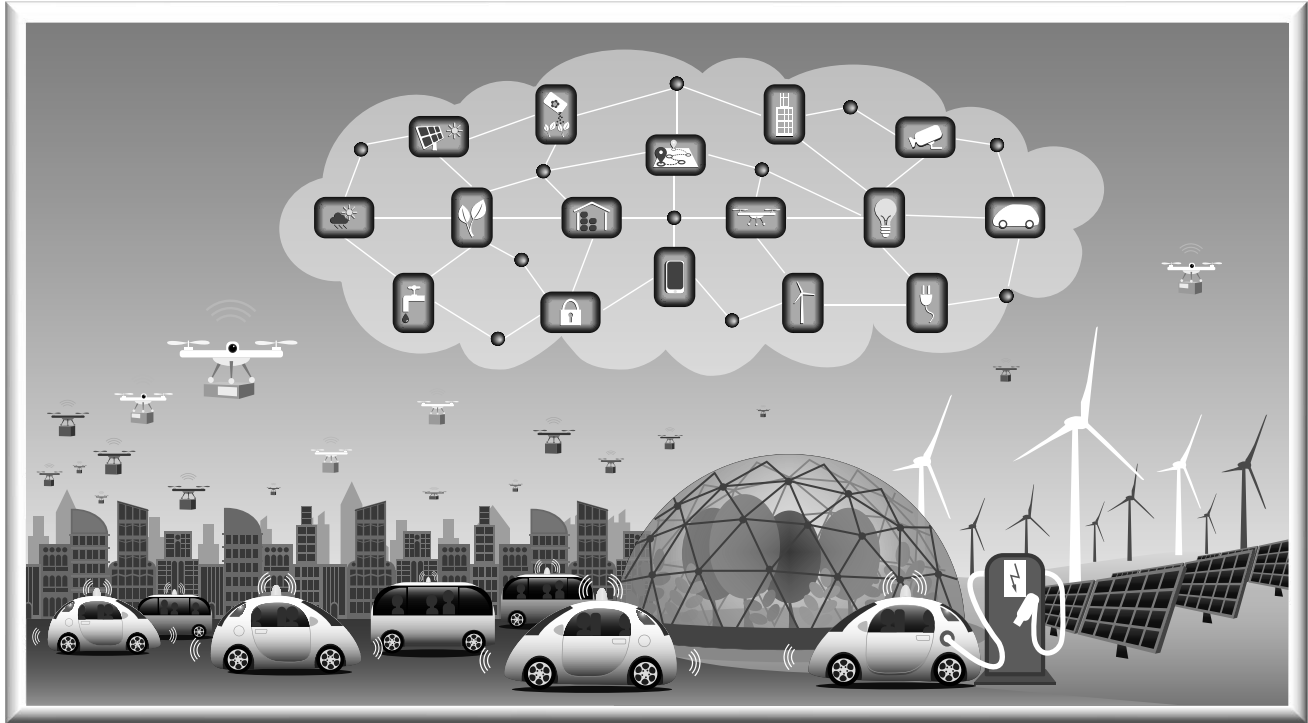


2021 Annual Report



Aehr Test Systems

*Meeting the Production Test and Burn-in Needs
of Semiconductor Devices for Electric Vehicles,
Solar Power Conversion, Data Center and 5G
Infrastructure, and Mobile and Wearable Devices*



FINANCIAL HIGHLIGHTS

(in thousands, except per share data)

For the years ended May 31,

	2021	2020	2019
Net sales	\$16,600	\$22,291	\$21,056
Loss from operations	(4,182)	(2,765)	(5,000)
Net loss attributable to common shareholders	(2,027)	(2,802)	(5,235)
Net loss per share - diluted	(0.09)	(0.12)	(0.23)
Cash and cash equivalents	4,582	5,433	5,428
Working capital	10,123	13,786	14,522
Shareholders' equity	11,449	14,056	15,453

PRODUCTS



The FOX-P platform can be used in a wide range of test and reliability screening (burn-in) applications for high reliability applications, such as automotive, mobile devices, networking, telecommunications, sensors, photonics and laser devices. The FOX™-XP Burn-in and Test System is designed for single-touchdown testing of up to 18 wafers at a time and for testing singulated die or small modules. The FOX-NP is a low-cost entry-level system to provide a configuration and price point for companies to do initial production qualification and new product introduction, enabling an easier transition to the FOX-XP system for high volume production test. The FOX-CP is a new low-cost single-wafer compact test and reliability verification solution for logic, memory and photonic devices where test times ranging from minutes to a few hours or where multiple touchdowns are required to test the entire wafer. 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.

The FOX-1P Full Wafer Parallel Test System is designed for massively parallel testing in wafer sort. By utilizing Design for Testability (DFT) or Built-In Self-Test (BIST) all devices on a wafer are tested at one time, test costs can be decreased significantly due to the high throughput of the system, enabling the user to significantly reduce the capital investment required for high-volume production test.



Aehr Test's patented WaferPak Contactor and DiePak® Carriers connect electrical test resources from Aehr's FOX systems to the customer's wafer or singulated die/modules to be tested or burned-in. Both products contain micro-miniature probes to contact all the die/modules in a single insertion.

The ABTS™ Advanced Burn-In and Test System is Aehr Test's family of Test During Burn-In systems for packaged parts. It is being used for many applications in the mobility and automotive markets. It can be configured with up to 320 I/O channels and up to 72 Burn-in boards for testing and burning-in advanced logic devices. It offers an individual device temperature control option for higher-power applications such as applications processors.



This Annual Report contains certain "forward-looking" statements based on current expectations, forecasts and assumptions that involve risks and uncertainties. Forward-looking statements include statements relating to future market opportunities and conditions, industry growth and customer demand for Aehr Test's products. Actual results may differ materially from those stated or implied due to risks and uncertainties. See Aehr Test's recent 10-K report that is part of this Annual Report for a more detailed description of the risks facing our business. Aehr Test disclaims any obligation to update information contained in any forward-looking statement to reflect events or circumstances occurring after the date of this Annual Report.

Dear Shareholders, Customers, Partners, and Employees,

Fiscal 2021, which started June 1, 2020, right after the worldwide COVID-19-related lockdowns kicked into full swing, was a very challenging year. We experienced several customer production ramp delays and push outs related to the ongoing uncertainties around COVID-19 that lasted through our fiscal year. Yet through the disruption of the pandemic, we remained engaged with our key customers, maintained our existing business, and captured additional customer engagements while carefully managing our cash and inventory. As I firmly believed when I wrote last year's letter, we have emerged from this challenging period a stronger Company, with more production customers, more markets and applications, and higher value products than we had before the pandemic. In fact, as I write this today, just a few months in to our fiscal 2022 year, we have already generated bookings to date of over \$40 million, which is by far the largest in Company history.

Silicon Carbide Driving Largest Backlog in Company History

This past fiscal year we made significant inroads into the emerging silicon carbide device market, which continues to be a very promising growth driver for Aehr and will be a major focus in the new fiscal year. Our lead silicon carbide customer qualified our FOX-XP system for high volume production burn-in and infant mortality screening of their silicon carbide power devices at wafer level for electric vehicles. This customer is a leading Fortune 500 supplier of semiconductor devices with a significant customer base in the automotive semiconductor market. They have now qualified several devices for automotive applications on our solution, ordered a significant number of FOX-XP systems, and purchased multiple new WaferPak Contactor designs that are expected to be qualified and move to production during this new fiscal year. This customer continues to forecast orders for multiple additional FOX systems and WaferPak Contactors this fiscal year and a significant number of systems and WaferPaks over the next several years driven by electric vehicle semiconductor test and burn-in demand.

In addition to the large opportunity for silicon carbide with our lead customer, we are currently in active discussions with several other major silicon carbide suppliers regarding our wafer level test and burn-in solutions and we expect to move to on-wafer evaluations with multiple potential new customers this fiscal year.

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. Our FOX-P family of products are cost-effective solutions for ensuring the critical quality and reliability of devices in this market, where performance and reliability can not only mean increased battery life, but also whether you have to walk home from a vehicle whose power semiconductor fails in the power train.

Aehr's FOX-XP solution allows for one of the key reliability screening tests to be completed on an entire wafer full of devices, basically testing all of them at one time, 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 our customers to screen devices that would otherwise fail after they are packaged into multi-die modules where the yield impact is 10 times or even 100 times as costly.

We anticipate that wafer level test and burn-in will become the industry standard for quality and reliability screening of silicon carbide devices for the automotive market, and with the most cost-

effective solution on the market to address this opportunity, we believe that Aehr has the chance to build a dominant market share.

Silicon Photonics Market Opportunity Being Driven By Data Center Expansion and 5G

While the silicon photonics market was significantly impacted by the pandemic this past fiscal year, late in the year we saw another existing customer begin using our FOX-XP system for high-volume production test and burn-in of their silicon photonics devices. This customer is a major supplier of fiber optic transceivers in the Data Center Interconnect (DCI) market and will need incremental capacity for FOX systems and our WaferPak Contactors with each increment in their volume production forecast.

We currently have five customers in the silicon photonics space that are shipping products to their customers using our FOX solutions and see a significant opportunity for growth as we expand within these customers and add additional new silicon photonics customers in this new fiscal year. We continue to be optimistic about the silicon photonics market, which is seeing increasing deployment of devices used in the expansion of bandwidth and infrastructure to meet the explosive growth of data center and 5G. Long term, we see integrated silicon photonics devices being integrated directly into other semiconductors directly or using multi-die or 3D packaging technologies that will further increase the total available market and demand for our FOX wafer level and singulated die products.

Mobile Device Sensor Market Drives Demand for Our FOX Systems and DiePaks

During the year our major mobile device customer selected Aehr for a critical new high-volume application for production test and burn-in of mobile sensors. Aehr won this application due to our unique technical capabilities and cost-effectiveness of our solution critical to this application, which we understand at this time will require 100% test, burn-in, traceability and validation of the devices. Within the mobile sensor market, this past year we successfully implemented our FOX systems and DiePak Carriers for production test and burn-in of two new applications for 2D/3D sensors for mobile devices and have successfully executed on several programs for highly custom and unique sensors in packages and configurations unlike any other devices on the market.

Aehr's engineering team has been able to design and develop custom DiePak carriers and contactors to address the unique electrical, mechanical, optical, and thermal needs of these devices with our FOX-XP systems and proprietary DiePak carriers.

We continue to be optimistic about the mobile sensor market space and are seeing increasing interest in our FOX systems and DiePaks for production test and burn-in of complex 2D and 3D sensors in multiple mobile applications. We expect to see follow-on orders for system capacity and DiePaks this fiscal year.

Consumables Revenue Continues to Grow

Our FOX family of test systems includes our consumable customized WaferPaks and DiePaks that are proprietary full wafer, singulated die and module contactors, and are needed not only for new systems orders, but also for each new design win and each new device added to production test.

Late in the fiscal year we launched our newest DiePak solution, which is capable of handling extremely small and complex devices and very high power-density devices with higher parallelism than available before. This new class of DiePak can handle devices small enough to rest on the tip of a pen or pencil. Devices this small are extremely hard to handle and particularly in any kind of parallelism.

Often, a discrete device this small is handled with special handling equipment and a tester that can only test one device at a time. This new FOX-XP system and DiePak solution is capable of testing very complex die and modules in addition to them being tiny. This solution is a great addition to our product family, and we believe it further sets us apart from any other company in the industry.

As we increase our installed base of FOX systems with current and new customers, particularly with our FOX-NP and XP multi-wafer and singulated die module test and burn-in systems, we expect our consumables business will continue to grow in absolute value and as a percentage of our total sales. Over the long-term, we expect these recurring consumable sales to account for up to half or even more of our total annual revenue.

Expect Significant Revenue Growth in Fiscal 2022

As we move into fiscal 2022, we are excited to see a recovery across our customer base, along with significant demand for wafer level test and burn-in of silicon carbide devices for electric vehicles, silicon photonics devices for data center and 5G infrastructure, and 2D/3D sensors for mobile devices. Silicon carbide appears to be one of the hottest potential application spaces Aehr Test has seen in many years, and we are extremely excited about our unique ability to service this emerging market that we expect will be a significant growth driver for Aehr for several years. While this past year was challenging, we made tremendous progress growing our customers, expanding our markets, and adding to our capabilities, and expect to generate significant revenue growth year over year in our new fiscal year.

I continue to be grateful to our employees, customers, partners and shareholders for their support.



Gayn Erickson, President and CEO

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, 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, 2021

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.

AEHR TEST SYSTEMS

(Exact name of registrant as specified in its charter)

CALIFORNIA

(State or other jurisdiction of
incorporation or organization)

94-2424084

(IRS Employer Identification Number)

400 KATO TERRACE, FREMONT, CA

(Address of principal executive offices)

94539

(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.

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 \$1.65 on November 30, 2020, as reported on the NASDAQ Capital Market, was \$34,124,251. 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, 2021 was 24,168,522.

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, 2021.

AEHR TEST SYSTEMS
FORM 10-K
FISCAL YEAR ENDED MAY 31, 2021

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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 11 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

Aehr Test was incorporated in the state of California on May 25, 1977. We develop, manufacture and sell solutions that are designed to reduce the cost of testing and to perform reliability screening and stress testing, burn-in or cycling, of homogeneous and heterogeneous logic and memory semiconductor integrated circuits, sensors, power and optical devices. These solutions can be used to simultaneously perform parallel testing and burn-in of packaged devices, singulated bare die or semiconductor devices while still in wafer form. The expanding automotive, mobility, networking, and telecommunications markets require semiconductor devices that meet increased quality and reliability specifications. To meet these needs, device manufacturers are increasing capacity and performing additional testing and burn-in of their products, creating opportunities for Aehr Test products in package and wafer-level testing. Leveraging its expertise as a long-time leading provider of burn-in equipment, and having installed over 2,500 systems worldwide, the Company has developed and introduced several innovative product families, including the ABTS™ and FOX™ family of systems, the WaferPak™ Contactor and the DiePak® Carrier for making electrical and thermal contact with devices under test, and WaferPak Aligners and DiePak Autoloaders for handling and alignment of devices into the corresponding WaferPaks and DiePaks. The ABTS family of packaged part burn-in and test systems can perform test during burn-in of complex devices, such as digital signal processors, microprocessors, microcontrollers, memory and systems-on-a-chip, and offers individual temperature control for high-power advanced logic devices while in a packaged form. The FOX family of systems are parallel test and burn-in systems designed to contact all devices on one or more wafers or panels of devices simultaneously, thus enabling cost effective full wafer parallel test and burn-in. The FOX systems are also used for parallel test and burn-in of singulated die or very small multi-IC modules. The WaferPak Contactor includes a full-wafer probe card for use in testing wafers in FOX systems. The DiePak Carrier is a reusable, temporary package that enables IC manufacturers to perform cost-effective test and burn-in of singulated bare die or very small multi-IC modules.

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.

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. 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 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 segments including silicon carbide devices for electric vehicles, silicon photonics markets that include data center infrastructure and worldwide 5G infrastructure, 2D/3D sensor markets related to consumer electronics and automotive applications, and the data storage and memory markets.

Silicon Carbide

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 Company sees most, if not every automotive company that is working on electric vehicles, moving to silicon carbide-based powertrain and charging systems in the near future.

Aehr's FOX-XP test and burn-in system 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, 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 devices that would otherwise fail after they are packaged into multi-die modules where the yield impact is 10 times or even 100 times as costly. The Company's FOX-P family of products are very cost-effective solutions for ensuring the critical quality and reliability of devices in this market, where performance and reliability can not only mean increased battery life, but also assurance against failure of a vehicle whose power semiconductor fails in the power 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.

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.

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 important that the data collected be accurate and reliable, which we believe will drive more and more requirements for our solutions for production test and burn-in of these sensors.

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 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.

FULL WAFER CONTACT SYSTEMS

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 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 do initial production qualification and new product introduction, 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 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.

The FOX-1P full wafer parallel test system, introduced in October 2014, is designed for massively parallel testing of devices at wafer level. The FOX-1P system is designed to make electrical contact to and test all of the die on a wafer in a single touchdown. The FOX-1P test head and WaferPak Contactors are compatible with industry-standard 300 mm wafer probes, which provide the wafer handling and alignment automation for the FOX-1P system. The FOX-1P

pattern generator is designed to functionally test industry-standard memory devices such as flash and DRAMs, and it is optimized to test memory or logic ICs that incorporate design for testability, or DFT, and built-in self-test, or BIST. The FOX-1P universal per-pin architecture is designed to provide per-pin electronics and per-device power supplies and is tailored to full-wafer functional test. The Company believes that the FOX-1P system can significantly reduce the cost of testing IC wafers. The Company's FOX-1P system was partially funded through a development agreement with a leading semiconductor manufacturer. The Company received the first production order of this new system and shipped the first system in July 2016.

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 only 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 facility 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. 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, and a manual aligner for low volume production or engineering applications.

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 of full wafer contact product lines, systems, WaferPak Contactors, DiePaks Carriers and services for fiscal 2021, 2020 and 2019 were \$15.0 million, \$19.8 million, and \$14.6 million, respectively, and accounted for approximately 90%, 89% and 69% of the Company's net sales in fiscal 2021, 2020 and 2019, respectively.

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, 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, and a production chamber holds up to 72 BIBs, resulting in thousands of memory or logic devices being tested in a single system.

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.

Net sales of packaged part product lines, systems and services for fiscal 2021, 2020 and 2019 were \$1.6 million, \$2.5 million, and \$6.4 million, respectively, and accounted for approximately 10%, 11% and 31% of the Company's net sales in fiscal 2021, 2020 and 2019, 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 the Company's five largest customers accounted for approximately 84%, 87%, and 80% of its net sales in fiscal 2021, 2020 and 2019, respectively. During fiscal 2021, Advanced Semiconductor Engineering, Inc., ON Semiconductor Korea, Ltd., or ON Semiconductor, Intel Corporation, or Intel, and Inphi International Pte. Ltd, or Inphi, accounted for approximately 24%, 23%, 20% and 10%, respectively, of the Company's net sales. During fiscal 2020, Intel, ON Semiconductor and STMicroelectronics, Inc., or STMicroelectronics, accounted for approximately 43%, 16% and 15%, respectively, of the Company's net sales. During fiscal 2019, Intel, Texas Instruments Incorporated, or Texas Instruments, Cypress Semiconductor Corporation, or Cypress Semiconductor, and STMicroelectronics accounted for approximately 36%, 14%, 12% and 10%, respectively, of the Company's net sales. No other customers accounted for more than 10% of the Company's net sales 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 for the foreseeable future. In addition, sales to particular customers may fluctuate significantly from quarter to quarter. Such fluctuations may result in changes in 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, Philippines and Taiwan, dedicated service resources in Germany, China and South Korea, and has established a network of distributors and sales representatives in certain key parts of the world. In fiscal 2020, the Company moved to a sales representative distributorship model for sales in Japan and Germany, substantially closing its subsidiary in Japan, see Note 17, "Restructuring," of the Notes to Consolidated Financial Statements, and eliminating the direct sales staff at its Germany subsidiary. See "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.

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 Philippines, at its branch office in Taiwan, and also through 3rd party agreements in China and South Korea. 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, 2021, the Company's backlog was \$1.6 million compared with \$2.5 million at May 31, 2020. 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 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 2021, 2020 and 2019 were \$3.7 million, \$3.4 million and \$4.2 million, respectively.

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. The Company is developing enhancements to our packaged parts and wafer level burn-in products, 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's FOX full wafer contact systems face competition from larger systems manufacturers that have significant technological know-how and manufacturing capability. Competing suppliers of full wafer contact systems include Advantest Corporation, Chroma ATE Inc., Teradyne Inc., Micronics Japan Co., Ltd., and Tokyo Electron Limited.

The Company's ABTS TDBI systems face increasingly severe competition, especially from several regional, low-cost manufacturers and from systems manufacturers that offer higher power dissipation per device under test. Some users of such 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. The market for burn-in systems is highly fragmented, with many domestic and international suppliers. Competing suppliers of burn-in and functional test systems that compete with ABTS systems include Dong-Il Corporation, Micro Control Company, Incal Technology and Advantest Corporation.

The Company's 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. As the full-wafer test market develops, the Company expects that other competitors will emerge. The primary competitive factors in this market are cost, performance, reliability and assured supply. Competing suppliers of full-wafer probe cards include FormFactor, Inc., Japan Electronic Materials Corporation and Micronics Japan Co., Ltd.

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. The Company expects that other competitors will emerge. The Company expects that the primary competitive factors in this market will be cost, performance, reliability and assured supply. Suppliers with products that compete with our single die DiePak products include Chroma ATE Inc.

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.

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, 2021, the Company held 52 issued United States patents with expiration date ranges from 2022 to 2038 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 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 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.

HUMAN CAPITAL RESOURCES

As of May 31, 2021, the Company, including its foreign subsidiaries and one branch office, employed 79 persons collectively, on a regular full-time basis, of whom 16 were engaged in research, development and related engineering, 21 were engaged in manufacturing, 34 were engaged in marketing, sales and customer support and 8 were engaged in general administration and finance functions. In addition, the Company from time to time employs a number of 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 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, 2021 regular full-time employees were located in the following geographic areas: 59 United States, 1 Germany, 4 Taiwan, and 15 in the Philippines.

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. 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 60% of its United States workforce being with the Company for 10 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 management quarterly reviews retention and turnover, employee communications, performance review status, and compensation and benefits to identify potential issues or opportunities. The Company periodically performs employee surveys to monitor employee satisfaction and the Company follows-up with an action planning process to actively respond to employee feedback.

The Company has been impacted by the outbreak of the novel coronavirus, known as COVID-19, which has spread throughout the world. Our business' top priority during the COVID-19 pandemic is protecting the health and safety of our employees and their families, customers and community. We introduced policies and procedures to increase workplace flexibility such as working remotely where possible to reduce the number of people who are on campus each day. As a global supplier of Critical Infrastructure Sectors, as defined by the cybersecurity and Infrastructure Security Agency, we have supported and continue to support customers during the pandemic. In the interest of public health, all onsite operations generally use the minimum number of people to safely execute tasks and follow enhanced safety and health protocols including screenings, social distancing, and use of personal protective equipment.

BUSINESS SEGMENT DATA AND GEOGRAPHIC AREAS

The Company operates in a single business segment, the designing, manufacturing and marketing of advanced test and burn-in products to the semiconductor manufacturing industry in several geographic areas. Selected financial information, including net sales 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, "Revenue" and Note 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."

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.

Risks Related to our Business and Industry

The effects of the COVID-19 pandemic have disrupted, and may continue to significantly disrupt, our operations, including our ability to manufacture and supply products and perform research and development activities, and our customers' usage of our products, all of which have had and may continue to have a material and adverse effect on our business, future revenues and financial condition. We are unable to predict the extent to which the pandemic and related impacts will continue to adversely impact our business operations, financial performance, results of operations and the achievement of our strategic objectives.

Our business, results of operation and financial performance have been negatively impacted by the COVID-19 pandemic and related public health responses, such as shelter-in-place orders, social distancing protocols, and travel restrictions in many of the countries and regions in which we have operations or manufacturing partners. Due to these impacts and measures, we have experienced and may continue to experience significant and unpredictable reductions in the demand for our products. In addition, our customers may delay, cancel or redirect planned capital expenditures in order to focus resources differently during or as a result of the COVID-19 pandemic. The effects of this outbreak on our business has included and could continue to include disruptions or restrictions on our employees' ability to travel in affected regions, as well as temporary closures of the facilities of our suppliers, customers, or other vendors in our

supply chain, which could impact our business, interactions and relationships with our customers, third-party suppliers and contractors, and results of operations.

As a result of the COVID-19 outbreak around the world, we implemented certain travel restrictions, temporarily limited the number of employees permitted onsite in our offices and implemented work-from-home rules. This has caused disruption and delays in our ability to operate and manufacture, test and assemble products in our internal facilities, and has limited our ability to continue certain research and development activities which could materially and adversely affect our ability to develop or deliver products on the timelines we previously anticipated.

The COVID-19 pandemic has created economic uncertainty and volatility in the financial markets around the world, resulting in economic uncertainty that has affected and will likely continue to affect demand for our products and impact our results of operations. As a result, this may lead to periods of regional, national, and global economic slowdown or regional, national, or global recessions that would curtail or delay spending by semiconductor manufacturers and contract assemblers and affect demand for our products as well as increase the risk of customer defaults or delays in payments. Our customers may delay or cancel orders for our products due to bankruptcy, lack of liquidity, lack of funding, operational failures, or other reasons. The ultimate impact of the COVID-19 pandemic on our operations and financial performance depends on many factors that are not within our control, including, but not limited, to: government's, business' and individuals' actions that have been and may continue to be taken in response to the pandemic (including restrictions on travel and transport and workforce pressures); the impact of the pandemic and actions taken in response to global and regional economies, travel, and economic activity; the availability of federal, state, local or non-U.S. funding programs; general economic uncertainty in key global markets and financial market volatility; global economic conditions and levels of economic growth; and the pace of recovery as the COVID-19 pandemic subsides. Although the magnitude of the continuing impact of COVID-19 on our business operations remains uncertain and difficult to predict, and this remains a highly dynamic situation, we have experienced and will continue to experience in subsequent periods, disruptions to our business that will likely continue to impact our business, financial condition and results of operations.

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 accounting for a substantial portion of the purchases of semiconductor equipment. Sales to our five largest customers accounted for approximately 84%, 87%, and 80% of our net sales in fiscal 2021, 2020 and 2019, respectively. During fiscal 2021, Advanced Semiconductor Engineering, Inc., ON Semiconductor, Intel and Inphi accounted for approximately 24%, 23%, 20% and 10%, respectively, of the Company's net sales. During fiscal 2020, Intel, ON Semiconductor and STMicroelectronics, accounted for approximately 43%, 16% and 15%, respectively, of the Company's net sales. During fiscal 2019, Intel, Texas Instruments, Cypress Semiconductor and STMicroelectronics, accounted for approximately 36%, 14%, 12% and 10%, respectively, of the Company's 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 of, or reduction or delay of, an order or orders from a significant customer or customers, or a delay in collecting or failure to collect accounts receivable from a significant customer or customers, could adversely affect our business, financial condition and operating results.

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. Our ABTS TDBI systems have faced and are expected to continue to face increasingly severe competition, especially from several regional, low-cost manufacturers and from systems manufacturers that offer higher power dissipation per device under test. Some users of such 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.

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 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 which typically range in purchase price from approximately \$300,000 to well over \$1 million per system. 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 began 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.

The Company is 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 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 of their devices. Based upon data obtained from our systems customers may revise internal manufacturing processes to decrease failure rates. A decrease in customer 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 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, our business may decline.

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 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 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 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 68%, 39%, and 36% of our net sales for fiscal 2021, 2020 and 2019, respectively, were attributable to sales to customers for delivery outside of the United States. We operate sales and service in Taiwan, a service

organization in Germany and Philippines, as well as direct support through third party agreements in China and South Korea. We expect that sales of products for delivery outside of the United States will continue to represent a substantial portion of our future net 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, the impact of the COVID-19 pandemic on the global economy and financial markets, 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 2021 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, disruptions due to the COVID-19 pandemic 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.

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 and ABTS systems, WaferPak contactors, DiePak 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.

Periodic economic and semiconductor industry downturns could negatively affect our business, results of operations and financial condition.

Periodic global economic and semiconductor industry downturns have negatively affected and could continue to negatively affect our business, results of operations, and financial condition. 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. 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, 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 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, and we are not able to timely and appropriately adapt to changes resulting from the difficult macroeconomic environment, our business, financial condition or results of operations may be materially and adversely affected.

If we are not able to reduce our operating expenses sufficiently during periods of weak revenue, or if we utilize significant amounts of cash to support operating losses, we may erode our cash resources and may not have sufficient cash to operate our business.

In recent years, in the face of a downturn in our business and a decline in our net sales, we 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. In fiscal 2019 and 2020, we implemented restructuring plans in order to streamline our operations and better align our structure with our objectives going forward. 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, from fiscal 2009 through fiscal 2020, with the exception of fiscal 2014 and 2018, we experienced 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 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.

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.

Risks Related to Ownership of our Common Stock

Our stock price may fluctuate.

The price of our common stock has fluctuated in the past and may fluctuate significantly in the future. We believe that 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.

Risks Related to our Legal/Organizational Structure

We depend on our key personnel and our success depends on our ability to attract and retain 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 and retain 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 or retaining 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.

Item 1B. Unresolved Staff Comments

None.

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 February 2018 and expires in July 2023. The Company maintained a facility in Japan located in a 418 square foot office in Tokyo under a lease which expired in June 2020. The Company also maintained a 1,585 square foot warehouse in Yamanashi under a lease which expired in June 2020. The Company substantially closed its subsidiary Aehr Test Systems Japan K.K. in March 2020, completing the liquidation of the legal entity in July 2020, see Note 17, "Restructuring," of the Notes to Consolidated Financial Statements. 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, 2023, contains an automatic twelve months renewal, at rates to be determined, if no notice is given prior to six months from expiry. On November 18, 2020, the Company established a wholly owned new subsidiary, Aehr Test Systems Philippines Inc., which has been in full operation since March 2021. The Company leases a facility in Philippines located in a 2,713 square foot building in Clark Freeport Zone, Pampanga. The lease, which began January 1, 2021 and expires on December 31, 2025, contains an option to renew for another three years at rates stipulated in the contract, notice for renewal is given six months from expiry. The Company periodically evaluates its global operations and facilities to bring its capacity in line with demand and to provide cost efficient 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 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.

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 2021:		
First quarter ended August 31, 2020.	\$2.49	\$1.63
Second quarter ended November 30, 2020.	1.90	1.15
Third quarter ended February 28, 2021.	3.60	1.56
Fourth quarter ended May 31, 2021	3.17	1.94
Fiscal 2020:		
First quarter ended August 31, 2019.	\$1.87	\$1.27
Second quarter ended November 30, 2019.	2.33	1.28
Third quarter ended February 29, 2020.	2.78	1.75
Fourth quarter ended May 31, 2020	2.24	1.10

At August 3, 2021, the Company had 120 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.

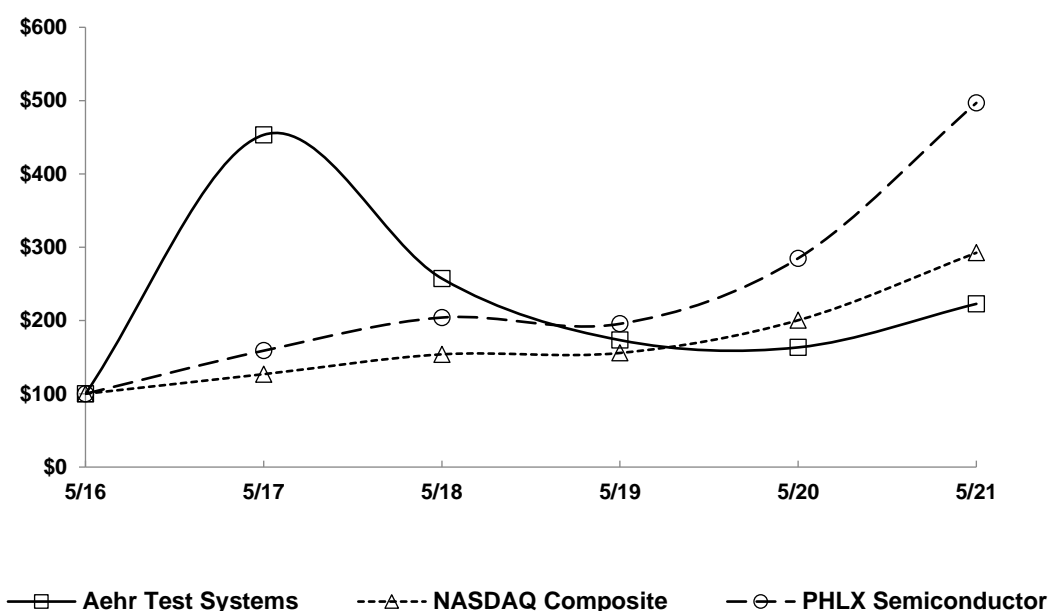
The Company did not repurchase any of its common stock during the fiscal year ended May 31, 2021.

PERFORMANCE MEASUREMENT COMPARISON

The following graph shows a comparison of total shareholder return for holders of the Company's common stock for the last five fiscal years ended May 31, 2021, compared with the NASDAQ Composite Index and the Philadelphia Semiconductor Index. The graph assumes that \$100 was invested in the Company's common stock, in the NASDAQ Composite Index and the Philadelphia Semiconductor Index on May 31, 2016, and that all dividends were reinvested. The Company believes that while total shareholder return can be an important indicator of corporate performance, the stock prices of semiconductor equipment companies like us are subject to a number of market-related factors other than company performance, such as competitive announcements, mergers and acquisitions in the industry, the general state of the economy and the performance of other semiconductor equipment company stocks. Stock prices and shareholder returns over the indicated period should not be considered indicative of future stock prices or shareholder returns.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Aehr Test Systems, the NASDAQ Composite Index
and the PHLX Semiconductor Index



*\$100 invested on 5/31/16 in stock or index, including reinvestment of dividends.
Fiscal year ending May 31.

Item 6. Selected Consolidated Financial Data

The selected consolidated financial data set forth below should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. The selected consolidated financial data in this section are not intended to replace the consolidated financial statements and are qualified in their entirety by the consolidated financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K.

We derived the statements of operations data for the fiscal years ended May 31, 2021, 2020 and 2019 and the balance sheet data as of May 31, 2021 and 2020 from our audited consolidated financial statements and related notes, which are included elsewhere in this Annual Report on Form 10-K. We derived the statements of operations data for the fiscal years ended May 31, 2018 and 2017 and the balance sheet data as of May 31, 2019, 2018 and 2017 from our audited consolidated financial statements and related notes which are not included in this Annual Report on Form 10-K. We have not declared or distributed any cash dividends.

	Fiscal Year Ended May 31,				
	2021	2020	2019	2018	2017
	(In thousands, except per share data)				
CONSOLIDATED STATEMENTS OF OPERATIONS:					
Net sales	\$16,600	\$22,291	\$21,056	\$29,555	\$18,898
Cost of sales	10,568	13,920	13,454	17,169	12,118
Gross profit	6,032	8,371	7,602	12,386	6,780
Operating expenses:					
Selling, general and administrative	6,562	7,530	7,724	7,290	7,052
Research and development	3,652	3,386	4,153	4,181	4,657
Restructuring	--	220	725	--	--
Total operating expenses	10,214	11,136	12,602	11,471	11,709
(Loss) income from operations	(4,182)	(2,765)	(5,000)	915	(4,929)
Interest (expense) income, net	(46)	10	(252)	(399)	(678)
Net gain from dissolution of Aehr Test Systems Japan	2,186	--	--	--	--
Other (expense) income, net	(162)	(11)	44	(61)	(21)
(Loss) income before income tax benefit (expense)	(2,204)	(2,766)	(5,208)	455	(5,628)
Income tax benefit (expense)	177	(36)	(27)	73	(25)
Net (loss) income	(2,027)	(2,802)	(5,235)	528	(5,653)
Less: Net income attributable to the noncontrolling interest	--	--	--	--	--
Net (loss) income attributable to Aehr Test Systems common shareholders	<u>\$(2,027)</u>	<u>\$(2,802)</u>	<u>\$(5,235)</u>	<u>\$ 528</u>	<u>\$(5,653)</u>
Net (loss) income per share:					
Basic	\$ (0.09)	\$(0.12)	\$(0.23)	\$0.02	\$(0.35)
Diluted	\$ (0.09)	\$(0.12)	\$(0.23)	\$0.02	\$(0.35)
Shares used in per share calculations:					
Basic	23,457	22,882	22,387	21,732	16,267
Diluted	23,457	22,882	22,387	22,782	16,267
			May 31,		
	2021	2020	2019	2018	2017
CONSOLIDATED BALANCE SHEETS:					
Cash and cash equivalents	\$4,582	\$ 5,433	\$ 5,428	\$16,848	\$17,803
Working capital	10,123	13,786	14,522	18,308	21,494
Total assets	21,665	20,574	21,307	30,955	30,892
Long-term obligations, less current portion	1,155	2,653	342	522	6,214
Total shareholders' equity	11,449	14,056	15,453	19,285	16,794

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.

COVID-19 PANDEMIC RESPONSE

The Company has been impacted by the outbreak of the novel coronavirus, known as COVID-19, which has spread throughout the world. Our business' top priority during the COVID-19 pandemic is protecting the health and safety of our employees and their families, customers and community. We introduced policies and procedures to increase workplace flexibility such as working remotely where possible to reduce the number of people who are on campus each day. As a global supplier of Critical Infrastructure Sectors, as defined by the Cybersecurity and Infrastructure Security Agency, we have supported and continue to support customers during the pandemic. In the interest of public health, all onsite operations generally use the minimum number of people to safely execute tasks and follow enhanced safety and health protocols including screenings, social distancing, and use of personal protective equipment.

Due to the impact of the COVID-19 pandemic on customers and customers' customers, we experienced a significant drop in customer orders and revenues in the fiscal year ended May 31, 2021 and the last quarter of fiscal year ended May 31, 2020. In response, we have implemented cost reduction initiatives to mitigate operating losses, including mandatory vacation days, shutdown days, and executive staff pay reductions. On April 23, 2020, we received proceeds of \$1,679,000 from a Paycheck Protection Program Loan (the "PPP Loan"), under the CARES Act which we used to retain employees, maintained payroll and made lease and utility payments. The entire PPP Loan balance and interest were forgiven on June 4, 2021, see Note 18, "Subsequent Event" of the Notes to Consolidated Financial Statements.

We will continue to monitor the situation. As of the date of this report, we cannot predict with certainty the potential effects the COVID-19 pandemic may continue to have on our business and our operating results. While the overall environment remains uncertain, we continue to aggressively invest in priority areas with the objective of driving profitable growth over the long term.

OVERVIEW

We were founded in 1977 to develop and manufacture burn-in and test equipment for the semiconductor industry. Since our inception, we have installed over 2,500 systems at semiconductor manufacturers, semiconductor contract assemblers and burn-in and test service companies worldwide. Our principal products currently are the FOX-XP, FOX-NP, and FOX-CP wafer contact and singulated die/module parallel test and burn-in systems, WaferPak Aligner, WaferPak contactors, DiePak Loader, DiePak carriers and test fixtures.

Our net sales consist primarily of sales of systems, WaferPak Aligners and DiePak Loaders, WaferPak contactors, DiePak carriers, test fixtures, upgrades and spare parts, revenues from service contracts, and engineering development 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 and transfer of title.

CRITICAL 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. 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 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 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.

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 recognized at a point in time, which is generally upon shipment or delivery. Revenue from services is recognized over time as services are completed or ratably 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 products primarily through a direct sales force. In certain international markets, we sell our products through independent distributors. We consider revenue to be earned when all of the following criteria are met:

- We have a contract with a customer that creates enforceable rights and obligations,
- Promised performance obligations are identified,
- The transaction price, or the amount we expect to receive, is determinable and
- We have satisfied the performance obligations to the customer.

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 ACCOUNTS

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 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 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 to the estimated warranty liability would be required.

INVENTORY OBSOLESCENCE

In each of the last three fiscal years, we wrote down our inventory for estimated obsolescence or unmarketable inventory by an amount equal to the difference between the cost of inventory and the estimated market value based

upon assumptions about future demand and market conditions, see Note 6, “Balance Sheet Detail.” If future market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

INCOME TAXES

Income taxes are accounted for under the asset-and-liability method as required by FASB 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 of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. 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 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 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.

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 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 merits 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 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.

STOCK-BASED COMPENSATION EXPENSE

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 cost 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.

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 11 to our consolidated financial statements for detailed information relating to stock-based compensation and the stock option plan and the ESPP.

RESTRUCTURING

We record a charge for restructuring when management commits to a restructuring plan, the restructuring plan identifies all significant actions, the period of time to complete the restructuring plan indicates that significant changes to the plan are not likely, and individuals who are impacted have been notified of the pending involuntary termination. Restructuring charges include severance payments, legal fees, and write-off of assets. For employees that are not required to render services beyond a minimum retention period, the severance expense is recognized at the communication date based upon its fair value. For employees who are required to render service until they are terminated in order to receive the severance, the severance costs are measured initially at the communication date based upon its fair value, and recognized ratably over the future service period.

There were no restructuring charges during fiscal year ended May 31, 2021. In the fiscal year ended May 31, 2020, we recognized \$220,000 in restructuring charges related to the dissolution of Aehr Test Systems Japan K.K (“ATS-Japan”), a majority owned subsidiary. The restructuring charges included severance payments for individuals impacted in this reduction, legal fees associated with the dissolution process, and write-off of assets. Restructuring charges for the fiscal year ended May 31, 2019 were related to a restructuring plan implemented in order to streamline our operations and better align our structure with our objectives going forward. We recognized \$725,000 of employee termination expenses for the fiscal year ended May 31, 2019.

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,		
	2021	2020	2019
Net sales	100.0%	100.0%	100.0%
Cost of sales	63.7	62.4	63.9
Gross profit	36.3	37.6	36.1
Operating expenses:			
Selling, general and administrative	39.5	33.8	36.7
Research and development	22.0	15.2	19.7
Restructuring	--	1.0	3.4
Total operating expenses	61.5	50.0	59.8
Loss from operations	(25.2)	(12.4)	(23.7)
Interest (expense) income, net	(0.3)	--	(1.2)
Net gain from dissolution of Aehr Test Systems Japan ..	13.2	--	--
Other (expense) income, net	(1.0)	--	0.2
Loss before income tax benefit (expense)	(13.3)	(12.4)	(24.7)
Income tax benefit (expense)	1.1	(0.2)	(0.2)
Net loss	(12.2)	(12.6)	(24.9)
Less: Net income attributable to the noncontrolling interest	--	--	--
Net loss attributable to Aehr Test Systems common shareholders	(12.2)%	(12.6)%	(24.9)%

FISCAL YEAR ENDED MAY 31, 2021 COMPARED TO FISCAL YEAR ENDED MAY 31, 2020

NET SALES. Net sales decreased to \$16.6 million for the fiscal year ended May 31, 2021 from \$22.3 million for the fiscal year ended May 31, 2020, a decrease of 25.5%. The decrease in net sales for the fiscal year ended May 31, 2021 was impacted by the continued challenging global business environment created by the COVID-19 pandemic which resulted in the decrease in net sales of both our wafer-level products and Test During Burn-in (TDBI) products. Net sales of our wafer-level products for fiscal 2021 were \$15.0 million, and decreased approximately \$4.8 million from fiscal 2020. Net sales of our TDBI products for fiscal 2021 were \$1.6 million, and decreased approximately \$928,000 from fiscal 2020.

GROSS PROFIT. Gross profit decreased to \$6.0 million for the fiscal year ended May 31, 2021 from \$8.4 million for the fiscal year ended May 31, 2020, a decrease of 27.9%. Gross profit margin decreased to 36.3% for the fiscal year ended May 31, 2021 from 37.6% for the fiscal year ended May 31, 2020. The decrease in gross profit margin was primarily due to manufacturing inefficiencies due to a lower level of net sales and increased warranty provision related to a voluntary replacement of a component to improve long term reliability of our systems, partially offset by a lower level of inventory reserves recorded.

SELLING, GENERAL AND ADMINISTRATIVE. SG&A expenses were \$6.6 million for the fiscal year ended May 31, 2021, compared with \$7.5 million for the fiscal year ended May 31, 2020, a decrease of 12.9%. The decrease in SG&A expenses was primarily due to decreases in employment related expenses as a result of cost reduction initiatives implemented in fiscal 2021.

RESEARCH AND DEVELOPMENT. R&D expenses were \$3.7 million for the fiscal year ended May 31, 2021, compared with \$3.4 million for the fiscal year ended May 31, 2020, an increase of 7.9%. The increase in R&D expenses was primarily due to increases in project expenses of \$169,000 and employment related expenses of \$104,000.

RESTRUCTURING. There were no restructuring charges for the fiscal year ended May 31, 2021. Restructuring charges for the fiscal year ended May 31, 2020 were related to the dissolution of Aehr Test Systems Japan K.K (ATS-Japan), a majority owned subsidiary. In connection with the dissolution plan, the Company recognized approximately \$220,000 related to severance payments for individuals impacted in this reduction and legal fees associated with the dissolution process in the fourth quarter of fiscal 2020.

INTEREST (EXPENSE) INCOME, NET. Interest expense, net was \$46,000 for the fiscal year ended May 31, 2021 compared with interest income, net which was \$10,000 for the fiscal year ended May 31, 2020. The interest expense for the 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 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.

OTHER (EXPENSE) INCOME, NET. Other expense, net was \$162,000 and \$11,000 for the fiscal year ended May 31, 2021 and 2020, respectively. The change in other expense, net was primarily due to losses realized in connection with the fluctuation in the value of the dollar compared to foreign currencies during the referenced periods.

INCOME TAX BENEFIT (EXPENSE). Income tax benefit for the fiscal year ended May 31, 2021 was \$177,000 compared with income tax expense of \$36,000 for the fiscal year ended May 31, 2020. During the fiscal year ended May 31, 2021, the currency translation adjustment balance was released 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.

FISCAL YEAR ENDED MAY 31, 2020 COMPARED TO FISCAL YEAR ENDED MAY 31, 2019

NET SALES. Net sales increased to \$22.3 million for the fiscal year ended May 31, 2020 from \$21.1 million for the fiscal year ended May 31, 2019, an increase of 5.9%. The increase in net sales in fiscal 2020 resulted primarily from the increase in net sales of our wafer-level products, partially offset by the decrease in net sales of our TDBI products. Net sales of our wafer-level products for fiscal 2020 were \$19.8 million, and increased approximately \$5.2 million from fiscal 2019. Net sales of our TDBI products for fiscal 2020 were \$2.5 million, and decreased approximately \$3.9 million from fiscal 2019.

GROSS PROFIT. Gross profit increased to \$8.4 million for the fiscal year ended May 31, 2020 from \$7.6 million for the fiscal year ended May 31, 2019, an increase of 10.1%. Gross profit margin increased to 37.6% for the fiscal year ended May 31, 2020 from 36.1% for the fiscal year ended May 31, 2019. The increase in gross profit margin was primarily the result of change in product mix in net sales which wafer-level products revenues, contributing higher margins, accounted for 89% of revenues in fiscal year ended May 31, 2020 compared to 69% of revenues in fiscal year ended May 31, 2019. The increase was partially offset by the impact of excess and obsolete charges mainly related to ABTS products reaching the end of product life.

SELLING, GENERAL AND ADMINISTRATIVE. SG&A expenses were \$7.5 million for the fiscal year ended May 31, 2020, compared with \$7.7 million for the fiscal year ended May 31, 2019, a decrease of 2.5%. The decrease in SG&A expenses was primarily due to decreases in employment related expenses as a result of cost reduction initiatives implemented in fiscal 2019.

RESEARCH AND DEVELOPMENT. R&D expenses were \$3.4 million for the fiscal year ended May 31, 2020, compared with \$4.2 million for the fiscal year ended May 31, 2019, a decrease of 18.5%. The decrease in R&D expenses was primarily due to decreases in employment related expenses of \$500,000 and project expenses of \$267,000.

RESTRUCTURING. Restructuring charges for the fiscal year ended May 31, 2020 were related to the dissolution of Aehr Test Systems Japan K.K (ATS-Japan), a majority owned subsidiary. In connection with the dissolution plan, the Company recognized approximately \$220,000 related to severance payments for individuals impacted in this reduction and legal fees associated with the dissolution process in the fourth quarter of fiscal 2020. Restructuring charges for the fiscal year ended May 31, 2019 were related to a restructuring plan implemented in February 2019 in order to streamline our operations and better align our structure with our objectives going forward. We recognized \$725,000 of employee termination expenses for the fiscal year ended May 31, 2019.

INTEREST INCOME (EXPENSE), NET. Interest income, net was \$10,000 for the fiscal year ended May 31, 2020 compared with interest expense, net of \$252,000 for the fiscal year ended May 31, 2019. The decrease in interest expense, net was primarily due to the repayment of convertible notes which matured on April 10, 2019, partially offset by a decrease in interest income due to a decrease in our investment portfolio.

OTHER (EXPENSE) INCOME, NET. Other expense, net was \$11,000 for the fiscal year ended May 31, 2020 compared with other income, net of \$44,000 for the fiscal year ended May 31, 2019. The change in other (expense) income, net was due primarily to losses or gains realized in connection with the fluctuation in the value of the dollar compared to foreign currencies during the referenced periods.

INCOME TAX (EXPENSE) BENEFIT. Income tax expense was \$36,000 and \$27,000 for the fiscal year ended May 31, 2020 and 2019, respectively.

LIQUIDITY AND CAPITAL RESOURCES

We consider cash and cash equivalents as liquid and available for use. As of May 31, 2021 and 2020, respectively, we had \$4.6 million and \$5.4 million in cash and cash equivalents.

Net cash used in operating activities was \$2.7 million and \$2.0 million for the fiscal years ended May 31, 2021 and 2020, 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 \$310,000. 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. For the fiscal year ended May 31, 2020, net cash used in operating activities was primarily the result of the net loss of \$2.8 million, as adjusted to exclude the effect of non-cash charges of stock-based compensation expense of \$910,000 and depreciation and amortization of \$384,000. Net cash used in operations was also impacted by decreases in customer deposits and deferred revenue of \$1.5 million and in accounts payable of \$1.0 million, partially offset by decreases in inventories and accounts receivable of \$1.2 million each. The decrease in customer deposits and deferred revenue was primarily due to the decrease in backlog of customer orders with down payments. The decrease in accounts payable was primarily due to a reduction in inventory purchases. The decrease in inventories was primarily due to the increase in inventory reserves related to older products. The decrease in accounts receivable was primarily due to lower shipment activities toward the end of the fiscal year ended May 31, 2020.

Net cash used in investing activities was \$227,000 and \$163,000 for the fiscal years ended May 31, 2021 and 2020, respectively. Net cash used in investing activities for the fiscal years ended May 31, 2021 and 2020 was due to the purchases of property and equipment.

Net cash provided by financing activities was \$2.0 million and \$2.2 million for the fiscal year ended May 31, 2021 and 2020, respectively. Net cash provided by financing activities during 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. Net cash provided by financing activities during the fiscal year ended May 31, 2020 was due to the proceeds of \$1.7 million from the PPP Loan, and the net proceeds from issuance of common stock under employee plans of \$493,000.

The effect of fluctuation in exchange rates increased cash by \$117,000 and \$20,000 for the fiscal year ended May 31, 2021 and 2020, respectively. The changes were due to the fluctuation in the value of the dollar compared to foreign currencies.

As of May 31, 2021 and 2020, we had working capital of \$10.1 million and \$13.8 million, respectively.

For the fiscal year ended May 31, 2019, net cash used in operating activities was primarily the result of the net loss of \$5.2 million, as adjusted to exclude the effect of non-cash charges of stock-based compensation expense of \$905,000 and depreciation and amortization of \$431,000, an increase in accounts receivable of \$2.0 million, and a decrease in customer deposits and deferred revenue of \$355,000, partially offset by an increase in accrued expenses of \$402,000. The increase in accounts receivable was primarily due to large shipments toward the end of fiscal 2019. The decrease in customer deposits and deferred revenue was primarily due to the decrease in backlog of customer orders with down payments. The increase in accrued expenses was primarily due to severance expenses accrued as a result of our restructuring plan implemented in February 2019.

Net cash used in investing activities was \$173,000 for the fiscal year ended May 31, 2019 was due to the purchase of property and equipment.

Net cash used in financing activities of \$5.6 million for the fiscal year ended May 31, 2019 was primarily due to the repayment of certain convertible notes in the aggregate amount of \$6.1 million on the maturity date of April 10, 2019, partially offset by proceeds from issuance of common stock under employee plans of \$559,000.

The effect of fluctuation in exchange rates decreased cash by \$59,000 for the fiscal year ended May 31, 2019 due to the fluctuation in the value of the dollar compared to foreign currencies.

As of May 31, 2019, we had working capital of \$14.5 million.

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 February 2018 and expires in July 2023. 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.

Since inception, we have incurred substantial cumulative losses and negative cash flows from operations. In response, we took steps to minimize expense levels, entered into credit arrangements, and raised capital through public and private equity offerings, to increase the likelihood that we will have sufficient cash to support operations. We anticipate that the existing cash balance 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. 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 FINANCING

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

OVERVIEW OF CONTRACTUAL OBLIGATIONS

The following table provides a summary of such arrangements, or contractual obligations.

	Payments Due by Period (in thousands)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Lease obligations	\$1,861	\$ 813	\$997	\$51	\$ --
Line of credit	1,400	1,400	--	--	--
Current portion of long-term debt . . .	1,679	1,679	--	--	--
Interest on long-term debt (1)	16	16	--	--	--
Purchases (2)	3,377	3,377	--	--	--
Total	<u>\$8,333</u>	<u>\$7,285</u>	<u>\$997</u>	<u>\$51</u>	<u>\$ --</u>

(1) Based on 1% interest rate of PPP Loan. See Note 10, "Long-term Debt."

(2) Shown above 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.

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 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

We had no holdings of derivative financial or commodity instruments at May 31, 2021.

We are exposed to financial market risks, including changes in interest rates and foreign currency exchange rates. We only invest our short-term excess cash in government-backed securities with maturities of 18 months or less. We do not use any financial instruments for speculative or trading purposes. Fluctuations in interest rates would not have a material effect on our financial position, results of operations or cash flows.

A majority of our revenue and capital spending is transacted in U.S. Dollars. We also enter into transactions in other currencies, primarily Euros, New Taiwan Dollar, and Philippine Peso. Since our subsidiaries’ financial statements are based in their local currency and our condensed consolidated financial statements are based in U.S. Dollars, our subsidiaries and we recognize foreign exchange gains or losses in any period in which the value of the local currency rises or falls in relation to the U.S. Dollar. A 10% decrease in the value of the subsidiaries’ local currency as compared with the U.S. Dollar would not be expected to result in a significant change to our net income or loss. There have been no material changes in our risk exposure since the end of the last fiscal year, nor are any material changes to our risk exposure anticipated.

Item 8. Financial Statements and Supplementary Data

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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.

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, 2021 and 2020, the related consolidated statements of operations, comprehensive loss, shareholders’ equity, and cash flows for each of the three years in the period ended May 31, 2021, 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, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended May 31, 2021, 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 \$8.8 million as of May 31, 2021. 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.

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 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 27, 2021

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

	May 31,	
	2021	2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$4,582	\$5,433
Accounts receivable, net	5,202	3,717
Inventories	8,849	7,989
Prepaid expenses and other	551	512
Total current assets	19,184	17,651
Property and equipment, net	677	663
Operating lease right-of-use assets	1,606	2,107
Other assets	198	153
Total assets	\$21,665	\$20,574
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$2,893	\$ 945
Accrued expenses	2,163	1,439
Operating lease liabilities, short-term	737	658
Customer deposits and deferred revenue, short-term	189	170
Line of credit	1,400	--
Current portion of long-term debt	1,679	653
Total current liabilities	9,061	3,865
Operating lease liabilities, long-term	1,007	1,605
Long-term debt, net of current portion	--	1,026
Deferred revenue, long-term	99	22
Other long-term liabilities	49	--
Total liabilities	10,216	6,518
Commitments and contingencies (Note 20)		
Aehr Test Systems 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: 23,725 shares and 23,107 shares at May 31, 2021 and 2020 respectively	237	231
Additional paid-in capital	87,553	85,898
Accumulated other comprehensive income	(28)	2,234
Accumulated deficit	(76,313)	(74,286)
Total Aehr Test Systems shareholders' equity	11,449	14,077
Noncontrolling interest	--	(21)
Total shareholders' equity	11,449	14,056
Total liabilities and shareholders' equity	\$21,665	\$20,574

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

AEHR TEST SYSTEMS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Year Ended May 31,		
	2021	2020	2019
Net sales	\$16,600	\$22,291	\$21,056
Cost of sales	10,568	13,920	13,454
Gross profit	<u>6,032</u>	<u>8,371</u>	<u>7,602</u>
Operating expenses:			
Selling, general and administrative	6,562	7,530	7,724
Research and development	3,652	3,386	4,153
Restructuring	--	220	725
Total operating expenses	<u>10,214</u>	<u>11,136</u>	<u>12,602</u>
Loss from operations	(4,182)	(2,765)	(5,000)
Interest (expense) income, net	(46)	10	(252)
Net gain from dissolution of Aehr Test Systems Japan.	2,186	--	--
Other (expense) income, net	<u>(162)</u>	<u>(11)</u>	<u>44</u>
Loss before income tax benefit (expense).	(2,204)	(2,766)	(5,208)
Income tax benefit (expense)	<u>177</u>	<u>(36)</u>	<u>(27)</u>
Net loss	(2,027)	(2,802)	(5,235)
Less: Net income attributable to the noncontrolling interest.	--	--	--
Net loss attributable to Aehr Test Systems common shareholders	<u><u>\$(2,027)</u></u>	<u><u>\$(2,802)</u></u>	<u><u>\$(5,235)</u></u>
Net loss per share – basic and diluted	\$ (0.09)	\$ (0.12)	\$ (0.23)
Shares used in per share calculation – basic.	23,457	22,882	22,387
Shares used in per share calculation – diluted	23,457	22,882	22,387

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

AEHR TEST SYSTEMS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(IN THOUSANDS)

	Year Ended May 31,		
	2021	2020	2019
Net loss	\$(2,027)	\$(2,802)	\$(5,235)
Other comprehensive income (loss), net of tax:			
Foreign currency translation income (loss)	160	2	(61)
Reclassification of cumulative translation adjustment as a result of dissolution of Aehr Test Systems Japan.	(2,401)	--	--
Total comprehensive loss.	(4,268)	(2,800)	(5,296)
Less: Comprehensive income (loss) attributable to noncontrolling interest	21	(2)	1
Comprehensive loss, attributable to Aehr Test Systems.	<u>\$ (4,289)</u>	<u>\$ (2,798)</u>	<u>\$ (5,297)</u>

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

AEHR TEST SYSTEMS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(IN THOUSANDS)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Aehr Test Systems Shareholders' Equity	Noncontrolling Interest	Total Shareholders' Equity
	Shares	Amount						
	Balances, May 31, 2018	22,143						
Issuance of common stock								
under employee plans	526	6	553	--	--	559	--	559
Stock-based compensation.	--	--	905	--	--	905	--	905
Net loss	--	--	--	--	(5,235)	(5,235)	--	(5,235)
Foreign currency translation adjustment	--	--	--	(62)	--	(62)	1	(61)
Balances, May 31, 2019	22,669	227	84,499	2,230	(71,484)	15,472	(19)	15,453
Issuance of common stock								
under employee plans.	444	4	499	--	--	503	--	503
Shares repurchased for tax								
withholdings on vesting of RSUs	(6)	--	(10)	--	--	(10)	--	(10)
Stock-based compensation.	--	--	910	--	--	910	--	910
Net loss	--	--	--	--	(2,802)	(2,802)	--	(2,802)
Foreign currency translation adjustment.	--	--	--	4	--	4	(2)	2
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

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

AEHR TEST SYSTEMS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	Year Ended May 31,		
	2021	2020	2019
Cash flows from operating activities:			
Net loss.	\$(2,027)	\$ (2,802)	\$(5,235)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock-based compensation expense	1,101	910	905
Recovery of doubtful accounts.	--	--	(3)
Depreciation and amortization	310	384	431
Loss on disposal of assets.	--	45	--
Net gain from dissolution of Aehr Test Systems Japan.	(2,186)	--	--
Income tax benefit related to dissolution of Aehr Test Systems Japan.	(215)	--	--
Changes in operating assets and liabilities:			
Accounts receivable	(1,373)	1,161	(2,043)
Inventories	(972)	1,164	(112)
Prepaid expenses and other.	(81)	271	84
Accounts payable.	1,877	(1,024)	210
Accrued expenses	732	(589)	402
Customer deposits and deferred revenue.	96	(1,542)	(355)
Deferred rent.	--	--	90
Other long-term liabilities	47	--	--
Income taxes payable.	(10)	(2)	(11)
Net cash used in operating activities.	<u>(2,701)</u>	<u>(2,024)</u>	<u>(5,637)</u>
Cash flows from investing activities:			
Purchases of property and equipment.	(227)	(163)	(173)
Net cash used in investing activities	<u>(227)</u>	<u>(163)</u>	<u>(173)</u>
Cash flows from financing activities:			
Repayment of convertible notes.	--	--	(6,110)
Proceeds from long-term debt	--	1,679	--
Line of credit borrowings, net.	1,400	--	--
Proceeds from issuance of common stock under employee plans	580	503	559
Shares repurchased for tax withholdings on vesting of restricted stock units.	(20)	(10)	--
Net cash provided by (used in) financing activities.	<u>1,960</u>	<u>2,172</u>	<u>(5,551)</u>
Effect of exchange rates on cash, cash equivalents and restricted cash.	117	20	(59)
Net (decrease) increase in cash, cash equivalents and restricted cash.	(851)	5	(11,420)
Cash, cash equivalents and restricted cash, beginning of year.	5,513	5,508	16,928
Cash, cash equivalents and restricted cash, end of year.	<u>\$ 4,662</u>	<u>\$ 5,513</u>	<u>\$ 5,508</u>
Supplemental cash flow information:			
Cash paid during the year for:			
Income taxes.	\$ 15	\$ 42	\$ 37
Interest	\$ 6	\$ --	\$ 610
Supplemental disclosure of non-cash flow information:			
Net transfer of equipment between inventory and property and equipment.	\$ 113	\$ 112	\$ 119

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

AEHR TEST SYSTEMS AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BUSINESS:

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, the WaferPak aligner, the DiePak autoloader, and test fixtures.

LIQUIDITY:

Since inception, the Company has incurred substantial cumulative losses and negative cash flows from operations. In response, the Company took steps to minimize expense levels, entered into credit arrangements, and raised capital through public and private equity offerings, to increase the likelihood that it will have sufficient cash to support operations.

At May 31, 2021, the Company had \$4.6 million in cash and cash equivalents. The Company anticipates that the existing cash and cash equivalents balance together with income from operations, collections of existing accounts receivable, revenue from its existing backlog of products, the sale of inventory on hand, deposits and down payments against significant orders will be adequate to meet its working capital and capital equipment requirements, and its anticipated cash needs over the next 12 months. The Company’s future capital requirements will depend on many factors, including the Company’s growth rate, the timing and extent of its 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. In the event that additional financing is required from outside sources, the Company may not be able to raise it on terms acceptable to the Company or at all. Any additional debt financing obtained by the Company in the future could also involve restrictive covenants relating to the Company’s capital-raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions. Additionally, if the Company raises additional funds through further issuances of equity, convertible debt securities or other securities convertible into equity, its existing stockholders could suffer significant dilution in their percentage ownership of the Company, and any new equity securities the Company issue could have rights, preferences and privileges senior to those of holders of the Company’s common stock. If the Company is unable to obtain adequate financing or financing on terms satisfactory to the Company when the Company requires it, the Company’s ability to continue to grow or support its business and to respond to business challenges could be significantly limited. On April 23, 2020, we received proceeds of \$1,679,000 from a Paycheck Protection Program Loan (the “PPP Loan”), under the CARES Act which we used to retain employees, maintained payroll and made lease and utility payments. The entire PPP Loan balance and interest were forgiven on June 4, 2021, see Note 18, “Subsequent Event” of the Notes to Consolidated Financial Statements.

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:

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 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 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 of Operations as incurred. See Note 13, “Other (Expense) Income, Net” for the detail of foreign exchange transaction gains and losses for all periods presented.

USE OF ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 for doubtful accounts, valuation of inventory at the lower of cost or net realizable value, and warranty reserves.

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 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 accounts to reserve for potentially uncollectible trade receivables. The Company also reviews its trade receivables by aging category to identify specific customers with known disputes or collection issues. The Company exercises judgment when determining the adequacy of these reserves as 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. No significant adjustments to the allowance for doubtful accounts were recorded during the fiscal years ended May 31, 2021, 2020 or 2019.

CONCENTRATION OF CREDIT RISK:

The Company sells its products primarily to semiconductor manufacturers in North America, Asia, and Europe. As of May 31, 2021, approximately 2%, 98% and 0% of gross accounts receivable were from customers located in North America, Asia and Europe, respectively. As of May 31, 2020, approximately 13%, 62% and 25% of gross accounts receivable were from customers located in North America, Asia and Europe, respectively. Three customers accounted for 51%, 24% and 19% of gross accounts receivable as of May 31, 2021. Two customers accounted for 45% and 18% of gross accounts receivable as of May 31, 2020. Four customers accounted for 24%, 23%, 20% and 10% of net sales in fiscal 2021. Three customers accounted for 43%, 16% and 15% of net sales in fiscal 2020. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company uses letter of credit terms for some of its international customers.

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 has not experienced any material losses on its money market funds or short-term cash deposits.

CONCENTRATION OF SUPPLY RISK:

The Company relies on subcontractors to manufacture many of the components and subassemblies used in its products. Quality or performance failures 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 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.

INVENTORIES:

Inventories include material, labor and overhead, and are stated at the lower of cost (first-in, first-out method) or net realizable value. 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 inventory write-downs may be required, and would be reflected in cost of sales in the period the revision is made. During fiscal 2021, 2020 and 2019 the Company recognized a provision for inventory reserves of \$176,000, \$1,669,000, and \$1,168,000, respectively.

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 6 years
Machinery and equipment.	3 to 6 years
Test equipment	4 to 6 years

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, contactors, spare parts, and services, as well as installation and training services included in customer contracts.

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 recognized at a point in time, which is generally upon shipment or delivery. Revenue from services is recognized over time as services are completed or ratably 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 products primarily through a direct sales force. In certain international markets, we sell our products through independent distributors. We consider revenue to be earned when all of the following criteria are met:

- We have a contract with a customer that creates enforceable rights and obligations,
- Promised performance obligations are identified,
- The transaction price, or the amount we expect to receive, is determinable and
- We have satisfied the performance obligations to the customer.

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:

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 2021, 2020 and 2019.

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. Costs incurred related to shipping and handling of products are included in cost of sales.

INCOME TAXES:

Income taxes are accounted for under the asset-and-liability method as required by FASB 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 of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. 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 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 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.

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 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 merits 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 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.

COMPREHENSIVE LOSS:

Comprehensive loss generally represents all changes in shareholders' equity except those resulting from investments or contributions by shareholders. Unrealized gains and losses on foreign currency translation adjustments are included in the Company's components of comprehensive loss, which are excluded from net loss. In fiscal 2021 the Company recognized comprehensive income of \$2,401,000 related to the completed liquidation of ATS-Japan, a majority owned subsidiary. Refer to Note 16, "Dissolution of Aehr Test Systems Japan," for a further discussion of the transaction. Comprehensive loss is included in the statements of comprehensive loss.

RECENT ACCOUNTING PRONOUNCEMENTS:

Accounting Standards Not Yet Adopted

Financial Instruments

In June 2016, the FASB issued an accounting standard update ("ASU") 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 of the reported amount. Due to a subsequent ASU in November 2019, the accounting standard will be effective for the Company beginning in the first quarter of fiscal 2024 on a modified retrospective basis, and early adoption in fiscal 2020 is permitted. The Company does not expect a material impact of this accounting standard on its consolidated financial statements.

Income Taxes

On December 18, 2019, the FASB issued Accounting Standards Update ASU 2019-12 on Simplifying the Accounting for Income Taxes. The board decided to remove the exception to the incremental approach for intra-period tax allocation when there is a loss from continuing operations and income or gain from other items (for example discontinued operations or other comprehensive income). There are also provisions related to state taxes and calculating

income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2020. The Company has not yet adopted ASU 2019-12 and believes upon adoption there would be no material impact.

2. 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 (in thousands):

	Year Ended May 31,		
	2021	2020	2019
Type of good / service:			
Systems	\$ 7,250	\$8,099	\$9,566
Contactors	5,837	10,784	6,154
Services	3,513	3,408	5,336
	<u>\$16,600</u>	<u>\$22,291</u>	<u>\$21,056</u>
Product lines:			
Wafer-level.	\$15,004	\$19,768	\$14,618
Test During Burn-In.	1,596	2,523	6,438
	<u>\$16,600</u>	<u>\$22,291</u>	<u>\$21,056</u>

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

	Year Ended May 31,		
	2021	2020	2019
Geographic region:			
United States	\$5,386	\$13,544	\$13,468
Asia.	11,074	7,556	5,648
Europe	140	1,191	1,940
	<u>\$16,600</u>	<u>\$22,291</u>	<u>\$21,056</u>

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,		
	2021	2020	2019
Timing of revenue recognition (in thousands):			
Products and services transferred at a point in time.	\$15,009	\$19,948	\$18,473
Services transferred over time	1,591	2,343	2,583
	<u>\$16,600</u>	<u>\$22,291</u>	<u>\$21,056</u>

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, 2021 and 2020 were \$288,000 and \$192,000, respectively. During the fiscal years ended May 31, 2021 and 2020, the Company recognized \$164,000 and \$1,545,000 of revenues that were included in contract liabilities as of May 31, 2020 and 2019, respectively.

Remaining performance obligations

On May 31, 2021, the Company had \$194,000 of remaining performance obligations, which were comprised of deferred service contracts and extended warranty contracts not yet delivered. The Company expects to recognize approximately 49% of its remaining performance obligations as revenue in fiscal 2022, and an additional 51% in fiscal 2023 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, RSUs and ESPP shares) outstanding during the period using the treasury stock method.

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

	Year Ended May 31,		
	2021	2020	2019
Numerator: Net loss	<u>\$ (2,027)</u>	<u>\$ (2,802)</u>	<u>\$ (5,235)</u>
Denominator for basic net loss per share:			
Weighted average shares outstanding	<u>23,457</u>	<u>22,882</u>	<u>22,387</u>
Shares used in basic net loss per share calculation	23,457	22,882	22,387
Effect of dilutive securities.	<u>--</u>	<u>--</u>	<u>--</u>
Denominator for diluted net loss per share	<u>23,457</u>	<u>22,882</u>	<u>22,387</u>
Basic net loss per share	<u>\$ (0.09)</u>	<u>\$ (0.12)</u>	<u>\$ (0.23)</u>
Diluted net loss per share	<u>\$ (0.09)</u>	<u>\$ (0.12)</u>	<u>\$ (0.23)</u>

For the purpose of computing diluted earnings per share, the weighted average number of potential common shares does 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. In the fiscal years ended May 31, 2021, 2020 and 2019, potential common shares have not been included in the calculation of diluted net loss per share as the effect would be anti-dilutive. As such, the numerator and the denominator used in computing both basic and diluted net loss per share for these periods are the same. Stock options to purchase 2,766,000, 3,153,000 and 3,107,000 shares of common stock were outstanding on May 31, 2021, 2020 and 2019, respectively, 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, 192,000 and 297,000 ESPP shares were outstanding on May 31, 2021, 2020 and 2019, respectively, but were not included in the computation of diluted net loss per share, because the inclusion of such shares would be anti-dilutive. RSUs for 132,000 shares, 10,000 shares and 23,000 shares were outstanding on May 31, 2021, 2020 and 2019, respectively, but were not included in the computation of diluted net loss per share, because the inclusion of such shares would be anti-dilutive.

4. FAIR VALUE OF FINANCIAL 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 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 for transactions in active exchange markets involving identical assets.

Level 2 - instrument valuations are obtained from readily-available pricing sources for comparable instruments.

Level 3 - instrument valuations are obtained without observable market values and require a high level of judgment to determine the fair value.

The following table summarizes the Company's financial assets measured at fair value on a recurring basis as of May 31, 2021 (in thousands):

	Balance as of May 31, 2021	Level 1	Level 2	Level 3
Money market funds.	\$580	\$ 580	\$ --	\$ --
Assets.	\$580	\$ 580	\$ --	\$ --

The following table summarizes the Company's financial assets measured at fair value on a recurring basis as of May 31, 2020 (in thousands):

	Balance as of May 31, 2020	Level 1	Level 2	Level 3
Money market funds.	\$ 80	\$ 80	\$ --	\$ --
Assets.	\$ 80	\$ 80	\$ --	\$ --

Included in money market funds as of May 31, 2021 and 2020 is \$80,000 of restricted cash representing a security deposit for the Company's United States manufacturing and office space lease.

There were no financial liabilities measured at fair value as of May 31, 2021 and 2020.

There were no transfers between Level 1 and Level 2 fair value measurements during the fiscal years ended May 31, 2021 and 2020.

The carrying amounts of financial instruments including cash, cash equivalents, receivables, accounts payable and certain other accrued liabilities, approximate fair value due to their short maturities. Based on the borrowing rates currently available to the Company for loans with similar terms, the carrying value of the debt approximates the fair value.

5. ACCOUNTS RECEIVABLE:

Accounts receivable comprise (in thousands):

	May 31,	
	2021	2020
Accounts receivable.	\$5,202	\$3,717
Less: Allowance for doubtful accounts	--	--
	\$5,202	\$3,717

Accounts receivable represent customer trade receivables. As of May 31, 2021 and 2020, there were no allowances for doubtful accounts.

6. BALANCE SHEET DETAIL:

INVENTORIES:

(In Thousands)	May 31,	
	2021	2020
Raw materials and sub-assemblies.	\$5,859	\$5,055
Work in process.	2,988	2,917
Finished goods.	2	17
	<u>\$8,849</u>	<u>\$7,989</u>

During the year ended May 31, 2021, 2020, and 2019, the Company wrote down \$176,000, \$1,669,000, and \$1,168,000 of inventory, respectively.

PROPERTY AND EQUIPMENT, NET:

(In Thousands)	May 31,	
	2021	2020
Leasehold improvements.	\$1,214	\$1,201
Furniture and fixtures	627	612
Machinery and equipment.	3,343	3,038
Test equipment.	2,525	2,516
	<u>7,709</u>	<u>7,367</u>
Less: Accumulated depreciation and amortization.	<u>(7,032)</u>	<u>(6,704)</u>
	<u>\$677</u>	<u>\$ 663</u>

Depreciation expense was \$310,000, \$384,000 and \$431,000 for fiscal 2021, 2020, and 2019, respectively.

ACCRUED EXPENSES:

(In Thousands)	May 31,	
	2021	2020
Payroll related.	\$ 1,020	\$ 791
Warranty.	494	246
Commissions and bonuses.	413	139
Professional services.	168	173
Investor relations	22	19
Accrued interest	16	--
Taxes payable	5	30
Restructuring	--	8
Other	25	33
	<u>\$2,163</u>	<u>\$1,439</u>

CUSTOMER DEPOSITS AND DEFERRED REVENUE, SHORT-TERM:

(In Thousands)	May 31,	
	2021	2020
Customer deposits.	\$ 27	\$ --
Deferred revenue	162	170
	<u>\$189</u>	<u>\$170</u>

7. INCOME TAXES:

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

	Year Ended May 31,		
	2021	2020	2019
Domestic.	\$ (13,064)	\$(2,751)	\$(5,273)
Foreign.	10,860	(15)	65
	<u>\$ (2,204)</u>	<u>\$(2,766)</u>	<u>\$(5,208)</u>

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

	Year Ended May 31,		
	2021	2020	2019
Federal income taxes:			
Current	\$ 163	\$ --	\$ --
Deferred	--	--	--
State income taxes:			
Current	13	(30)	(6)
Deferred	--	--	--
Foreign income taxes:			
Current	1	(6)	(21)
Deferred	--	--	--
	<u>\$ 177</u>	<u>\$ (36)</u>	<u>\$ (27)</u>

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

	Year Ended May 31,		
	2021	2020	2019
U.S. federal statutory tax rate.	21.0 %	21.0 %	21.0 %
State taxes, net of federal tax effect.	0.6	1.4	(1.0)
Foreign rate differential.	9.8	(21.5)	(0.7)
Stock-based compensation	(4.7)	(4.0)	(2.8)
Research and development credit	4.0	--	1.5
Change in valuation allowance.	(32.1)	4.3	(15.6)
Federal rate change impact	--	--	--
Federal AMT refund	--	--	--
ASU 2016-09 adoption	--	--	--
Controlled Foreign Corporation Liquidation.	9.8	--	--
Other.	(0.4)	(2.5)	(2.9)
Effective tax rate.	<u>8.0%</u>	<u>(1.3)%</u>	<u>(0.5)%</u>

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

	Year Ended May 31,	
	2021	2020
Deferred tax assets:		
Net operating losses.	\$15,584	\$13,634
Lease Liability	372	483
Credit carryforwards.	5,298	5,089
Inventory reserves	1,006	1,005
Reserves and accruals.	890	739
Other.	450	319
	<u>23,600</u>	<u>21,269</u>
Deferred tax liabilities:		
Operating lease right-of-use assets.	(342)	(449)
Less: Valuation allowance	(23,258)	(20,820)
Net deferred tax assets (liabilities).	<u>\$ --</u>	<u>\$ --</u>

The valuation allowance increased by \$2,438,000 during fiscal 2021, decreased by \$118,000 during fiscal 2020, and increased by \$813,000 during fiscal 2019. As of May 31, 2021 and 2020, the Company concluded that it is more likely than not that the deferred tax assets will not be realized and therefore provided a full valuation allowance against the deferred tax assets. The Company will continue to evaluate the need for a valuation allowance against its deferred tax assets on a quarterly basis.

At May 31, 2021 and 2020, the Company has federal net operating loss carryforwards of approximately \$64,298,000 and \$54,601,000 respectively, to reduce future taxable income. A portion of the federal net operating losses will begin to expire in 2024. Federal net operating losses of \$13,383,000 will carryforward indefinitely and would be subject to an

80% taxable income limitation in the year utilized. At May 31, 2021 and 2020, the Company has state net operating loss carryforwards of \$29,812,000 and \$29,386,000, respectively, to reduce future taxable income. The state net operating loss carryforwards will begin to expire in 2028.

At May 31, 2021 and 2020, the Company has federal research and development credit carryforwards of approximately \$2,201,000 and \$2,113,000 respectively, to offset future tax liability. The federal credit carryforwards will begin to expire in 2022. At May 31, 2021 and 2020, The Company has state research and development credit carryforwards of approximately \$5,955,000 and \$5,782,000 respectively, to offset future tax liability. The credit carryforwards are not subject to expiration. The Company also has alternative minimum tax credit carryforwards of \$34,000 for state purposes. The credits may be used to offset regular tax and do not expire.

ATS Japan was completely liquidated in July 2020. Thus, there is no more foreign net operating loss carryforward related to the Japan entity to the future.

Internal Revenue Code of 1986, as amended (“IRC”) Section 382 (“§382”) limits the use of NOL and tax credit carryforwards in certain situations where changes occur in the stock ownership of a company. In general, if we experience a greater than 50% aggregate change in ownership over a 3-year period, we are subject to an annual 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 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.

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):

Beginning balance as of May 31, 2018.	\$1,785
Decreases related to prior year tax positions.	(41)
Increases related to current year tax positions.	<u>65</u>
Balance at May 31, 2019	\$1,809
Decreases related to prior year tax positions.	(11)
Increases related to current year tax positions.	<u>54</u>
Balance at May 31, 2020	\$1,852
Increases related to prior year tax positions.	11
Increases related to current year tax positions.	<u>65</u>
Balance at May 31, 2021	<u><u>\$1,928</u></u>

As of May 31, 2021 and 2020, the Company has not recorded interest and penalties associated with its unrecognized tax benefits. The Company’s unrecognized gross tax benefits would not reduce the annual effective tax rate if recognized because it has recorded a full valuation allowance on its deferred tax assets. The Company does not foresee any material changes to the gross unrecognized tax benefit within the next twelve months. The Company’s 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.

On March 27, 2020, the CARES Act was signed into law. The CARES Act includes provisions relating to refundable payroll tax credits, deferment of the employer portion of certain payroll taxes, net operating loss carryback periods,

alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. The CARES Act did not have material impact to income taxes as the Company is in a historical loss position.

On December 27, 2020, the Consolidated Apportions Act of 2021 (“CCA”), a tax, funding and spending bill was signed into law and the Company does not believe the CAA will materially impact the 2021 income tax provision.

On June 29, 2020, California Governor Gavin Newsom signed Assembly Bill 85 (“AB 85”) into law as part of the California 2020 Budget Act, which temporarily suspends the use of California net operating losses and imposes a cap on the amount of business incentive tax credits that companies can utilize against their net income for tax years 2020, 2021, and 2022. We analyzed the provisions of AB 85 and determined there was no impact on our provision for income taxes for the current period and will continue to evaluate the impact, if any, AB 85 may have on our condensed consolidated financial statements and disclosures.

8. LEASES

The Company leases most of its manufacturing and office space under operating leases. The Company entered into non-cancelable operating lease agreements for its United States manufacturing and office facilities and maintains equipment under non-cancelable operating leases in Germany. 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 February 2018 and expires in July 2023. The Company maintained a facility in Japan located in a 418 square foot office in Tokyo under a lease which expired in June 2020. The Company also maintained a 1,585 square foot warehouse in Yamanashi under a lease which expired in June 2020. The Company substantially closed its subsidiary Aehr Test Systems Japan K.K. in March 2020, completing the liquidation of the legal entity in July 2020, see Note 17, “Restructuring,” of the Notes to Consolidated Financial Statements. 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, 2023, contains an automatic twelve months renewal, at rates to be determined, if no notice is given prior to six months from expiry. On November 18, 2020, the Company established a wholly owned new subsidiary, Aehr Test Systems Philippines Inc., which has been in full operation since March 2021. The Company leases a facility in Philippines located in a 2,713 square foot building in Clark Freeport Zone, Pampanga. The lease, which began January 1, 2021 and expires on December 31, 2025, contains an option to renew for another three years at rates stipulated in the contract, notice for renewal is given 6 months from expiry. Under the lease agreements, the Company is responsible for payments of utilities, taxes and insurance.

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 condensed consolidated balance sheet, 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). 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 balance sheet. The Company’s operating leases have remaining lease terms of 1 year to 5 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.

The weighted average remaining lease term for the Company’s operating leases was 2.4 years at May 31, 2021 and the weighted average discount rate was 5.4%.

The Company’s operating lease cost under FASB ASC Topic 842 was \$761,000 for the year ended May 31, 2021. The Company’s operating lease cost under FASB ASC Topic 842 was \$734,000 for the year ended May 31, 2020.

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

	Year Ended May 31,	
	2021	2020
Cash paid for amounts included in the measurement of operating lease liabilities:		
Operating cash flows from operating leases	\$779	\$ 737
Right-of-use assets obtained in exchange for operating leases liabilities	147	2,859

The following table presents the maturities of the Company's operating lease liabilities as of May 31, 2021 (in thousands):

Fiscal year	Operating Leases
2022	\$ 813
2023	829
2024	168
2025	32
2026	19
Thereafter	--
Total future minimum operating lease payments	<u>1,861</u>
Less: imputed interest	<u>(117)</u>
Present value of operating lease liabilities	<u>\$1,744</u>

9. BORROWING AND FINANCING ARRANGEMENTS:

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 minus (b) the outstanding principal balance of any advances, 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.

On January 14, 2021, the Company entered into the First Amendment to Loan and Security Agreement (the "Amendment") with Silicon Valley Bank. The Amendment, among other things, extends the Revolving Line Maturity Date to July 14, 2021; provided, however, that if the Company achieves specified operating metrics on a consolidated basis on or prior to May 31, 2021 the Amended Revolving Line Maturity Date is extended to January 13, 2022. On July 8, 2021 the Company received confirmation from SVB that the Revolving Line Maturity Date has been extended to January 13, 2022.

At May 31, 2021, the Company had drawn \$1,400,000 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 at May 31, 2021 was \$308,000. There are no financial covenants in the agreement.

10. LONG-TERM DEBT:

On April 23, 2020, the Company obtained the PPP Loan in the aggregate amount of \$1,678,789 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 CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of loans granted under the PPP. Such forgiveness will be determined, subject to limitations, based on the use of loan

proceeds for payment of payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the Company. On June 4, 2021, the entire PPP Loan balance and interest were forgiven, see Note 18, “Subsequent Event” of the Notes to Consolidated Financial Statements.

11. STOCKHOLDERS’ EQUITY AND STOCK-BASED COMPENSATION:

STOCK-BASED COMPENSATION:

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 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, 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, 2021, 2020 and 2019 (in thousands, except per share data):

	Year Ended May 31,		
	2021	2020	2019
Stock-based compensation in the form of stock options, RSUs, and ESPP purchase rights, included in:			
Cost of sales	\$70	\$ 80	\$104
Selling, general and administrative	816	631	545
Research and development	215	199	256
Net effect on net loss	<u>\$1,101</u>	<u>\$910</u>	<u>\$905</u>
Effect on net loss per share:			
Basic	\$0.05	\$0.04	\$0.04
Diluted	\$0.05	\$0.04	\$0.04

As of May 31, 2021, 2020 and 2019, there were no stock-based compensation expenses capitalized as part of inventory.

During fiscal 2021, 2020 and fiscal 2019, the Company recorded stock-based compensation related to stock options and restricted stock units of \$993,000, \$751,000 and \$650,000, respectively.

As of May 31, 2021, the total compensation expense related to unvested stock-based awards under the Company’s 2016 Equity Incentive Plan, but not yet recognized, was \$1,022,000 which is net of estimated forfeitures of \$3,000. This expense will be amortized on a straight-line basis over a weighted average period of approximately 2.4 years.

During fiscal 2021, 2020 and fiscal 2019, the Company recorded stock-based compensation related to its ESPP of \$108,000, \$159,000 and \$255,000, respectively. The increase in fiscal 2019 is primarily due to employees increasing their ESPP elections during the fiscal year.

As of May 31, 2021, the total compensation expense related to purchase rights under the ESPP but not yet recognized was \$229,000. This expense will be amortized on a straight-line basis over a weighted average period of approximately 1.2 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 years, which matches the expected term of most of the 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 2021, 2020 and 2019 were estimated using the following weighted average assumptions in the Black-Scholes option valuation method:

	Year Ended May 31,		
	2021	2020	2019
Expected term (in years)	6	5	5
Volatility	72.0%	71.5%	71.9%
Risk-free interest rates.	0.44%	1.56%	2.83%
Weighted average grant date fair value.	\$1.12	\$0.95	\$1.33

The fair value of our ESPP purchase rights for the fiscal 2021, 2020 and 2019 was estimated using the following weighted average assumptions:

	Year End May 31,		
	2021	2020	2019
Expected term (in years)	0.5 – 2.0	0.5 – 2.0	0.5 – 2.0
Volatility.	74% – 88%	62% – 77%	48% – 78%
Risk-free interest rates.	0.04%–0.17%	0.14%–1.81%	2.33%–2.82%
Weighted average grant date fair value.	\$1.03	\$0.79	\$1.14

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 stock, restricted stock units, stock appreciation rights, performance units, performance 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. A total of 3,435,000 shares of common stock have been reserved for issuance under the Company's 2016 Equity Incentive Plan, which includes 1,835,000 shares that remained available for issuance under the 2006 Equity Incentive Plan. See the Company's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on November 22, 2019 for further information regarding the 2016 Equity Incentive Plan.

As of May 31, 2021, out of the 4,036,000 shares authorized for grant under the 2016 Equity Incentive Plan, 2,898,000 stock options and RSUs were outstanding. As of May 31, 2020, out of the 4,813,000 shares authorized for grant under the 2016 Equity Incentive Plan, 3,163,000 stock options and RSUs were outstanding.

The following tables summarize the Company's stock option and RSU transactions during fiscal 2021, 2020 and 2019 (in thousands):

	Available Shares
Balance, May 31, 2018.	1,812
Options granted.	(804)
RSUs cancelled	8
Options terminated	195
Options expired.	(64)
Balance, May 31, 2019	1,147
Additional shares reserved.	1,196
Options granted.	(738)
RSUs granted.	(25)
Shares withheld for taxes and not issued	6
Options terminated	457
Options expired.	(393)
Balance, May 31, 2020	1,650
Options granted.	(297)
RSUs granted.	(340)
RSUs cancelled.	1
Shares withheld for taxes and not issued	9
Options terminated	455
Options expired.	(341)
Balance, May 31, 2021	1,137

The following table summarized the stock option transactions during fiscal 2021, 2020 and 2019 (in thousands, except per share data):

	Outstanding Options		
	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Balances, May 31, 2018.	2,859	\$2.04	\$ 1,987
Options granted.	804	\$2.19	
Options terminated	(195)	\$2.32	
Options exercised.	(361)	\$0.85	
Balances, May 31, 2019.	3,107	\$2.20	\$ 283
Options granted.	738	\$1.61	
Options terminated	(457)	\$1.98	
Options exercised.	(235)	\$1.22	
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 fully vested and expected to vest at May 31, 2021	2,732	\$2.16	\$795

The options outstanding and exercisable at May 31, 2021 were in the following exercise price ranges (in thousands, except per share data):

Range of Exercise Prices	Options Outstanding at May 31, 2021			Options Exercisable at May 31, 2021			
	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
\$1.22-\$1.34	133	6.05	\$1.27	56	6.15	\$1.29	
\$1.64-\$1.86	1,040	4.80	\$1.70	625	4.33	\$1.69	
\$2.03-\$2.46	1,035	3.09	\$2.21	814	2.68	\$2.20	
\$2.65-\$2.81	358	0.46	\$2.72	357	0.45	\$2.72	
\$3.46-\$3.93	200	3.16	\$3.86	193	3.16	\$3.85	
\$1.22-\$3.93	<u>2,766</u>	3.54	\$2.16	<u>2,045</u>	2.94	\$2.26	\$492

The total intrinsic values of options exercised were \$152,000, \$160,000 and \$338,000 during fiscal 2021, 2020 and 2019, respectively. The weighted average contractual life of the options exercisable and expected to be exercisable at May 31, 2021 was 3.52 years.

Options to purchase 2,045,000, 2,203,000 and 2,314,000 shares were exercisable at May 31, 2021, 2020 and 2019, respectively. These exercisable options had weighted average exercise prices of \$2.26, \$2.25 and \$2.14 as of May 31, 2021, 2020 and 2019, respectively.

During the fiscal year ended May 31, 2021, RSUs for 170,000 shares, net of 9,000 shares withheld to settle payroll taxes, were granted and fully vested to employees. The weighted average market value on the date of the grant of these RSUs was \$1.92 per share. During the fiscal year ended May 31, 2021, 37,000 RSUs became fully vested and 1,000 RSUs were cancelled. 132,000 RSUs were outstanding and unvested at May 31, 2021. The intrinsic value of the outstanding and unvested RSUs at May 31, 2021 was \$297,000. During the fiscal year ended May 31, 2020, RSUs for 10,000 shares, net of 6,000 shares withheld to settle payroll taxes, were granted and fully vested to employees. The market value on the date of the grant of these RSUs was \$1.64 per share. During the fiscal year ended May 31, 2020, 13,000 RSUs became fully vested and there was no cancellation. 10,000 RSUs were outstanding and unvested at May 31, 2020. The intrinsic value of the outstanding and unvested RSUs at May 31, 2020 was \$16,000. During the fiscal year ended May 31, 2019, there were no RSUs granted to employees. During the fiscal year ended May 31, 2019, 16,000 RSUs became fully vested and 8,000 RSUs were cancelled. 23,000 RSUs were outstanding and unvested at May 31, 2019. The intrinsic value of the outstanding and unvested RSUs at May 31, 2019 was \$40,000.

During the fiscal year ended May 31, 2021, RSUs for 161,000 shares were granted and fully vested to members of the Company's Board of Directors. The weighted average market value on the date of the grant of these RSUs was \$1.81 per share. During the fiscal year ended May 31, 2020, RSUs for 9,000 shares were granted and fully vested to members of the Company's Board of Directors. The weighted average market value on the date of the grant of these RSUs was \$1.64 per share. There were no RSUs granted to members of the Board of Directors during fiscal 2019.

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 14, 2016 and November 21, 2018 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 2020, 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 2,200,000 shares of the Company's common stock have been authorized for issuance under the Purchase Plan. During the fiscal years ended May 31, 2021, 2020 and 2019, ESPP purchase rights of 279,000, 55,000,

and 379,000 shares, respectively, were granted. For the fiscal years ended May 31, 2021, 2020 and 2019, approximately 147,000, 136,000 and 125,000 shares of common stock, respectively, were issued under the Purchase Plan. As of May 31, 2021, a total of 1,764,000 shares have been issued under the Purchase Plan, and 436,000 ESPP shares remain available for issuance.

12. EMPLOYEE BENEFIT PLANS:

EMPLOYEE STOCK OWNERSHIP PLAN:

The Company has a non-contributory, trustee 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 \$60,000 per year were authorized for the plan during fiscal 2021, 2020 and 2019. The contribution amounts are recorded as compensation expense, in the period authorized and included in accrued expenses, in the period authorized. Contributions of 36,000 shares were made to the ESOP during fiscal 2021 for fiscal 2020. Contributions of 34,000 shares were made to the ESOP during fiscal 2020 for fiscal 2019. Contributions of 23,000 shares were made to the ESOP during fiscal 2019 for fiscal 2018. The contribution for fiscal 2021 will be made in fiscal 2022. Shares held in the ESOP are included in the EPS calculation.

401(K) 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 2021, 2020 and 2019.

13. OTHER (EXPENSE) INCOME, NET:

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

	Year Ended May 31,		
	2021	2020	2019
Foreign exchange (loss) gain.	\$(111)	\$(12)	\$43
Other (expense) income, net.	(51)	1	1
	<u>\$(162)</u>	<u>\$(11)</u>	<u>\$44</u>

14. 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, 2021 and 2020 (in thousands):

	May 31,	
	2021	2020
Balance at the beginning of the year	\$ 246	\$ 154
Accruals for warranties issued during the year	390	299
Adjustment to previously existing warranty	346	--
Consumption of reserves	(488)	(207)
Balance at the end of the year	<u>\$ 494</u>	<u>\$ 246</u>

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

15. 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):

	May 31,	
	2021	2020
United States	\$647	\$662
Asia	30	1
Europe	--	--
	<u>\$677</u>	<u>\$663</u>

As of May 31, 2021, the operating lease right-of-use assets of \$1,480,000 and \$126,000 were allocated in the United States and Asia, respectively.

There were no revenues through distributors for the fiscal years ended May 31, 2021 and 2020.

16. DISSOLUTION OF AEHR TEST SYSTEMS JAPAN

On July 31, 2020, the Company completed the liquidation 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.

17. RESTRUCTURING:

During the fiscal year ended May 31, 2020, the Company approved the dissolution of Aehr Test Systems Japan K.K (“ATS-Japan”), a majority owned subsidiary. In connection with the dissolution plan, the Company recognized approximately \$220,000 in the fourth quarter of fiscal 2020 related to severance payments for individuals impacted in this reduction, legal fees associated with the dissolution process, and write-off of assets. The ATS-J subsidiary was dissolved in March 2020. The liquidation process occurred from March 2020 through the final liquidation in July 2020, allowing creditors time to submit claims and time for ATS-J to wind down and disposition any assets.

During the fiscal year ended May 31, 2019, the Company implemented a restructuring plan in order to streamline its operations and better align its structure with its objectives going forward. In connection with the restructuring plan, the Company recognized \$725,000 of restructuring charges related to employee termination expenses during the fiscal year ended May 31, 2019. The Company paid \$317,000 of the restructuring charge during fiscal year ended May 31, 2019. At May 31, 2019, the balance of \$408,000 of the restructuring charge was included in accrued expenses on the accompanying condensed consolidated balance sheets and was paid in fiscal year 2020. The Company does not expect to incur any further expenses in connection with this restructuring plan.

18. SUBSEQUENT EVENT

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 \$1,678,789 and interest totaling \$18,933, and that the remaining PPP Loan balance is zero.

19. RELATED PARTY TRANSACTIONS:

Mario M. Rosati, one of the Company's directors, was also a member of Wilson Sonsini Goodrich & Rosati, Professional Corporation, which has served as the Company's outside corporate counsel and has received compensation at normal commercial rates for these services. Mario M. Rosati retired from Wilson Sonsini Goodrich & Rosati on January 31, 2020. The amounts of transactions during fiscal years ended May 31, 2020 were \$78,000. At May 31, 2020 the Company had a prepayment to Wilson Sonsini Goodrich & Rosati of \$14,000.

20. COMMITMENTS AND CONTINGENCIES:

COMMITMENTS

At both May 31, 2021 and 2020, the Company had restricted cash of \$80,000 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, 2021, the Company had \$3,377,000 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 flows.

21. SELECTED QUARTERLY CONSOLIDATED FINANCIAL DATA (UNAUDITED):

The following tables (presented in thousands, except per share data) sets forth selected unaudited condensed consolidated statements of operations data for each of the four quarters of the fiscal years ended May 31, 2021 and 2020. The unaudited quarterly information has been prepared on the same basis as the annual information presented elsewhere herein and, in the Company's opinion, includes all adjustments (consisting only of normal recurring entries) necessary for a fair statement of the information for the quarters presented. The operating results for any quarter are not necessarily indicative of results for any future period and should be read in conjunction with the audited consolidated financial statements of the Company's and the notes thereto included elsewhere herein.

	Three Months Ended			
	Aug. 31, 2020	Nov. 30, 2020	Feb. 28, 2021	May 31, 2021
Net sales.	\$ 2,012	\$ 1,683	\$ 5,267	\$ 7,638
Gross profit	\$ 227	\$ 377	\$ 1,894	\$ 3,534
Net income (loss)	\$ 107	\$(1,966)	\$ (735)	\$ 567
Net income (loss) per share basic and diluted. . .	\$ 0.00	\$ (0.08)	\$ (0.03)	\$ 0.02

	Three Months Ended			
	Aug. 31, 2019	Nov. 30, 2019	Feb. 29, 2020	May 31, 2020
Net sales.	\$ 5,533	\$ 6,874	\$ 6,111	\$ 3,773
Gross profit (loss).	\$ 2,271	\$ 3,202	\$ 2,991	\$ (93)
Net (loss) income	\$ (413)	\$ 251	\$ 245	\$ (2,885)
Net (loss) income per share basic and diluted. . .	\$ (0.02)	\$ 0.01	\$ 0.01	\$ (0.13)

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, 2021. This annual report does not include an attestation report of the Company’s registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Company’s registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management’s report in this Annual Report.

(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

None.

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 2021 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 2021 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 2021 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 2021 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 2021 Annual Meeting of Shareholders.

PART IV

Item 15. Exhibits, 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:

Exhibit No.	Description
3.1(1)	Restated Articles of Incorporation of Registrant.
3.2(2)(25)	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	Description of Securities (filed herewith)
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
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 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).
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 to Exhibit 10.1 previously filed with the Company's Current Report on Form 8-K filed January 1, 2020 (File No. 000-22893).
- (24) Incorporated by reference to Exhibit 10.1 previously filed with the Company's Current Report on Form 8-K filed April 28, 2020 (File No. 000-22893).
- (25) 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).

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

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 27, 2021

AEHR TEST SYSTEMS

By: /s/ 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, 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/ GAYN ERICKSON ----- Gayn Erickson	President, Chief Executive Officer, and Director (Principal Executive Officer)	August 27, 2021
----- /s/ KENNETH B. SPINK ----- Kenneth B. Spink	Vice President of Finance and Chief Financial Officer (Principal Financial and Accounting Officer)	August 27, 2021
----- /s/ FARIBA DANESH ----- Fariba Danesh	Director	August 27, 2021
----- /s/ LAURA OLIPHANT ----- Laura Oliphant	Director	August 27, 2021
----- /s/ RHEA J. POSEDEL ----- Rhea J. Posedel	Chairman	August 27, 2021
----- /s/ MARIO M. ROSATI ----- Mario M. Rosati	Director	August 27, 2021
----- /s/ GEOFFREY G. SCOTT ----- Geoffrey G. Scott	Director	August 27, 2021
----- /s/ HOWARD T. SLAYEN ----- Howard T. Slayen	Director	August 27, 2021

DESCRIPTION OF SECURITIES

The following summary of the terms of our capital stock is based upon our Restated Articles of Incorporation (the “Articles of Incorporation”) and our Amended and Restated Bylaws (the “Bylaws”). The summary is not complete, and is qualified by reference to our Articles of Incorporation and Bylaws which are filed as exhibits to this Annual Report on Form 10-K and are incorporated by reference herein. We encourage you to read our Articles of Incorporation, our Bylaws and the applicable provisions of the California Corporations Code for additional information.

Authorized Shares of Capital Stock

Our authorized capital stock consists of 75 million shares of common stock, \$0.01 par value, and 10 million shares of preferred stock, \$0.01 par value.

Listing

Our common stock is listed and principally traded on The Nasdaq Capital Market under the symbol “AEHR.”

Voting Rights

Each holder of shares of our common stock is entitled to one vote for each share held of record by such holder on the applicable record date on all matters submitted to a vote of shareholders. At a shareholders' meeting at which directors are to be elected, no shareholder shall be entitled to cumulate votes unless the candidates' names have been placed in nomination prior to commencement of the voting and a shareholder has given notice prior to commencement of the voting of the shareholder's intention to cumulate votes. If any shareholder has given such a notice, then every shareholder entitled to vote may cumulate votes for candidates placed in nomination and give one candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which that shareholder's shares are entitled, or distribute the shareholder's votes on the same principle among any or all of the candidates, as the shareholder thinks fit. The candidates receiving the highest number of votes, up to the number of directors to be elected, shall be elected. On all other matters submitted to the shareholders, the affirmative vote of the majority of the voting power of the shares present in person or represented by proxy and entitled to vote shall be the act of the shareholders.

Dividend Rights

Subject to any preferential dividend rights granted to the holders of any shares of our preferred stock that may at the time be outstanding, holders of our common stock are entitled to receive dividends as may be declared from time to time by our board of directors out of funds legally available therefor.

Rights upon Liquidation

Subject to any preferential rights of outstanding shares of preferred stock, holders of our common stock are entitled to share pro rata, upon any liquidation or dissolution of Aehr, in all remaining assets legally available for distribution to shareholders.

Other Rights and Preferences

Our common stock has no sinking fund, redemption provisions, or preemptive, conversion, or exchange rights. Special meetings of shareholders may be called by shareholders holding shares representing not less than 10% of the outstanding votes entitled to vote at the meeting. Holders of our common stock may also act by unanimous written consent.

Transfer Agent and Registrar

Computershare Trust Company, N.A. is the transfer agent and registrar for our common stock.

Certain Anti-Takeover Effects

As a California corporation, Aehr is subject to the provisions of Section 1203 of the California General Corporation Law, which requires it to provide a fairness opinion to its shareholders in connection with their consideration of any proposed “interested party” reorganization transaction.

SUBSIDIARIES OF AEHR TEST SYSTEMS

1. Aehr Test Systems GmbH, incorporated in Germany
2. Aehr Test Systems Philippines Inc., incorporated in Philippines

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-216792, 333-214218 and 333-204008) and the Registration Statements on Form S-8 (No. 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) of Aehr Test Systems of our report dated August 27, 2021 relating to the consolidated financial statements, which appears in this Form 10-K.

/s/ BPM LLP

San Jose, California

August 27, 2021

**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;
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 27, 2021

/s/ GAYN ERICKSON

Gayn Erickson
President and Chief Executive Officer
(Principal Executive Officer)

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

I, Kenneth B. Spink, 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) 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 27, 2021

/s/ KENNETH B. SPINK

Kenneth B. Spink
Vice President of Finance and Chief Financial Officer
(Principal Financial and Accounting Officer)

**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, 2021 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 27, 2021

By: /s/ GAYN ERICKSON

Gayn Erickson
President and Chief Executive Officer
(Principal Executive Officer)

I, Kenneth B. Spink, 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, 2021 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 27, 2021

By: /s/ KENNETH B. SPINK

Kenneth B. Spink
Vice President of Finance and Chief Financial Officer
(Principal Financial and Accounting Officer)

The foregoing certifications are not deemed filed with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), and are not to be incorporated by reference into any filing of Aehr Test Systems under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

CORPORATE INFORMATION

DIRECTORS

Rhea J. Posedel
Chairman

Gayn Erickson
President
Chief Executive Officer

Fariba Danesh⁽²⁾
Chief Operating Officer
PsiQuantum
Advisory to Photonics corps

Laura Oliphant ^{(1) (2) (3)}
Independent consultant and investor

Mario M. Rosati ⁽³⁾
Retired Member
Wilson Sonsini Goodrich & Rosati,
Professional Corporation

Geoffrey G. Scott ^{(1) (3)}
Private Investor

Howard T. Slayen ^{(1) (2)}
Retired Partner
PricewaterhouseCoopers

⁽¹⁾ Member of the Audit Committee

⁽²⁾ Member of the Compensation Committee

⁽³⁾ Member of the Corporate Governance and
Nominating Committee

OFFICERS

Gayn Erickson
President
Chief Executive Officer

Kenneth B. Spink
Vice President of Finance
Chief Financial Officer

Michael Brannan
Vice President of Operations

David S. Hendrickson
Chief Technology Officer

Donald P. Richmond II
Vice President of Engineering

Vernon Rogers
Executive V.P. of Sales and Marketing

CORPORATE HEADQUARTERS

400 Kato Terrace
Fremont, CA 94539
Telephone: 510.623.9400
Fax: 510.623.9450
Website: www.aehr.com

SUBSIDIARIES

**Aehr Test Systems
Philippines Inc.**
Bldg. 10 Berthaphil II
South Industrial Park,
Manunggal Street,
Clark Freeport Zone,
Pampanga, 2023
Philippines
Telephone: 63.454994671
Email: atspsupport@aehr.com

Aehr Test Systems GmbH
Industriestrasse 9
D-86919 Utting
Germany
Telephone: 49.8806.2021
Fax: 49.8806.2024
Email: atsg@aehr.com

Aehr Test Systems' corporate
headquarters has been certified to the
International Standards Organization
(ISO) 9001 standard since 1997.

SHAREHOLDER INFORMATION

Legal Counsel
Latham & Watkins, LLP
Menlo Park, CA

**Independent Registered
Public Accounting Firm**
BPM LLP
San Jose, CA

Transfer Agent and Registrar
Computershare Trust Company, N.A.
P. O. Box 505000
Louisville, KY 40233-5000
Toll free: 800.962.4284
(US, Canada, Puerto Rico)
781.575.3100 (non-US)

Investor Relations
MKR Group, Inc.
Telephone: 323.468.2300
Email: aehr@mkr-group.com

Annual Meeting
The annual meeting of shareholders
will be held at 4:00 p.m. on
October 19, 2021 at the Company's
Corporate Headquarters.





CORPORATE HEADQUARTERS

400 KATO TERRACE

FREMONT, CA 94539

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