

AEHR TEST SYSTEMS
Form 10-Q
April 14, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended February 28, 2015

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
(I.R.S. Employer Identification No.)

400 Kato Terrace, Fremont, CA
(Address of principal executive offices)

94539
(Zip Code)

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

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

Edgar Filing: AEHR TEST SYSTEMS - Form 10-Q

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

Edgar Filing: AEHR TEST SYSTEMS - Form 10-Q

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

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>

(Do not check if a smaller reporting company)

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

Number of shares of the registrant’s common stock, \$0.01 par value, outstanding as of March 31, 2015 was 12,709,054.

2

AEHR TEST SYSTEMS

FORM 10-Q

FOR THE QUARTER ENDED FEBRUARY 28, 2015

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1.	Financial Statements (Unaudited)	
	Condensed Consolidated Balance Sheets at February 28, 2015 and May 31, 2014	4
	Condensed Consolidated Statements of Operations for the Three and Nine Months Ended February 28, 2015 and 2014	5
	Condensed Consolidated Statements of Comprehensive (Loss) Income for the Three and Nine Months Ended February 28, 2015 and 2014	6
	Condensed Consolidated Statements of Cash Flows for the Nine Months Ended February 28, 2015 and 2014	7
	Notes to Condensed Consolidated Financial Statements	8
ITEM 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	18
ITEM 3.	Quantitative and Qualitative Disclosures about Market Risks	23
ITEM 4.	Controls and Procedures	24

PART II. OTHER INFORMATION

ITEM 1.	Legal Proceedings	25
ITEM 1A.	Risk Factors	25
ITEM 2.	Unregistered Sales of Equity Securities and Use of Proceeds	31
ITEM 3.	Defaults Upon Senior Securities	32
ITEM 4.	Mine Safety Disclosures	32
ITEM 5.	Other Information	32

ITEM 6.	Exhibits	32
SIGNATURES		33
Index to Exhibits		34

PART I. FINANCIAL INFORMATION

Item 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

AEHR TEST SYSTEMS

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

(unaudited)

	February 28, 2015	May 31, 2014 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$2,274	\$1,809
Accounts receivable, net	597	3,390
Inventories	6,854	6,148
Prepaid expenses and other	428	326
Total current assets	10,153	11,673
Property and equipment, net	502	474
Other assets	94	78
Total assets	\$10,749	\$12,225
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Line of credit	\$115	\$777
Accounts payable	1,631	1,892
Accrued expenses	1,375	1,390
Customer deposits and deferred revenue	1,712	1,058
Total current liabilities	4,833	5,117
Income taxes payable	8	71
Deferred rent, net of current portion	--	8
Total liabilities	4,841	5,196
Aehr Test Systems shareholders' equity:		
Common stock, \$0.01 par value: Authorized: 75,000 shares;		
Issued and outstanding: 12,695 shares and 11,203 shares at February 28, 2015 and May 31, 2014, respectively	127	112
Additional paid-in capital	55,976	52,142
Accumulated other comprehensive income	2,262	2,488
Accumulated deficit	(52,439)	(47,692)

Edgar Filing: AEHR TEST SYSTEMS - Form 10-Q

Total Aehr Test Systems shareholders' equity	5,926	7,050
Noncontrolling interest	(18)	(21)
Total shareholders' equity	5,908	7,029
Total liabilities and shareholders' equity	\$10,749	\$12,225

(1) The condensed consolidated balance sheet at May 31, 2014 has been derived from the audited consolidated financial statements at that date.

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

AEHR TEST SYSTEMS
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2015	2014	2015	2014
Net sales	\$2,027	\$5,612	\$8,200	\$14,314
Cost of sales	1,175	2,742	5,044	7,006
Gross profit	852	2,870	3,156	7,308
Operating expenses:				
Selling, general and administrative	1,584	1,701	4,944	4,638
Research and development	1,031	907	3,095	2,386
Total operating expenses	2,615	2,608	8,039	7,024
(Loss) income from operations	(1,763)	262	(4,883)	284
Interest expense	(7)	(7)	(29)	(21)
Other income (expense), net	110	(21)	201	(85)
(Loss) income before income tax (expense) benefit	(1,660)	234	(4,711)	178
Income tax (expense) benefit	(66)	(22)	(36)	5
Net (loss) income	(1,726)	212	(4,747)	183
Less: Net income attributable to the noncontrolling interest	--	--	--	--
Net (loss) income attributable to AeHR Test Systems common shareholders	\$(1,726)	\$212	\$(4,747)	\$183
Net (loss) income per share – basic	\$(0.14)	\$0.02	\$(0.40)	\$0.02
Net (loss) income per share – diluted	\$(0.14)	\$0.02	\$(0.40)	\$0.02
Shares used in per share calculations:				
Basic	12,677	10,982	11,931	10,807
Diluted	12,677	12,277	11,931	11,583

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

AEHR TEST SYSTEMS
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(in thousands)
(unaudited)

	Three Months Ended February 28, 2015		Nine Months Ended February 28, 2015		2014	
Net (loss) income	\$ (1,726	)	\$ 212	\$ (4,747	)	\$ 183
Other comprehensive (loss) income, net of tax:						
Net change in cumulative translation adjustment	(111	)	14	(223	)	59
Total comprehensive (loss) income	(1,837	)	226	(4,970	)	242
Less: Comprehensive income (loss) attributable to the noncontrolling interest	--		--	3	(1)
Comprehensive (loss) income, attributable to AeHR Test Systems	\$ (1,837	)	\$ 226	\$ (4,973	)	\$ 243

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

AEHR TEST SYSTEMS
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine Months Ended February 28,	
	2015	2014
Cash flows from operating activities:		
Net (loss) income	\$(4,747)	\$183
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Stock-based compensation expense	693	625
(Recovery of) provision for doubtful accounts	(44)	13
Gain on disposal of fixed asset	--	(41)
Depreciation and amortization	98	119
Changes in operating assets and liabilities:		
Accounts receivable	2,584	(685)
Inventories	(706)	(546)
Prepaid expenses and other	(129)	(123)
Accounts payable	6	1,075
Accrued expenses	(71)	8
Customer deposits and deferred revenue	663	(691)
Income taxes payable	21	(35)
Deferred rent	(8)	(71)
Net cash used in operating activities	(1,640)	(169)
Cash flows from investing activities:		
Purchases of property and equipment	(106)	(154)
Proceeds from sales of property and equipment	--	50
Net cash used in investing activities	(106)	(104)
Cash flows from financing activities:		
Line of credit repayments, net	(662)	(695)
Proceeds from issuance of common stock under private placement, net of issuance costs	2,574	--
Proceeds from issuance of common stock under employee plans	553	502
Net cash provided by (used in) financing activities	2,465	(193)
Effect of exchange rates on cash	(254)	(12)
Net increase (decrease) in cash and cash equivalents	465	(478)
Cash and cash equivalents, beginning of period	1,809	2,324
Cash and cash equivalents, end of period	\$2,274	\$1,846
Supplemental disclosure of non-cash flow information:		

Net change in capitalized share-based compensation	\$29	\$-
--	------	-----

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

AEHR TEST SYSTEMS
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying financial information has been prepared by Aehr Test Systems, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission, or SEC. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States (GAAP) have been condensed or omitted pursuant to such rules and regulations.

In the opinion of management, the unaudited condensed consolidated financial statements for the interim periods presented have been prepared on a basis consistent with the May 31, 2014 audited consolidated financial statements and reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the condensed consolidated financial position and results of operations as of and for such periods indicated. These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2014. Results for the interim periods presented herein are not necessarily indicative of results which may be reported for any other interim period or for the entire fiscal year.

PRINCIPLES OF CONSOLIDATION. The condensed consolidated financial statements include the accounts of Aehr Test Systems and its subsidiaries (collectively, the "Company," "we," "us," and "our"). All significant intercompany balances have been eliminated in consolidation. For the majority owned subsidiary, Aehr Test Systems Japan, we reflected the noncontrolling interest of the portion we do not own on our Consolidated Balance Sheets in Shareholders' Equity and in the Consolidated Statements of Operations.

ACCOUNTING 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 and 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. Estimates are used to account for revenue adjustments, the allowance for doubtful accounts, inventory reserves, income taxes, stock-based compensation expenses, and product warranties, among others. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ materially from those estimates.

SIGNIFICANT ACCOUNTING POLICIES. The Company's significant accounting policies are disclosed in the Company's Annual Report on Form 10-K for the year ended May 31, 2014. There have been no changes in our significant accounting policies during the nine months ended February 28, 2015.

2. STOCK-BASED COMPENSATION

Stock-based compensation expense consists of expenses for stock options and employee stock purchase plan, or ESPP, shares. Stock-based compensation cost 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. All of the Company's stock-based compensation is accounted for as an equity instrument. See Notes 10 and 11 in the Company's Annual Report on Form 10-K for fiscal 2014 filed on August 28, 2014 for further information regarding the stock option plan and the ESPP.

The following table summarizes compensation costs related to the Company's stock-based compensation for the three and nine months ended February 28, 2015 and 2014 (in thousands):

	Three Months Ended February 28, 2015		Nine Months Ended February 28, 2015	
	2014		2014	
Stock-based compensation in the form of employee stock options and ESPP shares, included in:				
Cost of sales	\$17	\$10	\$47	\$33
Selling, general and administrative	148	184	508	471
Research and development	54	41	138	121
Total stock-based compensation	\$219	\$235	\$693	\$625

As of February 28, 2015, stock-based compensation costs of \$53,000 were capitalized as part of inventory. There were no stock-based compensation costs capitalized as part of inventory at February 28, 2014.

During the three months ended February 28, 2015 and 2014, the Company recorded stock-based compensation related to stock options of \$183,000 and \$205,000, respectively. During the nine months ended February 28, 2015 and 2014, the Company recorded stock-based compensation related to stock options of \$589,000 and \$533,000, respectively.

As of February 28, 2015, the total unrecognized stock-based compensation cost related to unvested stock-based awards under the Company's 1996 Stock Option Plan and 2006 Equity Incentive Plan was approximately \$1,540,000, which is net of estimated forfeitures of \$4,000. This cost will be amortized over the remaining service period of the underlying options. The weighted average service period is approximately 2.7 years.

During the three months ended February 28, 2015 and 2014, the Company recorded stock-based compensation related to the ESPP of \$37,000 and \$30,000, respectively. During the nine months ended February 28, 2015 and 2014, the Company recorded stock-based compensation related to the ESPP of \$104,000 and \$92,000, respectively.

As of February 28, 2015, the total compensation cost related to options to purchase the Company's common stock under the ESPP but not yet recognized was approximately \$111,000. This cost will be amortized on a straight-line basis over a weighted average service 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 model 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.

Expected 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 four or 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 cost recorded.

Dividends. The Company has never paid any cash dividends on its common stock and does not anticipate paying any cash dividends in the foreseeable future. Consequently, the Company uses an expected dividend yield of zero in the Black-Scholes option valuation model.

Risk-Free Interest Rate. The Company bases the risk-free interest rate used in the Black-Scholes option valuation model 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.

Estimated Forfeitures. When estimating forfeitures, the Company considers voluntary termination behavior as well as analysis of actual option forfeitures.

Fair Value. The fair value of the Company's stock options granted to employees for the three months ended February 28, 2015, and the nine months ended February 28, 2015 and 2014 were estimated using the following weighted average assumptions in the Black-Scholes option valuation model:

	Three Months Ended February 28,		Nine Months Ended February 28,		
	2015		2015		2014
Option plan shares					
Expected term (in years)	4		4		4
Volatility	0.90		0.91		0.95
Expected dividend	\$ 0.00		\$ 0.00		\$ 0.00
Risk-free interest rates	1.16	%	1.25	%	1.40
Estimated forfeiture rate	0.25	%	0.25	%	0.25
Weighted average grant date fair value	\$ 1.62		\$ 1.64		\$ 1.03

There were no options granted during the three months ended February 28, 2014.

The fair values of the ESPP purchase rights granted for the nine months ended February 28, 2015 and 2014 were estimated using the following weighted-average assumptions:

	Nine Months Ended February 28,		
	2015		2014
Employee stock purchase plan purchase rights			
Expected term (in years)	0.5-2.0		0.5-2.0
Volatility	0.55-0.83		0.86-1.00
Expected dividend	\$0.00		\$0.00
Risk-free interest rates	0.04%-0.53%		0.04%-0.33%
Estimated forfeiture rate	0	%	0
Weighted average grant date fair value	\$1.47		\$1.34

There were no ESPP purchase rights granted during the three months ended February 28, 2015 and 2014. During the nine months ended February 28, 2015 and 2014, ESPP purchase rights of 170,000 and 163,000 shares, respectively, were granted. There were no ESPP shares issued during the three months ended February 28, 2015 and 2014. Total ESPP shares issued during the nine months ended February 28, 2015 and 2014 were 43,000 shares and 75,000 shares, respectively. As of February 28, 2015 there were 311,000 ESPP shares available for issuance.

Edgar Filing: AEHR TEST SYSTEMS - Form 10-Q

The following table summarizes the stock option transactions during the three and nine months ended February 28, 2015 (in thousands, except per share data):

	Available Shares	Number of Shares	Outstanding Options Weighted Average Exercise Price	Aggregate Intrinsic Value
Balances, May 31, 2014	1,145	3,002	\$1.31	\$2,913
Options granted	(625)	625	\$2.65	
Options terminated	9	(9)	\$1.27	
Options exercised	--	(295)	\$1.07	