AEHR TEST SYSTEMS
Form 10-Q
October 12, 2018

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

FORM 10-Q

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

For the quarterly period ended August 31, 2018

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<br>(State or other jurisdiction of incorporation or organization) | 94-2424084<br>(I.R.S. Employer Identification No.) |
| 400 Kato Terrace<br>Fremont, CA<br>(Address of principal executive offices) | 94539<br>(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

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

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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 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 September 28, 2018 was 22,253,698.

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AEHR TEST SYSTEMS

FORM 10-Q

FOR THE QUARTER ENDED AUGUST 31, 2018

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PART I. FINANCIAL INFORMATION

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (Unaudited)

AEHR TEST SYSTEMS
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)
(unaudited)

| | August 31, 2018 | May 31, 2018 (1) |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $15,864 | $16,848 |
| Accounts receivable, net | 2,272 | 2,856 |
| Inventories | 9,585 | 9,049 |
| Prepaid expenses and other current assets | 727 | 703 |
| Total current assets | 28,448 | 29,456 |
| Property and equipment, net | 1,174 | 1,203 |
| Other assets | 266 | 296 |
| Total assets | $29,888 | $30,955 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $1,317 | $1,762 |
| Accrued expenses | 1,498 | 1,646 |
| Customer deposits and deferred revenue, short-term | 2,339 | 1,630 |
| Current portion of long-term debt | 6,110 | 6,110 |
| Total current liabilities | 11,264 | 11,148 |
| Deferred rent | 145 | 63 |
| Deferred revenue, long-term | 359 | 459 |
| Total liabilities | 11,768 | 11,670 |
| Aehr Test Systems shareholders' equity: | | |
| | 222 | 221 |

| | | |
|---|---|---|
| Common stock, $0.01 par value: Authorized: 75,000; Issued and outstanding: 22,245 shares and 22,143 shares at August 31, 2018 and May 31, 2018, respectively | | |
| Additional paid-in capital | 83,405 | 83,041 |
| Accumulated other comprehensive income | 2,276 | 2,292 |
| Accumulated deficit | (67,764) | (66,249) |
| Total Aehr Test Systems shareholders' equity | 18,139 | 19,305 |
| Noncontrolling interest | (19) | (20) |
| Total shareholders' equity | 18,120 | 19,285 |
| Total liabilities and shareholders' equity | $29,888 | $30,955 |

(1)
The condensed consolidated balance sheet at May 31, 2018 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.

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

| | Three Months Ended August 31, | |
|---|---|---|
| | 2018 | 2017 |
| Net sales | $4,740 | $6,970 |
| Cost of sales | 3,187 | 4,052 |
| Gross profit | 1,553 | 2,918 |
| Operating expenses: | | |
| Selling, general and administrative | 1,879 | 1,791 |
| Research and development | 1,116 | 955 |
| Total operating expenses | 2,995 | 2,746 |
| (Loss) income from operations | (1,442) | 172 |
| Interest expense, net | (78) | (107) |
| Other income (expense), net | 9 | (60) |
| (Loss) income before income tax (expense) benefit | (1,511) | 5 |
| Income tax (expense) benefit | (4) | 5 |
| Net (loss) income | (1,515) | 10 |
| Less: Net income attributable to the noncontrolling interest | -- | -- |
| Net (loss) income attributable to Aehr Test Systems common shareholders | $(1,515) | $10 |
| Net (loss) income per share | | |
| Basic | $(0.07) | $0.00 |
| Diluted | $(0.07) | $0.00 |
| Shares used in per share calculations: | | |

| | | |
|---|---|---|
| Basic | 22,190 | 21,417 |
| Diluted | 22,190 | 22,991 |

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

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

| | Three Months Ended August 31, | |
|---|---|---|
| | 2018 | 2017 |
| Net (loss) income | $(1,515) | $10 |
| Other comprehensive (loss) income, net of tax: | | |
| Net change in cumulative translation adjustments | (15) | 59 |
| Total comprehensive (loss) income | (1,530) | 69 |
| Less: Comprehensive income attributable to the noncontrolling interest | 1 | -- |
| Comprehensive (loss) income, attributable to Aehr Test Systems common shareholders | $(1,531) | $69 |

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)

| | Three Months Ended | |
|---|---|---|
| | August 31, | |
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net (loss) income | $(1,515) | $10 |
| Adjustments to reconcile net (loss) income to net cash used in operating activities: | | |
| Stock-based compensation expense | 256 | 216 |
| Provision for doubtful accounts | -- | 31 |
| Depreciation and amortization | 111 | 89 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 563 | (1,260) |
| Inventories | (536) | (2,044) |
| Prepaid expenses and other current assets | 4 | (1,089) |
| Accounts payable | (398) | 651 |
| Accrued expenses | (151) | (21) |
| Customer deposits and deferred revenue | 609 | (440) |
| Deferred rent | 82 | -- |
| Income taxes payable | 4 | (20) |
| Net cash used in operating activities | (971) | (3,877) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (84) | (184) |
| Net cash used in investing activities | (84) | (184) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock under employee plans, net of taxes paid related to share settlement of equity awards | 109 | 234 |
| Net cash provided by financing activities | 109 | 234 |
| Effect of exchange rates on cash and cash equivalents | (38) | 17 |
| Net decrease in cash and cash equivalents | (984) | (3,810) |
| Cash and cash equivalents, beginning of period | 16,848 | 17,803 |

| | | |
|---|---|---|
| Cash and cash equivalents, end of period | $15,864 | $13,993 |
| | | |
| Supplemental disclosure of non-cash flow information: | | |
| Transfers of property and equipment to inventories | $-- | $372 |

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

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

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCCOUNTING POLICIES

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, 2018 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, 2018. 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"). All significant intercompany balances have been eliminated in consolidation. For the Company’s majority owned subsidiary, Aehr Test Systems Japan K.K., the noncontrolling interest of the portion the Company does not own was reflected on the Condensed Consolidated Balance Sheets in Shareholders’ Equity and in the Condensed Consolidated Statements of Operations.

ACCOUNTING ESTIMATES. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used to account for sales and revenue allowances, the allowance for doubtful accounts, inventory valuations, income taxes, stock-based compensation expenses, and product warranties, among others. The Company bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances. Actual results could differ materially from those estimates.

SUMMARY OF 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, 2018. There have been no significant changes in our significant accounting policies during the three months ended August 31, 2018 except for revenue recognition.

REVENUE RECOGNITION. Revenue consists primarily of the sale of the following products and services: systems, WaferPaks, DiePaks, upgrade services, spare parts, application support, service contracts and extended warranty contracts. Revenue is recognized upon transferring control of products and performing services, and the amounts recognized reflect the consideration we expect to be entitled to receive in exchange for these products and services. We sell our products and services directly to customers and through distributors.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. In contracts with multiple performance obligations, we identify each performance obligation and evaluate whether the performance obligation is distinct within the context of the contract at contract inception. A good or service that is not distinct is combined with other promised goods or services until the Company identifies a bundle of goods or services that is distinct.

Our products may be customized to our customers' specifications, however, control of our product is typically transferred to the customer at the point in time the product is either shipped or delivered, depending on the terms of the arrangement, as the criteria for over time recognition is not met. In limited circumstances, substantive acceptance by the customer exists which results in the deferral of revenue until acceptance is formally received from the customer. Judgment may be required in determining if the acceptance clause is substantive.

Upgrade services are a distinct performance obligation apart from the systems and recognized in the period they are performed. Service contracts, which include repair and maintenance service contracts and extended warranty contracts, are also distinct performance obligations and recognized as our performance obligations are satisfied. This is typically the contractual service period, which ranges from one to three years. For these service contracts recognized over time, we use an input measure, days elapsed, to measure progress.

A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. In determining the transaction price, we evaluate whether the price is subject to refund or adjustment to determine the net consideration to which we expect to be entitled. We generally do not grant return privileges, except for defective products during the warranty period. Sales discounts that we may make available to these customers are considered to be a form of variable consideration, which is estimated in determining the contract's transaction price to be allocated to the performance obligations. We have elected the practical expedient under Accounting Standards Codification ("ASC") 606-10-32-18 to not assess whether a contract has a significant financing component as our standard payment terms are less than one year.

For contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation based on its relative standalone selling price. The stand-alone selling prices are determined based on the prices at which we separately sell these products. For items that are not sold separately, we estimate the stand-alone selling prices using our best estimate of selling price.

Transaction price allocated to the remaining performance obligations. On August 31, 2018, we had $685,000 of remaining performance obligations, which were comprised of deferred service contracts and extended warranty contracts not yet delivered. We expect to recognize approximately 34% of our remaining performance obligations as revenue in fiscal 2019, and an additional 66% in fiscal 2020 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.

Contract Assets and Liabilities. The timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable is recorded at the invoiced amount, net of an allowance for doubtful accounts. A receivable is recognized in the period we deliver goods or provide services or when our 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 Condensed Consolidated Balance Sheets at the end of each reporting period as a component of deferred revenue. Contract liabilities as of August 31, 2018 and May 31, 2018 were $2,698,000 and $2,089,000, respectively. During the three months ended August 31, 2018, we recognized $602,000 of revenues that was included in contract liabilities as of May 31, 2018.

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 our products and their respective manufacturing process.

Amount collected from customers. Sales tax collected from customers is not included in net sales but rather recorded as a liability due to the respective taxing authorities.

RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Standards Adopted

Revenue Recognition

In May 2014, the FASB issued ASC Update No. 2014-09, Revenue from Contracts with Customers (Topic 606), which has been subsequently updated. The core principle of the standard is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The new standard defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price, and allocating the transaction price to each distinct performance obligation. The standard permits the use of either the retrospective or modified retrospective transition methods. It also requires expanded disclosures including the nature, amount, timing, and uncertainty of revenues and cash flows related to contracts with customers. Additionally, qualitative and quantitative disclosures are required about customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract.

We adopted Accounting Standards Codification (“ASC”) 606, Revenue from Contracts with Customers and all related amendments (collectively “ASC 606”), on June 1, 2018, the first day of fiscal 2019, using the modified retrospective method. We applied ASC 606 to all contracts not completed as of the date of adoption in order to determine any adjustment to the opening balance of retained earnings. Under the modified retrospective adoption method, the comparative financial information has not been restated and continues to be reported under the accounting standards in effect for those periods, ASC 605, "Revenue Recognition", which is also referred to herein as "legacy GAAP."

The adoption of ASC 606 did not have a material impact on our consolidated financial statements as of June 1, 2018. No adjustment was recorded to accumulated deficit as of the adoption date and reported revenue would not have been different under legacy GAAP. Additionally, we do not expect the adoption of the revenue standard to have a material impact to our net income on an ongoing basis.

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued authoritative guidance related to the classification of certain cash receipts and cash payments on the statement of cash flows. The Company adopted this new standard in fiscal year 2019. The adoption of this guidance did not have a significant impact on the Company’s consolidated financial statements.

Intra-Entity Asset Transfers

In October 2016, the FASB issued an accounting standard update that requires recognition of the income tax consequences of intra-entity transfers of assets (other than inventory) at the transaction date. The Company adopted this new standard in fiscal year 2019. The adoption of this guidance did not have a significant impact on the Company’s consolidated financial statements.

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Restricted Cash

In November 2016, the FASB issued authoritative guidance related to statements of cash flows. This guidance clarifies that amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of period total amounts shown on the statement of cash flows. The Company adopted this new standard in fiscal year 2019. The adoption of this guidance did not have a significant impact on the Company's consolidated financial statements.

Income Taxes

On December 22, 2017, the US government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act makes broad and complex changes to the US tax code including but not limited to (1) reducing the US federal corporate tax rate from 34% to 21%; (2) requiring companies to pay a one-time transition tax on certain repatriated earnings of foreign subsidiaries; (3) generally eliminating US federal income taxes on dividends from foreign subsidiaries; (4) requiring a current inclusion in US federal income of certain earnings of controlled foreign corporations; (5) creating a new limitation on deductible interest expense; (6) changing rules related to the uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017, and (7) repeals the corporate alternative minimum tax regime, or AMT, effective December 31, 2017 and permits existing minimum tax credits to offset the regular tax liability for any tax year. Consequently, we have accounted for the reduction of $6.4 million of deferred tax assets with an offsetting adjustment to the valuation allowance for the fiscal year ended 2018, and recorded a benefit of $90,000 for our Federal refundable AMT credit.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") which provides guidance on accounting for the tax effects of the Tax act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the accounting under ASC 740, Income taxes. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. There are also certain transitional impacts of the Tax Act. As part of the transition to the new territorial tax system, the Tax Act imposes a one-time repatriation tax on deemed repatriation of historical earnings of foreign subsidiaries. These transitional impacts have no impact to the company for the year fiscal year ended 2018. The one-time transition tax is based on post-1986 earnings and profits that were previously deferred from US income tax. While we have not yet finalized our calculation of the total post-1986 earnings and profits, for our foreign corporations or the impact of foreign tax credits, we have prepared a reasonable estimate and calculated the provision amount. The Company is evaluating the calculation of the transition tax. The accounting for this item is incomplete and may change as our interpretation of the provisions of the Act evolve, additional information becomes available or interpretive guidance is issued by the U.S. Treasury. The final determination will be completed no later than one year from the enactment date. Based on the current year and carryover losses and the valuation allowance the Company would not expect an impact to the financial statements as a result of the completion of the analysis.

Accounting Standards Not Yet Adopted

Financial Instruments

In January 2016, the FASB issued an accounting standard update related to recognition and measurement of financial assets and financial liabilities. This standard changes accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. In addition, it clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. This standard is effective for us in fiscal year 2020. Early adoption is permitted. The Company is currently evaluating the impact of this new guidance on its consolidated financial statements.

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In June 2016, the FASB issued an accounting standard update 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 collectibility of the reported amount. The accounting standard update will be effective for the Company beginning in the first quarter of fiscal 2021 on a modified retrospective basis, and early adoption in fiscal 2020 is permitted. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

Leases

In February 2016, the FASB issued authoritative guidance related to leases. This guidance requires management to present all leases greater than one year on the balance sheet as a liability to make payments and an asset as the right to use the underlying asset for the lease term. This new standard will be effective for us in fiscal year 2020, with early adoption permitted. The Company is currently evaluating the impact of adopting this new guidance on its consolidated financial statements.

2. EARNINGS PER SHARE

Basic earnings per share is determined using the weighted average number of common shares outstanding during the period. Diluted earnings per share 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) income per share attributable to Aehr Test Systems common shareholders (in thousands, except per share data):

| | Three Months Ended August 31, | |
|---|---|---|
| | 2018 | 2017 |
| Numerator: Net (loss) income | $(1,515) | $10 |
| Denominator for basic net (loss) income per share: | | |
| Weighted average shares outstanding | 22,190 | 21,417 |
| Shares used in basic net (loss) income per share calculation | 22,190 | 21,417 |
| Effect of dilutive securities | -- | 1,574 |
| Denominator for diluted net (loss) income per share | 22,190 | 22,991 |
| Basic net (loss) income per share | $(0.07) | $0.00 |
| Diluted net (loss) income per share | $(0.07) | $0.00 |

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 three months ended August 31, 2018, 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 this period are the same. Stock options to purchase 3,189,000 shares of common stock, RSUs for 43,000 shares and ESPP rights to purchase 359,000 ESPP shares were outstanding as of August 31, 2018 but were not included in the computation of diluted net loss per share, because the inclusion of such shares would be anti-dilutive. Stock options to purchase 140,000 shares of common stock were outstanding as of August 31, 2017, but were not included in the computation of diluted net income per share, because the inclusion of such shares would be anti-dilutive. The 2,657,000 shares convertible under the convertible notes outstanding on August 31, 2018 and 2017 were not included in the computation of diluted net (loss) income per share, because the inclusion of such shares would be anti-dilutive.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

The following table summarizes the Company’s cash, cash equivalents and investments by security type at August 31, 2018 (in thousands):

| | Cost | Gross Unrealized Loss | Estimated Fair Value |
|---|---|---|---|
| Cash | $2,587 | $-- | $2,587 |
| Cash equivalents: | | | |
| Money market funds | 13,277 | -- | 13,277 |
| U.S. Treasury securities | -- | -- | -- |
| Total Cash equivalents | 13,277 | -- | 13,277 |
| Total Cash and Cash equivalents | $15,864 | $-- | $15,864 |
| Long-term investments: | | | |
| Certificate of deposit | $80 | $-- | $80 |
| Total Cash, Cash equivalents and Investments | $15,944 | $-- | $15,944 |

Long-term investments are included in other assets on the accompanying condensed consolidated balance sheet at August 31, 2018.

The following table summarizes the Company’s cash, cash equivalents and investments by security type at May 31, 2018 (in thousands):

| | Cost | Gross Unrealized Loss | Estimated Fair Value |
|---|---|---|---|
| Cash | $3,132 | $-- | $3,132 |
| Cash equivalents: | | | |
| Money market funds | 7,733 | -- | 7,733 |
| U.S. Treasury securities | 5,983 | -- | 5,983 |
| Total Cash equivalents | 13,716 | -- | 13,716 |
| Total Cash and Cash equivalents | $16,848 | $-- | $16,848 |
| Long-term investments: | | | |
| Certificate of deposit | $80 | $-- | $80 |
| Total Cash, Cash equivalents and Investments | $16,928 | $-- | $16,928 |

Long-term investments are included in other assets on the accompanying consolidated balance sheet at May 31. 2018.

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

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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 August 31, 2018 (in thousands):

| | Balance as of August 31, 2018 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Money market funds | $13,277 | $13,277 | $-- | $-- |
| Certificate of deposit | 80 | -- | 80 | -- |
| Assets | $13,357 | | | |