AEHR TEST SYSTEMS
Form 10-Q
October 14, 2015

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, 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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [X] No [ ]

1

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 [ ]	Accelerated filer [ ]
Non-accelerated filer [ ]	Smaller reporting company [X]

(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 [X]

Number of shares of the registrant’s common stock, $0.01 par value, outstanding as of September 30, 2015 was 12,991,278.

AEHR TEST SYSTEMS

FORM 10-Q

FOR THE QUARTER ENDED AUGUST 31, 2015

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements (Unaudited)

	Condensed Consolidated Balance Sheets at August 31, 2015 and May 31, 2015	4
	Condensed Consolidated Statements of Operations for the Three Months Ended August 31, 2015 and 2014	5
	Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three Months Ended August 31, 2015 and 2014	6
	Condensed Consolidated Statements of Cash Flows for the Three Months Ended August 31, 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	16
ITEM 3.	Quantitative and Qualitative Disclosures About Market Risks	20
ITEM 4.	Controls and Procedures	21
PART II.	OTHER INFORMATION	
ITEM 1.	Legal Proceedings	22
ITEM 1A.	Risk Factors	22
ITEM 2.	Unregistered Sales of Equity Securities and Use of Proceeds	29
ITEM 3.	Defaults Upon Senior Securities	29
ITEM 4.	Mine Safety Disclosures	29
ITEM 5.	Other Information	29
ITEM 6.	Exhibits	29
SIGNATURES		30

Index to Exhibits 31

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)

	August 31, 2015	May 31, 2015 (1)
ASSETS		
Current assets:		
Cash and cash equivalents	$3,653	$5,527
Accounts receivable, net	2,628	1,383
Inventories	7,258	7,123
Prepaid expenses and other	465	262
Total current assets	14,004	14,295
Property and equipment, net	465	478
Other assets	94	95
Total assets	$14,563	$14,868
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$1,848	$724
Accrued expenses	1,557	1,045
Customer deposits and deferred revenue, short-term	1,819	4,750
Total current liabilities	5,224	6,519
Long-term debt, net of debt issuance costs	3,828	3,791
Income taxes payable	--	8
Deferred revenue, long-term	127	--
Total liabilities	9,179	10,318
Aehr Test Systems shareholders' equity:		
Common stock, $0.01 par value: Authorized: 75,000; Issued and outstanding: 12,987 shares and 12,857 shares at August 31, 2015 and May 31, 2015, respectively	130	129
Additional paid-in capital	57,068	56,547
Accumulated other comprehensive income	2,249	2,231
Accumulated deficit	(54,045)	(54,339)
Total Aehr Test Systems shareholders' equity	5,402	4,568
Noncontrolling interest	(18)	(18)

Total shareholders' equity	5,384	4,550
Total liabilities and shareholders' equity	$14,563	$14,868

(1) The condensed consolidated balance sheet at May 31, 2015 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 August 31,	
	2015	2014
Net sales	$6,633	$3,558
Cost of sales	3,250	1,948
Gross profit	3,383	1,610
Operating expenses:		
Selling, general and administrative	1,845	1,624
Research and development	1,062	959
Total operating expenses	2,907	2,583
Income (loss) from operations	476	(973)
Interest expense	(135)	(14)
Other (expense) income, net	(24)	31
Income (loss) before income tax (expense) benefit	317	(956)
Income tax (expense) benefit	(23)	49
Net income (loss)	294	(907)
Less: Net income attributable to the noncontrolling interest	--	--
Net income (loss) attributable to Aehr Test Systems common shareholders	$294	$(907)
Net income (loss) per share		
Basic and Diluted	$0.02	$(0.08)
Shares used in per share calculations:		
Basic	12,963	11,391
Diluted	13,814	11,391

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

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

	Three Months Ended August 31,	
	2015	2014
Net income (loss)	$294	$(907)
Other comprehensive income (loss), net of tax:		
Net change in cumulative translation adjustments	18	(36)
Total comprehensive income (loss)	312	(943)
Less: Comprehensive income attributable to the noncontrolling interest	--	1
Comprehensive income (loss), attributable to Aehr Test Systems	$312	$(944)

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,	
	2015	2014
Cash flows from operating activities:		
Net income (loss)	$294	$(907)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Stock-based compensation expense	319	197
Provision for (recovery of) doubtful accounts	19	(20)
Amortization of debt issuance costs	37	--
Depreciation and amortization	37	29
Changes in operating assets and liabilities:		
Accounts receivable	(1,257)	1,272
Inventories	(156)	(156)
Prepaid expenses and other	(201)	(46)
Accounts payable	1,113	(270)
Accrued expenses	505	38
Customer deposits and deferred revenue	(2,804)	(294)
Income taxes payable	(2)	(53)
Deferred rent	--	(8)
Net cash used in operating activities	(2,096)	(218)
Cash flows from investing activities:		
Purchases of property and equipment	(21)	(21)
Net cash used in investing activities	(21)	(21)
Cash flows from financing activities:		
Line of credit borrowings, net	--	223
Proceeds from issuance of common stock under employee plans	223	315
Net cash provided by financing activities	223	538
Effect of exchange rates on cash	20	(33)
Net (decrease) increase in cash and cash equivalents	(1,874)	266
Cash and cash equivalents, beginning of period	5,527	1,809
Cash and cash equivalents, end of period	$3,653	$2,075
Supplemental disclosure of non-cash flow information:		
Net change in capitalized share-based compensation	$(20)	$27

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

7

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, 2015 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, 2015. 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, 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, 2015. There have been no changes in our significant accounting policies during the three months ended August 31, 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 12 and 13 in the Company's Annual Report on Form

8

10-K for fiscal 2015 filed on August 28, 2015 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 months ended August 31, 2015 and 2014 (in thousands):

	Three Months Ended August 31,	
	2015	2014
Stock-based compensation in the form of employee stock options and ESPP shares, included in:		
Cost of sales	$22	$14
Selling, general and administrative	238	148
Research and development	59	35
Total stock-based compensation	$319	$197

As of August 31, 2015, there were no stock-based compensation costs capitalized as part of inventory. Stock-based compensation costs of $51,000 were capitalized as part of inventory at August 31, 2014.

During the three months ended August 31, 2015 and 2014, the Company recorded stock-based compensation related to stock options of $286,000 and $162,000, respectively.

As of August 31, 2015, the total compensation cost related to unvested stock-based awards under the Company's 1996 Stock Option Plan and 2006 Equity Incentive Plan, but not yet recognized, was approximately $1,610,000, which is net of estimated forfeitures of $4,000. This cost will be amortized on a straight-line basis over a weighted average period of approximately 2.7 years.

During the three months ended August 31, 2015 and 2014, the Company recorded stock-based compensation related to the ESPP of $33,000 and $35,000, respectively.

As of August 31, 2015, the total compensation cost related to purchase rights under the ESPP but not yet recognized was approximately $101,000. This cost 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 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 August 31, 2014 were estimated using the following weighted average assumptions in the Black-Scholes option valuation model:

	August 31, 2014	
Option plan shares		
Expected term (in years)	4	
Volatility	0.91	
Expected dividend	$0.00	
Risk-free interest rate	1.28	%
Estimated forfeiture rate	0.25	%
Weighted average grant date fair value	$1.71	

There were no stock options granted to employees for the three months ended August 31, 2015.

During the three months ended August 31, 2015, Restricted Stock Units (RSUs) were granted for 35,000 shares. The market value on the date of the grant was $2.16 per share. The RSUs are performance based and immediately vest upon attainment of goals established.

There were no ESPP purchase rights granted to employees for the three months ended August 31, 2015 and 2014.

The following table summarizes the stock option transactions during the three months ended August 31, 2015 (in thousands, except per share data):

		Outstanding Options		
	Available Shares	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Balances, May 31, 2015	845	3,686	$1.66	$2,946
Options granted	--	--	--	
Options terminated	122	(122)	$2.04	
Options exercised	--	(130)	$1.72	
Balances, August 31, 2015	967	3,434	$1.63	$2,587

Options fully vested and expected to vest at August 31, 2015	3,366	$1.63	$2,535
Options exercisable at August 31, 2015	2,174	$1.41	$2,062

The options outstanding and exercisable at August 31, 2015 were in the following exercise price ranges (in thousands, except per share data):

	Options Outstanding at August 31, 2015			Options Exercisable at August 31, 2015			
Range of Exercise Prices	Number Outstanding Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable Shares	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Aggregate Intrinsic Value
$0.59-$0.97	670	3.60	$ 0.70	627	3.62	$ 0.71	
$1.09-$1.40	1,257	3.75	$ 1.28	921	3.47	$ 1.28	
$1.73-$2.06	267	5.43	$ 1.88	216	5.49	$ 1.90	
$2.10-$2.71	1,240	6.12	$ 2.45	410	5.85	$ 2.53	
$0.59-$2.71	3,434	4.71	$ 1.63	2,174	4.16	$ 1.41	$2,062

The total intrinsic value of options exercised during the three months ended August 31, 2015 was $60,000. The total intrinsic value of options exercised during the three months ended August 31, 2014 was $407,000. The weighted average remaining contractual life of the options exercisable and expected to be exercisable at August 31, 2015 was 4.7 years.

3. 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, and employee stock purchase plan 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):

	Three Months Ended August 31,	
	2015	2014
Numerator: Net income (loss)	$294	$(907)
Denominator for basic net income (loss) per share:		
Weighted-average shares outstanding	12,963	11,391
Shares used in basic net income (loss) per share calculation	12,963	11,391
Effect of dilutive securities	851	--
Denominator for diluted net income (loss) per share	13,814	11,391
Basic net income (loss) per share	$0.02	$(0.08)
Diluted net income (loss) per share	$0.02	$(0.08)

For the purpose of computing diluted earnings per share, weighted average potential common shares do not include stock options with an exercise price greater than the average fair value of the Company's common stock for the period, as the effect would be anti-dilutive. Stock options to purchase 1,371,000 shares of common stock and ESPP rights to purchase 175,000 ESPP shares were outstanding for the three months ending August 31, 2015, 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 3,323,000 shares of common stock and ESPP rights to purchase 131,000 ESPP shares were outstanding on August 31, 2014, 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 and liabilities measured at fair value on a recurring basis as of August 31, 2015 (in thousands):

	Balance as of August 31, 2015	Level 1	Level 2	Level 3
Money market funds	$2,900	$2,900	$--	$--
Certificate of deposit	50	--	50	--
Assets	$2,950	$2,900	$50	$--
Liabilities	$--	$--	$--	$--

The following table summarizes the Company's financial assets and liabilities measured at fair value on a recurring basis as of May 31, 2015 (in thousands):

	Balance as of May 31, 2015	Level 1	Level 2	Level 3
Money market funds	$4,650	$4,650	$--	$--
Certificate of deposit	50	--	50	--
Assets	$4,700	$4,650	$50	$--
Liabilities	$--	$--	$--	$--

There were no transfers between Level 1 and Level 2 fair value measurements during the three months ended August 31, 2015 and 2014.

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. The carrying value of the debt approximates the fair value.

The Company has, at times, invested in debt and equity of private companies, and may do so again in the future, as part of its business strategy.

5. ACCOUNTS RECEIVABLE, NET

Accounts receivable represents customer trade receivables and is presented net of allowance for doubtful accounts of $40,000 at August 31, 2015 and $21,000 at May 31, 2015. 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. The Company's allowance for doubtful accounts is based upon historical experience and review of trade receivables by aging category to identify specific customers with known disputes or collection issues. Uncollectible receivables are recorded as bad debt expense when all efforts to collect have been exhausted and recoveries are recognized when they are received.

6. INVENTORIES

Inventories are comprised of the following (in thousands):

	August 31, 2015	May 31, 2015
Raw materials and sub-assemblies	$3,104	$4,018
Work in process	4,154	2,584
Finished goods	--	521
	$7,258	$7,123

7. SEGMENT INFORMATION

The Company operates in one reportable segment: the design, manufacture and marketing of advanced test and burn-in products to the semiconductor manufacturing industry.

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

	United States	Asia	Europe	Total
Three months ended August 31, 2015:				
Net sales	$718	$5,381	$534	$6,633
Property and equipment, net	418	34	13	465
Three months ended August 31, 2014:				
Net sales	$1,663	$1,086	$809	$3,558
Property and equipment, net	435	40	17	492

The Company's Japanese and German subsidiaries primarily comprise the foreign operations. Substantially all of the sales of the subsidiaries are made to unaffiliated Japanese or European customers. Net sales from outside the United States include those of Aehr Test Systems Japan K.K. and Aehr Test Systems GmbH.

Sales to the Company's five largest customers accounted for approximately 96% and 95% of its net sales for the three months ended August 31, 2015 and 2014, respectively. Two customers accounted for approximately 67% and 11% of

13

the Company's net sales in the three months ended August 31, 2015. Four customers accounted for approximately 35%, 22%, 22% and 10% of the Company's net sales in the three months ended August 31, 2014. No other customers represented more than 10% of the Company's net sales for either of the three months ended August 31, 2015 and 2014.

8. 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.

The following is a summary of changes in the Company's liability for product warranties during the three months ended August 31, 2015 and 2014 (in thousands):

	Three Months Ended August 31,	
	2015	2014
Balance at the beginning of the period	$137	$223
Accruals for warranties issued during the period	109	32
Settlement made during the period (in cash or in kind)	(27)	(87)
Balance at the end of the period	$219	$168

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

9. INCOME TAXES

Income taxes have been provided using the liability method whereby deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and net operating loss and tax credit carryforwards measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse or the carryforwards are utilized. Valuation allowances are established when it is determined that it is more likely than not that such assets will not be realized.

Since fiscal 2009, a full valuation allowance was established against all deferred tax assets as management determined that it is more likely than not that certain deferred tax assets will not be realized.

The Company accounts for uncertain tax positions consistent with authoritative guidance. The guidance prescribes a "more likely than not" recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company does not expect any material change in its unrecognized tax benefits over the next twelve months. The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income taxes.

14

Although the Company files U.S. federal, various state, and foreign tax returns, the Company's only major tax jurisdictions are the United States, California, Germany and Japan. Tax years 1996 - 2014 remain subject to examination by the appropriate governmental agencies due to tax loss carryovers from those years.

10. CUSTOMER DEPOSITS AND DEFERRED REVENUE, SHORT-TERM

Customer deposits and deferred revenue, short-term (in thousands):

	August 31, 2015	May 31, 2015
Customer deposits	$1,037	$3,685
Deferred revenue	782	1,065
	$1,819	$4,750

11. LONG-TERM DEBT AND LINE OF CREDIT

On April 10, 2015, Aehr Test Systems (the "Company") entered into a Convertible Note Purchase and Credit Facility Agreement (the "Purchase Agreement") with QVT Fund LP and Quintessence Fund L.P. (the "Purchasers") providing for (a) the Company's sale to the Purchasers of $4,110,000 in aggregate principal amount of 9.0% Convertible Secured Notes due 2017 (the "Convertible Notes") and (b) a secured revolving loan facility (the "Credit Facility") in an aggregate principal amount of up to $2,000,000.

The Convertible Notes bear interest at an annual rate of 9.0% and will mature on April 10, 2017 unless repurchased or converted prior to that date. Interest is payable quarterly on March 1, June 1, September 1 and December 1 of each year. Debt issuance costs of $356,000, which represent an effective interest rate of 4.3%, were offset against the loan balance and are amortized over the life of loan. During three months ended August 31, 2015, $37,000 of amortization costs was recognized as interest expense. Unamortized debt issuance costs of $282,000 were offset against the loan balance at August 31,2015.

Long-term debt, net of debt issuance costs (in thousands):

	August 31, 2015	May 31, 2015
Principal	$4,110	$4,110
Unamortized debt issuance costs	(282)	(319)
	$3,828	$3,791

The initial conversion price for the Convertible Notes is $2.65 per share of the Company's common stock and is subject to adjustment upon the occurrence of certain specified events (as adjusted, the "Conversion Price"). Holders may convert all or any part of the principal amount of their Convertible Notes in integrals of $10,000 at any time prior to the maturity date. Upon conversion, the Company will deliver shares of its common stock to the holder of Convertible Notes electing such conversion. The Company may not redeem the Convertible Notes prior to maturity.

Advances under the Credit Facility will bear interest at an annual rate of 5%. Each advance under the Credit Facility and any accrued and unpaid interest thereon must be repaid within 90 days from the date on which such advance is made. Unless paid in full at maturity, amounts owing under the credit facility may be converted by the holder into Convertible Notes. Advances under the Credit Facility may be prepaid without any prepayment premium or penalty and may

15

be reborrowed (unless converted into Convertible Notes). At August 31, 2015 and May 31, 2015, the Company has not drawn any amount against the Credit Facility.

The Company's obligations under the Purchase Agreement, Convertible Notes and the Credit Facility are secured by substantially all of the assets of the Company.

12. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, a new standard on revenue recognition. The new standard will supersede existing revenue recognition guidance and apply to all entities that enter into contracts to provide goods or services to customers. The guidance also addresses the measurement and recognition of gains and losses on the sale of certain non-financial assets, such as real estate, and property and equipment. The new standard will become effective for us beginning with the first quarter of fiscal 2019 and can be adopted either retrospectively to each reporting period presented or as a cumulative effect adjustment as of the date of adoption. The Company is currently evaluating the impact of adopting this new guidance on our consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Going Concern. This standard requires management to evaluate the conditions or events that raise substantial doubt about the entity's ability to continue as a going concern and whether or not it is probable that the entity will be unable to meet its obligations as they become due within one year after the date the financial statements are issued. The new standard will apply to all entities and will be effective for us in the fiscal year 2017, with early adoption permitted. The adoption of this update is not expected to have a material effect on the Company's consolidated financial statements or disclosures.

In April 2015, the FASB issued ASU No. 2015-03, Interest – Imputation of Interest. This standard requires management to simplify the presentation of debt issuance costs by presenting the costs related to obtaining a debt liability as a direct deduction from that debt liability. The debt issuance costs, or discount, is amortized over the life of the debt liability. The new standard is effective for us in fiscal 2017, with early adoption permitted. The Company has adopted this update for the fiscal year ended May 31, 2015. Refer to Note 11 of Notes to Consolidated Financial Statements, "LONG-TERM DEBT AND LINE OF CREDIT" for further discussion of the new credit facility with QVT Fund LP and Quintessence Fund L.P.

In July 2015, the FASB issued ASU No. 2015-11, Inventory. This standard requires management to measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This new standard will be effective for us in the fiscal year 2018, with early adoption permitted. The Company is currently evaluating the impact of adopting this new guidance on our consolidated financial statements.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the unaudited condensed consolidated financial statements and the related notes that appear elsewhere in this report and with our Annual Report on Form 10-K for the fiscal year ended May 31, 2015 and the consolidated financial statements and notes thereto.

In addition to historical information, this report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as

16

amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements in this report, including those made by the management of Aehr Test Systems, other than statements of historical fact, are forward-looking statements. These statements typically may be identified by the use of forward-looking words or phrases such as "believe," "expect," "intend," "anticipate," "should," "planned," "estimated," and "potential," among others and include, but are not limited to, statements concerning our expectations regarding our operations, business, strategies, prospects, revenues, expenses, costs and resources. These forward-looking statements are subject to certain risks and uncertainties that could cause our actual results to differ materially from those anticipated results or other expectations reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this report and other factors beyond our control, and in particular, the risks discussed in “Part II, Item 1A. Risk Factors” and those discussed in other documents we file with the SEC. All forward-looking statements included in this document are based on our current expectations, and we undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

OVERVIEW

The Company was founded in 1977 to develop and manufacture burn-in and test equipment for the semiconductor industry. Since its inception, the Company has sold more than 2,500 systems to semiconductor manufacturers, semiconductor contract assemblers and burn-in and test service companies worldwide. The Company’s principal products currently are the Advanced Burn-in and Test System, or ABTS, the FOX full wafer contact parallel test and burn-in system, the MAX burn-in system, WaferPak contactors, the DiePak carrier and test fixtures.

The Company’s net sales consist primarily of sales of systems, WaferPak contactors, test fixtures, die carriers, upgrades and spare parts, revenues from service contracts, and engineering development charges. The Company's 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

The Company’s discussion and analysis of its financial condition and results of operations are based upon the Company’s condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these condensed consolidated financial statements requires the Company 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, the Company evaluates its estimates, including those related to customer programs and incentives, product returns, bad debts, inventories, income taxes, financing operations, warranty obligations, and long-term service contracts. The Company’s 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. For a discussion of the critical accounting policies, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates” in the Company’s Annual Report on Form 10-K for the fiscal year ended May 31, 2015.

There have been no material changes to our critical accounting policies and estimates during the three months ended August 31, 2015 compared to those discussed in our Annual Report on Form 10-K for the fiscal year ended May 31, 2015.

RESULTS OF OPERATIONS

The following table sets forth items in the Company's unaudited condensed consolidated statements of operations as a percentage of net sales for the periods indicated.

	Three Months Ended August 31,	
	2015	2014
Net sales	100.0 %	100.0 %
Cost of sales	49.0	54.7
Gross profit	51.0	45.3
Operating expenses:		
Selling, general and administrative	27.8	45.6
Research and development	16.0	27.0
Total operating expenses	43.8	72.6
Income (loss) from operations	7.2	(27.3)
Interest expense	(2.0)	(0.4)
Other (expense) income, net	(0.4)	0.9
Income (loss) before income tax (expense) benefit	4.8	(26.8)
Income tax (expense) benefit	(0.4)	1.3
Net income (loss)	4.4	(25.5)
Less: Net income attributable to the noncontrolling interest	--	--
Net income (loss) attributable to Aehr Test Systems common shareholders	4.4 %	(25.5)%

THREE MONTHS ENDED AUGUST 31, 2015 COMPARED TO THREE MONTHS ENDED AUGUST 31, 2014

NET SALES. Net sales increased to $6.6 million for the three months ended August 31, 2015 from $3.6 million for the three months ended August 31, 2014, an increase of 86.4%. The increase in net sales for the three months ended August 31, 2015 was primarily due to the increase in net sales of the Company's wafer-level products.

GROSS PROFIT. Gross profit consists of net sales less cost of sales. Cost of sales consists primarily of the cost of materials, assembly and test costs, and overhead from operations. Gross profit increased to $3.4 million for the three months ended August 31, 2015 from $1.6 million for the three months ended August 31, 2014, an increase of approximately $1.8 million. Gross profit margin, the percentage of gross profit to net sales, increased to 51.0% for the three months ended August 31, 2015 from 45.3% for the three months ended August 31, 2014. The higher gross profit margin for the three months ended August 31, 2015 was primarily the result of changes in product mix of sales.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative, or SG&A, expenses consist primarily of salaries and related costs of employees, commission expenses to independent sales representatives, product promotion and other professional services. SG&A expenses increased to $1.8 million for the three months ended August 31, 2015 from $1.6 million for the three months ended August 31, 2014, an increase of

13.6%. The increase in SG&A expenses was

primarily due to the increases in employment related expenses and sales commission to outside sales representatives of $0.1 million each.

RESEARCH AND DEVELOPMENT. Research and development, or R&D, expenses consist primarily of salaries and related costs of employees engaged in ongoing research, design and development activities, costs of engineering materials and supplies, and professional consulting expenses. R&D expenses increased to $1.1 million for the three months ended August 31, 2015 from $1.0 million for the three months ended August 31, 2014, an increase of 10.7%. This increase was primarily attributable to the increase in project expenses.

INTEREST EXPENSE. Interest expense was $135,000 for the three months ended August 31, 2015 compared with $14,000 for the three months ended August 31, 2014. The increase in interest expense in the three months ended August 31, 2015 was primarily due to expenses related to the convertible debt financing.

OTHER (EXPENSE) INCOME, NET. Other expense, net was $24,000 for the three months ended August 31, 2015, compared with other income, net of $31,000 for the three months ended August 31, 2014. The change between other income and other expense was due primarily to gains and losses 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 $23,000 for the three months ended August 31, 2015, compared with an income tax benefit of $49,000 for the three months ended August 31, 2014. The income tax benefit for the three months ended August 31, 2014 was due to the reversal of tax liabilities previously established under Financial Accounting Standards Board Interpretation No. 48, which were no longer required.

LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities was $2.1 million and $0.2 million for the three months ended August 31, 2015 and 2014, respectively. For the three months ended August 31, 2015, net cash used in operating activities was primarily the result of a decrease in customer deposits and deferred revenue of $2.8 million, and an increase in accounts receivable of $1.3 million. This was partially offset by an increase in accounts payables of $1.1 million, accrued liabilities of $0.5 million, and net income of $0.3 million, as adjusted to exclude the effect of non-cash charge of stock-based compensation expense of $0.3 million. The decrease in customer deposits and deferred revenue was primarily due to the shipments of customer orders with down payments. The increase in accounts receivable was primarily due to an increase in sales. The increase in accounts payable was primarily due to higher expenditures associated with higher revenue. For the three months ended August 31, 2014, net cash used in operating activities was primarily the result of the net loss of $0.9 million, as adjusted to exclude the effect of non-cash charge of stock-based compensation expense of $0.2 million, as well as decreases in accounts payable and customer deposits and deferred revenue of $0.3 million each, partially offset by a decrease in accounts receivable of $1.3 million. The decrease in customer deposits and deferred revenue was primarily due to the shipments of customer orders with down payments. The decrease in accounts payable was primarily due to lower expenditures associated with lower revenue. The decrease in accounts receivable was primarily due to a decrease in revenues in the quarter ended August 31, 2014 compared to the three months ended May 31, 2014.

Net cash used in investing activities was $21,000 each for the three months ended August 31, 2015 and 2014. Net cash used in investing activities was due to purchases of property and equipment.

Net cash provided by financing activities was $223,000 and $538,000 for the three months ended August 31, 2015 and 2014, respectively. Net cash provided by financing activities during the three months ended August 31, 2015 was primarily due to proceeds from the exercise of stock options. Net cash provided by financing activities during the three months ended August 31, 2014 was due to

19

proceeds from the exercise of stock options of $315,000 and net borrowings under the line of credit of $223,000.

The effect of fluctuation in exchange rates provided cash of $20,000 for the three months ended August 31, 2015 and used cash of $33,000 for the three months ended August 31, 2014. The change in cash provided or used was due to the fluctuation in the value of the dollar compared to foreign currencies.

As of August 31, 2015, the Company had working capital of $8.8 million. Working capital consists of cash and cash equivalents, accounts receivable, inventory and other current assets, less current liabilities.

The Company leases its manufacturing and office space under operating leases. The Company entered into a non-cancelable operating lease agreement for its United States manufacturing and office facilities, which was renewed in November, 2014 and expires in June, 2018. Under the lease agreement, the Company is responsible for payments of utilities, taxes and insurance.

From time to time, the Company evaluates potential acquisitions of businesses, products or technologies that complement the Company’s business. If consummated, any such transactions may use a portion of the Company’s working capital or require the issuance of equity. The Company has no present understandings, commitments or agreements with respect to any material acquisitions.

The Company anticipates that the existing cash balance together with cash flows from operations, as well as funds available through the credit facility will be adequate to meet its working capital and capital equipment requirements through fiscal 2016. After fiscal 2016, depending on its rate of growth and profitability, the Company may require additional equity or debt financing to meet its 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 the Company.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet financing arrangements and has not established any variable interest entities.

OVERVIEW OF CONTRACTUAL OBLIGATIONS

On April 10, 2015, the Company entered into a Convertible Note Purchase and Credit Facility Agreement providing for the Company’s sale of convertible secured notes, and a secured revolving loan facility. See note 11, “LONG-TERM DEBT AND LINE OF CREDIT”, for a description of the Agreement.

There have been no additional material changes in the composition, magnitude or other key characteristics of the Company's contractual obligations or other commitments as disclosed in the Company's Annual Report on Form 10-K for the year ended May 31, 2015.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

The Company had no holdings of derivative financial or commodity instruments as of August 31, 2015 or May 31, 2015.

The Company is exposed to financial market risks, including changes in interest rates and foreign currency exchange rates. The Company only invests its short-term excess cash in government-backed securities with maturities of 18 months or less. The Company does not use any financial instruments for speculative or trading

purposes. Fluctuations in interest rates would not have a material effect on the Company's financial position, results of operations or cash flows.

A majority of the Company's revenue and capital spending is transacted in U.S. Dollars. The Company, however, enters into transactions in other currencies, primarily Euros and Japanese Yen. Since the price is determined at the time a purchase order is accepted, the Company is exposed to the risks of fluctuations in the foreign currency-U.S. Dollar exchange rates during the lengthy period from purchase order to ultimate payment. This exchange rate risk is partially offset to the extent that the Company's subsidiaries incur expenses payable in their local currency. To date, the Company has not invested in instruments designed to hedge currency risks. In addition, the Company's subsidiaries typically carry debt or other obligations due to the Company that may be denominated in either their local currency or U.S. Dollars. Since the Company's subsidiaries' financial statements are based in their local currency and the Company's condensed consolidated financial statements are based in U.S. Dollars, the Company's subsidiaries and the Company 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 the Company's 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 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES. Our management evaluated, with the participation of our Chief Executive Officer and our 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 Quarterly Report on Form 10-Q. 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 and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to management as appropriate to allow for timely decisions regarding required disclosure.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING. There was no change in our internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

INHERENT LIMITATIONS OF INTERNAL CONTROLS. Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within us have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving our stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

None.

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 Quarterly Report on Form 10-Q and in other documents we filed with the U.S. Securities and Exchange Commission, including without limitation our most recently filed Annual Report on Form 10-K or presented elsewhere by management from time to time.

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 test and burn-in product family. The FOX system is designed to simultaneously functionally test and burn-in all of the die on a wafer on a single touchdown. The market for the FOX systems is in the early stages of development. 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.

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. 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 2015, with the exception of fiscal 2014, we experienced operating losses. While we believe our existing cash balance, together with cash flows from operations, as well as funds available through our credit facility will be adequate to meet our working capital and capital equipment requirements through fiscal 2016, we cannot determine with certainty that, if needed, we will be able to raise additional funding through either equity or debt financing under these circumstances or on what terms such financing would be available.

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 the Company's five largest customers accounted for approximately 79%, 90%, and 81% of its net sales in fiscal 2015, 2014 and 2013, respectively. During fiscal 2015, Texas Instruments and Micronas accounted for approximately 45% and 11%, respectively, of the Company's net sales. During fiscal 2014, Texas Instruments, Spansion and Micronas accounted for approximately 40%, 30% and 12%, respectively, of the Company's net sales. During fiscal 2013, Texas Instruments and Spansion accounted for approximately 32% and 26%, 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.

We expect that sales of our 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. The loss of, reduction or delay in an order, or orders from a significant customer, or a delay in collecting or failure to collect accounts receivable from a significant customer could adversely affect our business, financial condition and operating results.

We rely on continued market acceptance of our ABTS system and our ability to complete certain enhancements.

Continued market acceptance of the ABTS family, first introduced in fiscal 2008, is subject to a number of risks. It is important that we achieve customer acceptance, customer satisfaction and increased market acceptance as we add new features and enhancements to the ABTS product. To date, the Company has shipped ABTS systems to customers worldwide for use in both reliability and production applications. The Company has recognized a weakening of ABTS product sales over the past few quarters. The failure of the ABTS family to increase revenues above current levels would have a material adverse effect on our future operating results.

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. 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 below our expectations.

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.

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 for the Company. Customers with liquidity issues may lead to additional bad debt expense for the Company.

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, DRAM and other memory device prices have historically declined, and will likely do so again in the future. These developments may affect us in several ways. We believe that many international semiconductor manufacturers limited their capital spending in calendar 2012 and 2013, and that 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 recent 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.

The semiconductor equipment industry is intensely competitive. 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. The Company's ABTS Test During Burn-in (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. 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. The Company's test fixture products face numerous regional competitors. There are limited barriers to entry into the burn-in board, or BIB, market, and as a result, many companies design and manufacture BIBs, including BIBs for use with the Company's ABTS systems. The Company expects that its DiePak products will 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 bare die.

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.

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 64%, 56%, and 55% of our net sales for fiscal 2015, 2014 and 2013, respectively, were attributable to sales to customers for delivery outside of the United States. We operate a sales, service and limited manufacturing organization in Germany and sales and service organizations in Japan and Taiwan. 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, 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.

Approximately 95%, 3% and 2% of our net sales for fiscal 2015 were denominated in U.S. Dollars, Euros and Japanese Yen, respectively. Although the percentages of net sales denominated in Euros and Japanese Yen were small in fiscal 2015, they have been larger in the past and could become significant again in the future. A large percentage of net sales to European customers are denominated in U.S. Dollars, but sales to many Japanese customers are denominated in Japanese Yen. 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.

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.

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 and DiePak carriers contain several components, including environmental chambers, power supplies, high-density interconnects, wafer 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 intellectual property of the Company. While the Company maintains 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.

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.

The Company may not continue to meet the listing requirements of the NASDAQ markets which could cause our stock to be delisted.

Pursuant to the listing requirements of NASDAQ, if a company's stock price is below $1.00 per share for 30 consecutive trading days, NASDAQ will notify the company that it is no longer in compliance with the NASDAQ Bid Price Rule listing qualification. If a company is not in compliance with the Bid Price Rule, the company will have 180 calendar days to regain compliance. The company may regain compliance with the Bid Price Rule if the bid price of the common stock closes at $1.00 per share or more for a minimum of 10 consecutive business days at any time during the 180 day cure period. On December 26, 2012, the Company received notice from NASDAQ that it was no longer in compliance with the Bid Price Rule. The Company subsequently regained compliance on April 3, 2013.

There can be no assurance that the Company will remain in compliance with the Bid Price Rule, and that it will maintain compliance with the other listing requirements of the NASDAQ Capital Market, or that it will not be delisted.

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.

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 is 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.

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.

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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not Applicable

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

The Exhibits listed on the accompanying "Index to Exhibits" are filed as part of, or incorporated by reference into, this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	Aehr Test Systems (Registrant)
Date: October 14, 2015	/s/ GAYN ERICKSON Gayn Erickson President and Chief Executive Officer
Date: October 14, 2015	/s/ KENNETH B. SPINK Kenneth B. Spink Vice President of Finance and Chief Financial Officer

AEHR TEST SYSTEMS
INDEX TO EXHIBITS

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302(a) of the Sarbanes-Oxley Act of 2002.
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.*
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

*This exhibit shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference in any filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.